

# The management of accounting firms: time as an object of professional and commercial goals

Management  
of accounting  
firms

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## Abstract

**Purpose** – This study aims to explore how commercial and professional management instruments are combined in accounting firms.

**Design/methodology/approach** – The authors conducted a qualitative study based on 30 semi-structured interviews with partners from 30 different accounting firms (sole practitioners to Big Four) in Germany. The study mainly draws from the literature on the management of accounting firms.

**Findings** – The findings of this study indicate that professional and commercial management instruments structure the use of time by accountants. In these management instruments, professional and commercial goals are interwoven by three mechanisms revealed in this study and named as ambivalence, assimilation and integration. The authors further identify the managerial aspects of professional instruments.

**Originality/value** – This paper offers three mechanisms that combine commercial and professional goals in the management of accounting firms. The authors thereby contribute to the literature on the management of accounting firms by analysing these mechanisms that enable the pursuit of both goals simultaneously. Further, the authors argue that the minimum organisation, defined by regulators, of accounting firms is an essential infrastructure for the commercialisation of accounting.

**Keywords** Time, Professionalism, Management, Commercialism, Accounting firm

**Paper type** Research paper

## Introduction

The management of accounting firms faces pressures from professional regulation and competition in the market. The resulting tensions from the professional and commercial requirements have been an ongoing topic in the literature for decades (Willmott and Sikka, 1997; Dirsmith *et al.*, 1997; Gendron *et al.*, 2006; Carter and Spence, 2014; Broberg *et al.*, 2018). Research even has argued that there is an inherent dilemma in the management control of accounting firms based on a trade-off between cost efficiency and quality (McNair, 1991). Nevertheless, it has been reported that the archetypical organisation of firms has shifted from professional partnerships to managerial professional businesses (Brock, 2006; Hinings *et al.*, 1999) and that, generally, the identity of a typical accountant has changed towards that of being a service provider (Dirsmith *et al.*, 2014; Broberg *et al.*, 2018). More specifically, Carter and Spence (2014) and Kornberger *et al.* (2011) reveal how careers in accounting firms are based on commercial performance, whereas Anderson-Gough *et al.* (2000) and Svanberg and Öhman (2015) show that the relationship with clients has changed towards a more service-oriented approach rather than that of being a trustee. Sweeney and McGarry (2011), in a review on commercial and professional audit goals, concluded that despite the

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accounting profession's public assurance that the central goal is quality, accounting firms have focused on commercial goals internally. However, it has been repeatedly reported that the ongoing commercialisation conflicts with traditional professionalism as a trustee of society, resulting in a conflict between cost and quality (Gendron and Spira, 2010; Hanlon, 1994; Guo, 2015; Bandara *et al.*, 2015; Ramirez, 2009). Others have argued that professionalism is still highly influential on the organisation, goal-setting and identity of accountants in small- and medium-sized accounting firms (Lander *et al.*, 2013). Malsch and Gendron (2013) summarised the studies on changes in the profession by arguing that in the accounting profession that there is an ongoing quest of contradictory value clusters trying to dominate. One cluster emphasizes the commercial interests and promotes managerial management of accounting firms as well as a stronger customer orientation, another cluster preserves traditional professional values of service for public interest and promotes professional autonomy as well as independence (Malsch and Gendron, 2013). These competing value clusters have a strong influence on the work context of accountants (Suddaby *et al.*, 2009). On the one hand, studies argued that prioritising commercial activities and customer orientation can encourage lower audit quality, a loss of independence and even unethical behaviour (Carter *et al.*, 2015; Citron, 2003; Broberg *et al.*, 2018). On the other hand, studies showed how a prioritisation of professionalism led to a lower adaption of structured audit approaches and an emphasis on autonomy as well as a general low involvement with business-related activities (Broberg *et al.*, 2018). As extant research has shown the conflicting value clusters have been combined in accounting firms successfully (Malsch and Gendron, 2013; Gendron, 2002; Lander *et al.*, 2013), yet, research on the management instruments of accounting firms has either focused on commercial instruments or professional instruments. Therefore, only little is known on the combination of professional and commercial management in accounting firms. However, the experience of being managed (Grey, 1998) and part of an accounting firm is central for understanding the daily work of accountants (Suddaby *et al.*, 2009) and their behaviour in providing assurance for capital markets, banks and owners.

It is against this background that our study asks how commercial and professional management instruments are combined in the management of accounting firms. To answer this question, we have conducted a qualitative study. The study is based on 30 semi-structured interviews with partners from 30 different accounting firms (Big Four, Next Ten and small- and medium-sized firms) in Germany.

This study aimed to uncover the combination of professional and commercial management instruments. Doing so, the study is able to provide an analysis of the way competing value clusters are combined within the management instruments of accounting firms and enables synergetic management of the time of accountants. Though the management of accounting firms has been studied before, our study is the first emphasising the integration of commercial and professional value clusters within the management instruments of accounting firms. Based on our findings we argue that commercial as well as professional management instruments centre around the prioritisation of time by the accountants. Overall, our findings offer the following contributions to the literature.

First, different from studies assuming an inherent conflict between professional and commercial goals within accounting firms (Brivot, 2011), we analyse the synergies between professional and commercial value clusters. This is achieved by developing mechanisms for combining professional and commercial goals within the management instruments of accounting firms. As a result of our analysis, we further analyse how professional and commercial value clusters are rendered compatible and facilitate each other. Second, our account develops research on the competing value clusters within accounting, by showing

how management procedures are integral to combining the different goals and how commercial and professional instruments structure the use of time by accountants. This development adds to the line of literature interested in the way accounting firms are steered – e.g. through management control (Pierce and Sweeney, 2005), organisational design (Lander *et al.*, 2013), coordination (Barrett *et al.*, 2005) and organisational risk (Jeppesen, 2007) – by offering an analysis of the impact of management instruments on the prioritisation of time by accountants. Third, we offer evidence that the ongoing regulation (Ramirez, 2009, 2013) creates an infrastructure that enables, rather than prohibits, commercialisation.

The remainder of the paper is organised as follows. First, we give a short overview of the theoretical background on the commercialisation of accounting firms and the management of accounting firms. Then, we introduce the context of our study and its methodology, including data collection and analysis. We then present our findings on professional and commercial management instruments and the mechanisms to combine them. This is followed by a discussion of our findings in relation to the literature. Finally, we conclude with the limitations and contributions of our research.

### Theoretical background

Studies researching changes in accounting firms found that commercialism and professionalism are competing value clusters in the profession and generate ambiguities in the orientation of accounting firms. Resulting from these competing value clusters in the management of accounting firms are struggles in the management of firms about the appropriate way to manage professionals. To analyse the combination of professional and commercial management instruments, we therefore first introduce the topic of commercialisation of accounting firms and then describe the management of accounting firms.

#### *Commercialisation of accounting firms*

The commercialisation of accounting is a long-standing topic. However, more generally, speaking it is a topic in other knowledge-intensive organizations and professions (Noordegraaf, 2015). It had been identified in law firms (Cooper *et al.*, 1996), in the context of healthcare (Dent *et al.*, 2004; Reay and Hinings, 2005) and management consulting (Furusten, 2013).

The starting point of the debate on the commercialisation in accounting is the argument that professions are trustees of society and therefore have to subordinate their commercial interests (Freidson, 2001; Abbot, 1988). Accordingly, professionals apply their specific capabilities to this trustee task, with professional norms centring around being a trustee of society, and consequently the state grants a monopoly for these trustee services to the profession (Brint, 1994). Research has for a long time argued that this model of professionalism is not applicable to professionals being employed in large organisations (Aranya *et al.*, 1981; Benson, 1973). Specifically, Hanlon (1996) described accountants as a “commercialised service class”. This means that accountants have adapted to the organisational work contexts (Wallace, 1995; Covaleski *et al.*, 1998; Suddaby *et al.*, 2009) and incorporate the commercial goals in their professional identity (Broberg *et al.*, 2018). For accounting firms, this change towards a more commercial identity has been promoted by the Big Four while aiming to extend their services in scale and scope (Suddaby and Greenwood, 2001, 2005; Greenwood and Suddaby, 2006). However, Malsch and Gendron (2013) argued that these institutional changes are accompanied by struggles over identity. This is exemplified in research about the Greek profession where indigenous accountants engaged in conflicts with the more commercial-oriented international firms (Caramanis, 1999) and

research on the failed attempt of larger firms to establish new services (“webtrust seals”) was criticized by smaller firms (Barrett and Gendron, 2006). Yet, this stronger commercial focus within the accounting profession has led to significant changes in the regulation of the profession; for example, the traditional model of self-regulation was replaced by supervisory boards (Caramanis *et al.*, 2015). The connected changes in quality reviews of accounting firms led to new conflicts between representatives of audits based on efficient audit approaches or professional judgement (Ramirez, 2013). Still, this changing nature of accounting (Cooper and Robson, 2006), as well as other external pressures (e.g. new technologies, globalisation, changing requirements of customers), has led to a higher importance of the accounting firms for establishing the relationship of individual auditors with the profession (Broberg *et al.*, 2013). Yet, research indicated that the competing value clusters are generating ambiguities between commercial and professional orientation in the management of firms (McNair, 1991; Kosmala and Herrbach, 2006; Lander *et al.*, 2013). As the firm as a context for professionalism and for mitigating the complexity of competing value clusters play an important role, analysing the management practices in accounting firms becomes more critical to understanding auditor behaviour.

#### *Management of accounting firms*

Traditionally, accounting firms have been organised as professional partnerships (Greenwood *et al.*, 1990; Greenwood and Empson, 2003). Professional partnerships were seen as exemplary methods of meeting the needs of autonomy, peer supervision, and collegiality among professionals. The management of professional partnerships is characterised by establishing professional norms and by peer pressure within the professional group, rather than by sophisticated management controls because the organisation is highly decentralised (Greenwood and Empson, 2003). The external pressures and the changes in the nature of audit lead to changes in the organisation of firms. Cooper *et al.* (1996) introduced the managerial professional business as an alternative form of organising professional service firms, which has been confirmed for accounting firms by Rose and Hinings (1999). Managerial professional businesses have a much higher centralisation, much stronger hierarchies, and are steered by sophisticated management systems that are based on financial figures (Brock, 2006). Yet, central to these dynamics are conflicts between different groups in the firm that center around the appropriate way of being professional, focusing on autonomy rather than being managed (Covaleski *et al.*, 1998), others have analysed the difficulties of changes towards a more managed business arising from the distributed leadership in accounting firms (Hinings *et al.*, 1999), and the way careers have changed by emphasizing business success rather than professional expertise (Carter and Spence, 2014). These changes to a more corporate, rather than professional, organisation (Empson and Chapman, 2006) leads accounting firms to introduce numerous management instruments. However, these management instruments reflect the firms’ embedment in the profession as well as in the market (Lander *et al.*, 2013), leading to the institutional double culture of combining professionalism with commercialism in the structures and systems of firms (Gendron and Spira, 2010).

Based on the basic premise of ongoing commercialisation, the literature on the management of accounting firms has identified various managerial tools. The first line of inquiry analyses management instruments that guide organisational decisions. For example, Gendron (2002) reports on the importance of the decision for accounting firms on whether to accept a client and how auditors incorporate commercial and professional goals in the decision process. A similar instrument, sustaining a productive tension between commercial and professional goals, is the management by objectives that have significant

effects on the identity of professionals (Covaleski *et al.*, 1998). However, in these studies, the tensions of being managed by numbers were seen mostly with senior auditors being socialized in a less managed audit culture. The second line of inquiry describes the role of software for steering accounting firms. For example, knowledge management systems have been analysed as a tool for knowledge sharing and simultaneously as a control mechanism that brings transparency to professional work (Brivot, 2011; Brivot and Gendron, 2011). In these studies professionals first showed reluctance to these new forms of knowledge control as they feared the loss of their knowledge monopoly, then they used it for gaining a reputation for expert knowledge. Others pointed to the vital role of audit software for coordinating work within global audit teams, as it provides standardised checklists (Barrett *et al.*, 2005). However, this studies showed how expert work in a global firm has to be coordinated and therefore, the leeway for professional judgement and individual audit procedures becomes smaller. Another important software-based instrument is the time sheet and the respective time management software. This instrument is essential for making accountants aware of the worth of their time by identifying billable and non-billable hours (Anderson-Gough *et al.*, 2001) and focuses professionals on client work. The third line of inquiry studies human resources practices such as recruiting and promotion within accounting firms. For instance, Kornberger *et al.* (2011) described how the professional transition from junior accountant to manager, on the way to partner, was essential for developing an entrepreneurial mindset. Thereby, they had to replace the mindset of being technical expertise partially. Furthermore, the career system itself has been identified as a central mechanism for becoming a successful professional, by socialising trainees into their roles as service providers (Anderson-Gough *et al.*, 2000), and ultimately professionals into the task of managing accounting firms (Carter and Spence, 2014). Their studies showed how the content of being a professional was changed from professional expertise to being a sophisticated businessperson and service provider. Only one study, by Trompeter (1994), described the role of incentive schemes for managing accounting firms. The last line of inquiry studies the standardization of professional work; for instance, quality management systems (Seckler *et al.*, 2017; Ramirez, 2013) and the audit approach (Knechel, 2007; Robson *et al.*, 2007) for managing accounting firms. These studies emphasized the importance of structured audit work to develop a high-quality judgement. As most studies examine either commercial or professional instruments for managing accounting firms, studies examining both forms of tools simultaneously remain scarce (Gendron, 2002). Therefore, Lander *et al.* (2013) conclude that, although commercial instruments are introduced, accounting firms remain committed to professionalism. However, only little is known about how the competing value clusters of professionalism and commercialism are integrated into the management instruments of accounting firms.

## Method

Our study is based on the German accounting field, we will therefore first describe the research context and then explain our research approach.

### *Research context*

The context of our study is the German public accounting profession (Markus, 1997; Vieten, 1995). The German public accounting profession consists of different segments, namely, the BIG Four (EY, Deloitte, KPMG, PwC), the Next Ten and medium- and small-sized public accounting firms. Table I gives an overview of a number of Public Accountants according to their work context and the number of Public Accounting Firms described along with the number of employed Public Accountants. It is notable that most Public Accountants work



for small- and medium-sized firms. Two institutional differences to the Anglo-Saxon profession are relevant for this study. First, the importance of the Chamber of Public Accountants as a self-regulatory agency, which organises the peer review and has, since 2005, been overseen by an independent oversight body[1]. Second, the long-term coexistence of accounting corporations, with limited liability, and professional partnerships (Ganster, 2000), resulting in specific legal rules – such as “own-responsibility”, which signifies the institutionalised professional autonomy of public accountants within accounting corporations. Furthermore, the profession has undergone major regulatory changes in the aftermath of Enron scandal (e.g. introduction of peer reviews, independent oversight board and the international standards of auditing) and dealt with a price war in the audit market.

*Research approach*

Our study adopted a qualitative research method to examine professional and commercial management instruments and their combination (Lincoln and Guba, 1985). The use of qualitative methods was appropriate, as the design was exploratory in nature, aiming at identifying commercial and professional management instruments as well as their combination. In the following section we will first describe our data collection and then the data analysis.

Our data collection is based on 30 semi-structured interviews. We purposively sampled the interviewees and aimed at representing all segments of accounting firms. Therefore, we drew on representatives of the accounting profession on the advisory board of the chamber. These were mostly partners of firms with at least 15 years of experience in the profession, however, we had four employed accountants with more than 8 years of experience in the profession (see Table II for an overview). Furthermore, the interviewees reflected the diversity of the profession in terms of size of the firms, gender and regional distribution as well as different professional associations. All interviewees were practising public accountants, were involved in the management of their employing firm and had an overview of the profession. Our sample, therefore, consists of partners from small-sized to Big Four public accounting firms in Germany. Interviews were conducted based on an interview guide to improve the consistency of interviews. Topics of the interviews included the professional and commercial management instruments used in the firm, why they were adopted, as well as the tensions between professional and commercial goals and the ongoing commercialization of the profession. All interview questions were open-ended when applicable the interviewer probed deeper into the answers of the interviewee to better grasp

	No.	(%)
<i>No. of public accountants</i>		
Working for Big Four	3,584	20.5
Working for Next Ten	1,370	7.8
Others (sole practitioners, small- and medium-sized firms)	12,533	71.7
<i>Number of public accounting firms</i>		
with 1 public accountant	1,157	41.0
with 2-20 public accountants	1,622	57.5
with 21-50 public accountants	28	1.0
with 51-100 public accountants	8	0.3
with 101-400 public accountants	2	0.1
with more than 400 public accountants	4	0.1

**Table I.**  
Basic population of public accountants and public accounting firms in Germany

Table II.  
Interviews

Interviewees	Segment	Role	No. of public accountants	Date
WP 01	BIG Four	Partner	More than 400	16.10.2012
WP 02	BIG Four	Employed public accountant	More than 400	30.10.2012
WP 03	BIG Four	Employed public accountant	More than 400	23.10.2013
WP 04	Small- and medium-sized firm	Partner and executive	51-100	14.12.2012
WP 05	Small- and medium-sized firm	Employed public accountant	51-100	11.01.2013
WP 06	Small- and medium-sized firm	Employed public accountant	51-100	10.01.2013
WP 07	BIG Four	Partner	More than 400	11.02.2013
WP 08	Small- and medium-sized firm	Partner	21-30	18.02.2013
WP 09	Small- and medium-sized firm	Partner and executive	21-30	25.01.2013
WP 10	Next Ten	Partner and executive	101-400	18.02.2013
WP 11	Small- and medium-sized firm	Partner and executive	2-4	21.01.2013
WP 12	BIG Four	Partner and executive	More than 400	13.02.2013
WP 13	Next Ten	Partner and executive	101-400	24.01.2013
WP 14	BIG Four	Partner and executive	More than 400	29.11.2013
WP 15	BIG Four	Partner and executive	More than 400	07.02.2014
WP 16	Next Ten	Partner	101-400	23.01.2013
WP 17	BIG Four	Partner	More than 400	12.02.2014
WP 18	Sole practitioner		1	10.02.2014
WP 19	BIG Four	Partner and executive	More than 400	19.02.2013
WP 20	Sole practitioner		1	09.11.2012
WP 21	Sole practitioner		1	08.11.2012
WP 22	Small- and medium-sized firm	Partner	5-10	08.11.2012
WP 23	Small- and medium-sized firm	Partner	5-10	16.11.2012
WP 24	Small- and medium-sized firm	Partner	5-10	26.11.2012
WP 25	Sole practitioner		1	26.11.2012
WP 26	Small- and medium-sized firm		2-4	08.01.2013
WP 27	Sole practitioner		1	27.11.2012
WP 28	Sole practitioner		1	30.01.2014
WP 29	Small- and medium-sized firm	Partner	11-20	10.02.2014
WP 30	Sole practitioner		1	14.02.2014

the way commercial and professional values were embedded in management instruments. At the beginning of our interviews, we guaranteed anonymity and asked for permission to tape the conversation. Interviews lasted about 60 min on average and were fully transcribed.

Our data analysis was based on established qualitative coding techniques (Saldana, 2015; Creswell, 2012). Specifically, the following steps were taken. First, we entered all data in Maxqda, a qualitative analysis software, and read through the transcripts of the interviews. We then started to code our material inductively, a form of open coding, resulting in a large number of descriptive codes, for example, use of timesheets, changes in contribution margin, the importance of clients, etc. In this step, we identified the professional and commercial management instruments. Based on this first round of coding, we clustered the resulting themes around the topic identified in the literature review: the competing value clusters of professionalism and commercialism are integrated into the management instruments of accounting firms. By drawing on this form of axial coding we identified the way commercial and professional value clusters are integrated into the management and noticed their symbiotic rather than conflictual relationship. This led to the next analytical stage of developing categories by associating the themes with the empirical material where we started to search for mechanisms that combine these instruments and identified ambivalence, assimilation and integration as central for the combination of the two value

clusters. It was in this last step, where we identified time as the central object of the management instruments and started to selectively code for this topic. Based on these three steps we developed our framework. However, to ensure the trustworthiness of our findings, we were open to alternative explanations in all steps of coding and validated our findings by reviewing them with two public accounting practitioners. Furthermore, we maintained an audit trail (Lincoln and Guba, 1985) during the whole data analysis process.

### Findings

As we aimed at identifying the way professional and commercial management instruments in accounting firms are combined, we will first describe the management instruments rooted in professional and commercial value clusters that our interviewees mentioned. Based on this descriptive part of the findings we then analyse the mechanisms enabling the combination of professional and commercial value clusters in the management instruments. Furthermore, we analyse how these management instruments centre around the object time. The section closes with a framework summing up our empirical findings.

#### *Professional management instruments*

We termed instruments that had their provenance in the profession or professional associations as “professional management instruments”. We asked the interviewees how public accounting firms and audits are managed. Thereby, we identified socialisation into roles, the quality management system and the risk-oriented audit approach as central instruments for managing the professional aspects of public accounting firms.

Public accountants regularly argued that a part of managing accounting firms is socializing accountants in their roles. Central for the socialization is the professional pyramid of audit assistants, as well as junior and senior public accountants. It structures the process of gaining experience over time and enables junior professionals to become “profitable” senior professionals. On the one hand, the career paths along the professional pyramid allowed for experience-based learning:

In my opinion, the most important thing is, first of all, the instructions for the young employees. That is partly wasted and lost. Some talented people can do that. They can guide an employee, and they are also the ones who afterwards put the profits in the box because the employees learn something right from the start. That is also important to control. (Interview WP 16)

Thereby, in the first stage, the young professionals are introduced step by step to practices, activities, and problem-solving methods during their work. In the second stage, after the professional examination, they are introduced to management aspects, such as being a contact for clients, mentoring junior professionals, and responsibility for efficiency. On the other hand, work is coordinated and controlled along the different roles, such as audit assistant, experienced audit assistant, audit manager (junior public accountant) and partner (senior public accountant). Each of them has various tasks; for example, audit assistants perform the standardised audit work, whereas audit managers and partners perform more demanding tasks such as planning and reviewing work.

Here you also need a certain mix of know-how, of skills. So that plays a decisive role. Moreover, then the composition of the team concerning experience and industry knowledge. [...] This means that they need seniority, they need industrial know-how, they need company-specific expertise, and this coupled with technical skills. In other words, we need statisticians, mathematicians, pension specialists, and tax specialists. Also, you have to bring it all together. (Interview WP 12)



Managing an accounting firm, in other words, is ensuring the supply of suitable experts to clients in the long-term and orchestrating their interplay. A central task for the management of a public accounting firm is to develop a sustainable mix of professional roles (including specialists such as quality reviewers and IT operatives) and non-professional support roles and ensure the socialisation of new employees in these roles. This is important for planning the human resources, professional, and time-related aspects of client engagements, and fulfilling professional duties.

A second professional management instrument is the quality management system. The idea of the quality management is to give accounting firms requirements for organizing their firms and therefore, for systematic decision-making processes rather than *ad hoc* and unsystematic decision-making by individual partners. An accountant called the “quality ensuring professional practice” an important form of managing accounting firms professionally:

So we as an accounting firm, whether I am a lone warrior, a partnership, or a large organisation, are obliged to maintain a certain practice organisation in which I carry out an overall monitoring of all mandates, in which I ensure that all employees have sufficient further training, which applies the principle of dual control, in which I also comply to certain measures mitigating risk. [...] For this I need a quality assurance system. (Interview WP 02)

This minimum configuration encompassed the general operation and responsibilities within the public accounting firms to fulfil obligations from professional law. Our interviewees described how this characterizes the rules for the management and planning of all engagements, to ensure the necessary capacities (staff, knowledge, etc.), human resources practices and the anchoring of professional duties in the firm. Specifically, the quality management system regulates the acquisition, acceptance, planning of the engagement and planning and performance of audit procedures, with detailed requirements on the documentation of decisions according to professional law.

Further, in the quality management system, activities for reviewing are regulated. Reviews ensure compliance with professional standards and are conducted on the whole firm as well as on single engagements. An interviewee described the need to structure work for compliance:

I underestimated that at first. That's more effort than you think at first. However, that's an essential core of our work because it was particularly important to us that our work results were uniform, yes? Moreover, the problem is that if you have a certain number of employees and you don't have a structure, there can be blossoms that aren't beneficial. Our big goal is that the work result is comparable. [...] That is very important to us professionals. (Interview WP 21)

These detailed regulations thereby standardise and professionalise processes in public accounting firms and enable a homogeneous quality in the performance of services.

The third professional management instrument is the audit approach; precisely, the risk-oriented audit approach. The core of the audit approach is to standardize professional judgement and develop routines for performing audit work rather than the situation-specific new development of audit procedures. The audit approach reflects the quality management system on the level of the engagement, rather than on that of the whole organisation. Our interviewees described the process and risk orientation of the audit approach as central for the management:

Everybody knows his professional requirements, but often everyday life is very hectic [...] It is helpful, and it forces people much more into this structured procedure. [...] so people are forced—from my point of view—to protect themselves as well. Here they are forced to follow the right procedures. (Interview WP 07)

For our interviewees the process approach describes the connection of the different activities during the engagement in a systematic way; it constitutes different phases with different goals and uses checklists to ensure the comprehensiveness of audit activities. The second part of the audit approach is the risk-orientation, which allows the weighing of areas in the audit that have a higher risk than others and thereby differentiates between low, normal, high and systematic risks (e.g. mass transactions). As one interviewee explained:

And this decision is due to me as a public accountant, and with the decision I create space to be able to examine other areas, where we then enter, accordingly, more intensively. If I give him results, then I also create value. You have to enforce that consistently. Above all, to identify the low-risk areas and then to draw the consequences with the appropriate precision. This is the topic of the planning process. (Interview WP 07)

Doing so allows the audit team to concentrate on highly problematic areas, rather than auditing the full financial statement and thereby allows the accountant to concentrate on material errors in the financial statement. Similar to the quality management system, the audit approach standardises and professionalises work by developing templates. Furthermore, it coordinates the different activities and roles as well as legitimates activities.

In summary, besides the traditional career system and the induced learning on the job, regulating professional services of public accounting firms leads to a professionalisation by developing systematic approaches for working on audit engagements and quality, thereby ensuring professional practice.

#### *Commercial management instruments*

During our interviews we wanted public accountants to identify commercial instruments for managing public accounting firms. As the main origin of these instruments is commercial firms, we called them “commercial management instruments”. Our interviewees distinguished between managing the whole firm and a single engagement.

For managing the whole firm, our interviewees identified the role of partners, the planning process, management by objectives, the compensation structure, structured time-recording, indicators, and liquidity as central. The first commercial management instrument is the role of partners. Interviewees identified changes in the role of partners according to the size of firms. In small- and medium-sized firms, partners are responsible for all services, whereas in larger firms specialized departments for services are developed and tasks differentiated along with specialized expertise. This frees time for other tasks in the organisation and speeds up service delivery by higher experience in topics. Specifically, interviews from larger firms pointed to the critical role of structuring the organisation along service lines rather than single partners:

Whereas in the past there was an extreme orientation towards individual partners, today it is ultimately very strongly oriented towards the company’s fields of activity regarding business management. [...] And that was some time ago, when we switched from a previously very partner-focused to a now stronger, yes, corporate-focused organisational form. (Interview WP 12)

Furthermore, with growth, the interviewees from larger firms argued that the need to develop professional support functions increases. Therefore, with a growing division of work the requirement to coordinate by specific business roles, such as client service partners, also grows. Conversely, smaller firms often structure their business in more or less independent service delivery units led by a partner.

As a second important commercial management instrument, interviewees described the planning process. For accounting firms planning plays an important role in managing the

firm as it allocates resources and enables management to track deviances in engagements and the whole firm, an interviewee described this in short

We have corporate planning, a planning on an annual basis, which is related to control. We have engagement-related planning, which of course includes the planning of all orders according to VO 1/2006 throughout the firm, and, of course, we have split this from branch office to branch office. [...] We also have human resources planning, also as a control instrument, because, of course, the personnel planning is closely connected with the mandate or order planning. (Interview WP 08)

As audit services have a revolving character, the planning concentrates on expected new clients and client losses to estimate the planned revenues. Based on these revenues, our interviewees described how human resources capacities are planned as these are determining the cost structure and the capabilities for engagements, and therefore the potential revenues.

A third important commercial management instrument identified by the interviewees is management by objectives. However, our interviewees emphasized that objectives do not merely compromise commercial indicators, rather it is used to stress goals of the firms. These goals result from the three key areas of professional quality, efficiency (profit and sales) and internal goals:

The target system is divided into quality, which is the most critical criterion in its structure. [...] Then one target is profitability, measured by the key figures, especially, of course, by the contribution margin from its orders, and the third variable is then the input variable, namely sales. [...] So these are in principle the three big [criteria], plus then the inward-looking goals, so that the employee ultimately produces the corresponding results for the tasks he has taken on. So, for example, some of us have human resources responsibility, who just said, 'OK, you can also measure by', I mean with fluctuation rate, 'satisfaction.' (Interview WP 07)

In our cases, the objectives resulted from the planning process and professional requirements. For example, for efficiency resulting from the planning process, specific indicators such as the utilisation rate of employees and the realisation rate (contribution margin) are essential. For the professional quality resulting from professional requirements, as an indicator of the quality review of engagements, marks are awarded (e.g. very good, good, insufficient). In the area of professional development, interviewees pointed to goals on hours invested in further education and the requirements resulting from the description of the role.

A fourth management instrument, that mainly is present in medium sized to large firms, is the compensation structure of the public accounting firms that are connected with the management by objectives:

Partners have a royalty system that is based on the overall success: the success contribution. For those employees who have been with a partner for a longer period, there is a voluntary bonus payment. (Interview WP 11)

Our findings show, that the management by objectives is connected to the compensation structure, and thereby becomes relevant for decisions. Generally speaking, the higher in the hierarchy, the lower the fixed salary and the higher the variable component based on achieving objectives. The objectives are often a mixture of individual and company goals.

A fifth management instrument is the structured time sheet. These serve to distinguish between productive and non-productive hours. Productive hours are those spent on engagements and in tasks related to engagements (e.g. acquiring clients). Non-productive-hours are those spent on internal administrative functions of the firm. Hours are used to calculate costs based on the hourly rates of the employees:

We also analyse what proportion of unproductive time each employee has [...] We also try to motivate by referring to the better administrative times of other employees. Moreover, also perhaps to lead to recording as many productive hours as possible, because, of course, it is also the goods that we sell. (Interview WP 26)

Most of the other management instruments rely on information provided by time sheets. For example, the cost calculations are based on hours or the time spent on engagement is used in professional management instruments.

The last commercial management instrument is the indicators. Typical indicators are, for example, the realisation rate (contribution margin), the utilisation rate (relation of billable hours to available hours), average revenues per hour, unbilled hours and the backlog of engagements. These indicators are combined and then used to control work and engagements as well as the whole firm. A self-employed public accountant described the indicators he used:

So, there are several control parameters. First of all, of course, the development of liquidity, i.e. the bank account. Then there are the open receivables, which control the open items. Then it is a developed dunning system, and then it is also the sales of the employees, the monthly ones. Yes, and of course even the control of open liabilities to creditors. [...] There is always a contribution margin because the hourly rate is higher than the costs. (Interview WP 11)

These indicators are summarised in reports and can be measured against the objectives and planned numbers. For single engagements, our respondents drew on similar commercial instruments, such as for the whole organisation. For example, they planned budgets and hours for separate engagements and controlled them by using realisation rates as well as average revenues per hour. Central for the future was the post-calculation and client satisfaction surveys.

#### *Combination of professional and commercial management instruments*

Given that professional and commercial management instruments are regularly discussed in the literature as separate and sometimes even as conflicting, we found that in the practical reality of public accounting firms both professional and commercial values are combined in the management instruments. We identified the mechanisms of ambivalence, assimilation, and integration for connecting professional and commercial values in the management instruments. The mechanism of ambivalence reveals how activities can have opposing meanings depending on their interpretation from a professional and commercial perspective. With the mechanism of assimilation, we can describe the filling of management instruments with professional content. Furthermore, with integration, we characterise professional and commercial instruments as being combined in roles and routines.

The mechanism of ambivalence aims at the activities during the audit. It describes the fact that activities can have different meanings depending on the prioritisation of professional or commercial values. At first glance, professional activities aim at quality, yet the prioritisation of topics leads to more efficient use of time by the employees. Instruments with this ambivalent character are the risk-oriented audit approach, the capacity-based client selection, and the risk-oriented client processing. The risk-oriented audit approach is an ambivalent instrument, as shown by the use of a materiality threshold and the definition of different risk grades for determining the extent of audit work. However, the extent of audit work is directly related to time spent on the engagement. Thereby, risk-orientation offers a more efficient way of doing audit work and simultaneously fulfils professional duties.

A second instrument is a capacity-oriented client selection. Interviewees described the selection of clients based on risk, revenue and capacity:

Also, then in the next step comes a risk assessment. [...] This is essentially summarised at the end on the classifications low, medium, high. That must stand then in a particular relationship. Then also to the fee, whereby the acceptance of the engagement, besides the risk rating and the fee, also has a temporal moment. (Interview WP 09)

The risk factor reflects the time intensity of client engagement. Depending on the utilisation rate of capacities, the combination of risk and revenues determines the acceptance decision. Doing so, it reflects the investment of time budgets on client engagements. In the busy season, a standard risk client with a low revenue might not be accepted as time is scarce, whereas in summer, to cover fixed costs, the same client may be welcome. Again, client acceptance has a professional and commercial component depending on the goals. The third instrument is the risk-oriented client processing. The main idea our interviewees described was that clients with a low risk did not need the same attention and therefore hours on the engagement by experienced auditors as clients with a high risk. As one interviewee explained:

You can undoubtedly cluster your clients again, although it is also borderline whether it corresponds to the profession of the public accountant to say high-risk mandates are listed mandates which are subject to inspections by the Accounting Oversight Board. The second cluster are companies that are in difficult waters, on the verge of insolvency, or are in the particular focus of public attention. The third cluster are low-risk mandates, where there is only a 'critical review of the financial statements' by the Chamber, whereby one can withdraw to the position of completeness and consistency of the financial statements. Because more would not be noticeable to external monitoring at first. This is undoubtedly the risk profile or risk classification that public accountants carry out for themselves. (Interview WP 02)

This means that the risk-oriented client processing combines the business risk audit approach with the mix of employees on a team, to allow for a time-efficient and high-quality audit. Therefore, for clients with a low risk, only a minimum professional quality has to be ensured. A junior team can reach that with only a supervising auditor.

With the mechanism of assimilation, we describe the reinterpretation of commercial instruments by professional goals. An essential method of reinterpretation is that the commercial tool is filled with professional content and interpreted from a professional perspective. For example, systems of indicators used in the firms are enriched by professional quality indicators (e.g. rating of the quality of working papers), which are then prioritised against the commercial goals. An interviewee from the Big Four described the importance of quality in key performance indicators (KPIs):

The KPIs are, of course, derived from internal quality reviews and also from external quality reviews, e.g. the inspections of the Public Accountants' Chamber. Of course, also important are how much partner time, how much manager time, is included. Then we have, I think, in all large public accountant companies, obligations to consult with the specialist department. This is also a KPI that you can monitor. (Interview WP 19)

Similarly, the quality management system is a tool originating from manufacturing. It was filled with professional content and reinterpreted in the sense of a collegial feedback instrument of peers.

The third mechanism, integration, describes the combination of professional and commercial management instruments to coordinate and prioritise the professional and commercial goals. Professional and commercial management instruments are separated in different domains; for example, administrative departments fulfil mostly commercial

purposes or phases, such as client acceptance, engagement processing, and reviewing processed engagements.

The functional and temporal segregation of commercial and professional goals is integrated into specific roles, for example, the partner or engagement auditor, and in certain committees that have to weigh and combine information and requirements from the separated goals. The differentiation in roles and phases disburdens accountants from certain tasks to free their time for other tasks. The time effect works by delegating standardized tasks to lower paid employees, thereby, the internal average cost per hour drops. However, differentiated tasks have to be integrated again. A partner from a Next Ten described this integration by structuring around profit centres:

Yes, we are organised in the firm according to the service areas. Regardless of our legal structure. So, within these service areas, certain, let's say, people who are just in a hierarchical level, have a cost centre responsibility. This means that we are actually structured and organised according to many profit centres. (Interview WP 13)

Other committees mentioned by our interviewees are the management board, the rounds of consultation committee and the partner assembly.

#### *Time as the object of professional and commercial management instruments*

By analysing the management instruments and the mechanisms to combine professional and commercial values, we noticed that the central issue in managing public accounting firms is the use of time by professionals. In this sense, accounting firms sell the time of their employees to solve problems of their clients and therefore the firm has to manage an appropriate time investment by its employees.

By regulating the quality requirements and audit approaches, regulators provided a minimum standard of professional activities. However, this is an unintended by-product of the regulation of work activities. This regulation of work allowed firms to standardise work, divide labour according to risk, and develop a sophisticated routinisation of investing the time of the public accountants. This time investment, however, is the central connection between professional and commercial values. As an executive partner from one of the small- and medium-sized firms put it:

Because, of course, quality has something to do with it—not only, but also—how long I can audit at a company and how qualified and experienced my professionals are. Moreover, of course, both are cost drivers. The longer I audit, the more costs I have on the mandate; and the more qualified my employee is, the higher his salary classification will probably be. (Interview WP 04)

It is against this background of time and experience of employees as a cost driver that the mechanism of ambivalence, with the risk-oriented client processing and the risk-oriented audit approach, affects the professional as well as commercial domains. Alternatively, with the integration mechanism, professional and commercial values are combined and can be weighed based on the time aspects. However, the professional and commercial management instruments, as well as the mechanisms of connecting them, allow for efficient use of the time of professionals. One interviewee summarised the role of time for managing public accounting firms:

We've time records. We have our software for time recordings and evaluations of these time recordings. These concern evaluations about the clients—activities, i.e. related to the assignment, the employees themselves, the entire team, and the firm. In this way, we can analyse exactly how much time is spent in connection with certain activities, and this in turn, of course, also allows good control possibilities. (Interview WP 29)



*Summary*

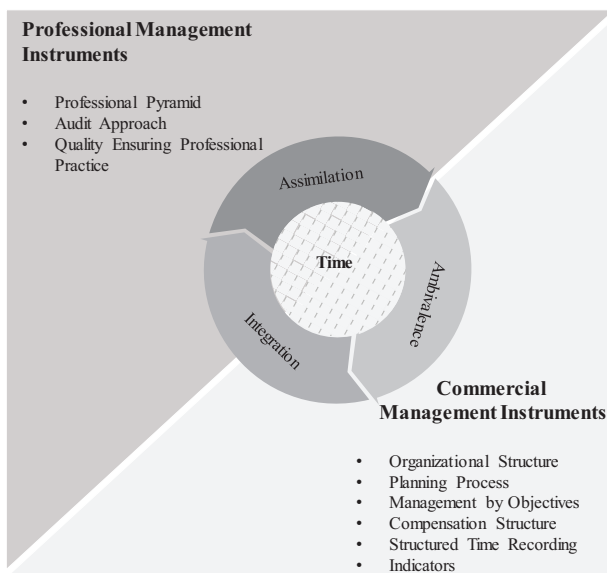
Figure 1 gives an overview of our results and combines them in a framework. On the left side, we have clustered the commercial instruments for managing public accounting firms; on the right side, we have assembled the professional instruments. These are connected by the three mechanisms: ambivalence, assimilation, and integration. Central to our framework is time as the most important object to be managed in a public accounting firm.

**Discussion**

This study analysed how public accounting firms integrate commercial and professional values in their management. After describing the drivers of adopting management instruments in public accounting firms, as well as the commercial and professional management instruments used, our study developed three mechanisms that enable the combined professional and commercial values in the management instruments of accounting firms. Furthermore, the study showed that professional and commercial management instruments aim at managing the time of professionals.

Overall, the findings speak to the literature on the commercialisation of accounting. Our results show that the professional and commercial management procedures not only co-exist as a double culture (Malsch and Gendron, 2013; Lander et al., 2013) but are combined to manage and prioritise the time of public accountants. As discussed in the introduction, other studies focused either on commercial or professional management instruments or their trade-offs; instead, our study offers an integrated view of both value clusters in accounting. Thereby, we could show that management procedures in public accounting firms revolve around prioritising the time use of public accountants in an efficient yet simultaneously quality-ensuring way.

On the one hand, this finding is similar to studies researching the importance of time in professional socialisation (Anderson-Gough et al., 2001), and the importance of business risk audits for coordination and standardisation (Robson et al., 2007). On the other hand, this



**Figure 1.**  
A framework on  
managing accounting  
firms

finding extends this line of inquiry by arguing that the management of public accounting firms is centred around prioritising the activities of public accountants and thereby structuring their work, resulting in more efficient use of time. Furthermore, we examined how public accounting firms manage professional work. Our empirical evidence suggests that the career system, the quality-ensuring professional practice, and the audit approach are themselves management systems ensuring the standardisation of work. This finding reflects literature arguing that human resources practices play an essential role in managing public accounting firms (Kornberger *et al.*, 2011). However, our interviewees saw this from a double perspective: human resources management practices are necessary for ensuring the right capacity of the firm and the cost structure, yet they reflect knowledge and experience for ensuring the quality of professional work.

Furthermore, we developed three mechanisms – ambivalence, assimilation and integration – for explaining the way commercial and professional goals are combined in the management of public accounting firms. This extends the literature on the institutional double culture of accounting (Malsch and Gendron, 2013) incorporating commercial and professional goals in their practices. However, rather than co-existing independently, these goals are complementary. By analysing the commercial aspects of professional practices (e.g. business-risk audit and risk-orientation) through the mechanism of ambivalence, we extend current research on the management of public accounting firms. We do this by showing that current professional practices have the effect of management instruments and indirectly control the time of professionals. Thereby, we offer a view that blends commercial and professional aspects of audit work, rather than seeing them as separate or even contradictory (Wyatt, 2004; Lander *et al.*, 2013).

Additionally, this finding reflects studies on the commitment of auditors to commercial and professional values and shows that public accountants are following both goals simultaneously and that the goals have been adapted well to organisations (Carrington *et al.*, 2018; Svanberg and Öhman, 2016). This is different from literature arguing that there exists a trade-off or even conflict between professional and commercial values (Wyatt, 2004; Suddaby and Greenwood, 2005). With the mechanism of assimilation, we further show how commercial instruments, such as indicators, are seen by our interviewees as vehicles for establishing quality standards in the organisation and directing the attention of the employees. This reflects the findings of Empson and Chapman (2006) that although the form changes, towards more commercial and corporate structures, the contents and conducts remain professional. The third mechanism, integration, reflects the requirements of work division in firms and the resulting need for coordination of work (Barrett *et al.*, 2005; Rose and Hinings, 1999).

Finally, our findings on the quality-ensuring professional practice and the audit approach reflect another aspect of the commercialisation debate: the standardisation and professionalisation of work. Our interviewees emphasised that certain standards have to be fulfilled to ensure the same quality of services across different public accountants, and that, through the ongoing regulation, the management has to standardise procedures to document the processes leading to an audit opinion. A resulting by-product of the regulated standardisation is a more efficient fulfilment of audit services. This finding shows that commercialisation and regulation of public accounting are interwoven. We thereby add a further aspect to the debate about commercialisation and regulation, namely, that regulation of work and thereby standardising it is the infrastructure of commercialisation. This extends research on the shifting archetypes (Lander *et al.*, 2013), identities (Broberg *et al.*, 2018) and regulation (Caramanis *et al.*, 2015; Ramirez, 2013), by showing that regulation of audit

work creates the circumstances for a more commercial orientation by requiring a minimum standard of organisation, rather than prohibiting the commercial direction. Furthermore, our findings indicate that the universal archetype of public accounting firms is provided by the templates issued by regulators and professional associations, rather than the result of a shifting mindset resulting from growth and clients (Cooper *et al.*, 1996). Lastly, with our findings, we offer an analysis of the inclusion of commercialism in public accounting firms. Our interviewees had not seen an inherent conflict between commercial orientation and professional goals; rather, they understood their work as a form of business, which in certain situations (e.g. fraud) had a trustee aspect. This finding confirms the study of Broberg *et al.* (2018), in another institutional setting, as it reveals that for our interviewees the commercial aspects of their work and the mediation by management instruments, such as systems of indicators or utilisation rates, did not conflict with their professional identity. This contradicts literature arguing that managing professionals are like herding cats (Von Nordenflycht, 2010); instead, it seems that public accountants adapt well to commercial management instruments.

### Conclusion

This paper draws on an interview study to examine how professional and commercial goals are combined in the management of public accounting firms. Doing so, it first explores external conditions for the management of public accounting firms, then it analyses the commercial and professional management instruments, developing three mechanisms – ambivalence, assimilation and integration – to explain the combination of these goals. Finally, it shows how time and the interwovenness of time management with regulation is a central issue of management in public accounting firms. Though offering these findings, our study has some limitations. First, our data is based on interviews rather than the actual work that public accountants do. We have triangulated the data with documents. However, future work could observe public accountants conducting management. Second, our sample of interviewees is intended to represent all kinds of accounting firms in the market; however, it is not representative in a statistical sense. Nevertheless, because we followed the quality criteria of Lincoln and Guba (1985) for qualitative research and reached theoretical saturation, we believe that the main findings of the management of time are transferable across the different subgroups in the profession. Still, future research should use quantitative and experimental approaches to examine our findings and identify and test causal relations. Third, with the German context, our data is skewed in a specific institutional context distinct from other settings in the world; for example, there is a strong tradition of cost management in Germany. However, our findings on professional management practices still speak to other continental European settings as these are regulated in the European Union and even beyond. However, future research may analyse the management of accounting firms in different cultural backgrounds. Similarly, we have not analysed the impact of digitalisation and automation on audits and the management of accountants; however, this might be a fruitful avenue for future research as the increasing use of technology in conducting audits may change the use and awareness of time in public accounting firms.

Despite these limitations, we develop three contributions to the literature. First, we have analysed how management instruments in public accounting firms aim at structuring the time of public accountants and thereby lead to higher efficiency of work; this extends research on professional and commercial instruments by showing that the essential core of the different management instruments in public accounting firms is

the prioritisation of the time of professionals. Rather than seeing professional and commercial goals and practices as apart or even contradictory, public accounting firms are hybrids incorporating hybrid professional and commercial practices in their management. Second, with our three mechanisms, we contribute to the research on the commercialisation of public accounting, by arguing that though professional and commercial value clusters coexist in the profession, rather than being conflicting both value clusters are combined in the management of accounting firms and created “hybrid” practices. Third, we contribute to the literature on the shift of archetypes and identities towards commercialism, by arguing that, rather than prohibiting commercial behaviour, regulation creates the infrastructure of commercialisation by developing a minimal organisation of public accounting firms.

#### Note

1. The Accounting Oversight Commission was founded in 2005 to establish an independent oversight. However, the independent oversight was transferred to the Accounting Oversight Board in 2016 during a reform of auditor legislation.

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