Perspectives on Agency and Institutional Change

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Perspectives on agency and institutional change

INTRODUCTION[1]

Institutional theory argues that behavior is prescribed by institutions (DiMaggio & Powell, 1983). Originally, institutional theory was promoted as a reaction to the academic discourses based on individual and rational choice models (Clemens & Cook 1999 op. cit. March & Olsen, 1989). Meanwhile, institutional theory has become one of the most popular theoretical orientations in the field of organizational science (Dacin, Goodstein, & Scott, 2002; Mizruchi & Fein, 1999; Suddaby, 2010; Walgenbach & Meyer, 2008). It is argued that as institutions are reproduced, they become stronger and more resistant to change, thereby enduring and assuring stability in social life (Zucker, 1977). Such institutions can have different disguises. Scott (2001) distinguishes between the regulative, normative, and cultural-cognitive pillars of institutions, each of which outlines the different nature of institutions (see table 1).

	Pillar		
	Regulative	Normative	Cultural-cognitive
Basis of compliance	Expedience	Social obligation	Taken-for-grantedness, shared understanding
Basis of order	Regulative rules	Binding expectation	Constitutive schema
Mechanisms	Coercive	Normative	Mimetic
Logic	Instrumentality	Appropriateness	Orthodoxy
Indicators	Rules, laws, sanctions	Certification, accreditation	Common beliefs, shared logics of action
Basis of legitimacy	Legally sanctioned	Morally governed	Comprehensible, recognizable, culturally supported

Table 1: Three pillars of institutions (Scott, 2001, p. 52)

[1] This section draws to a high extent on Walgenbach and Meyer (2008) who provide an excellent overview on institutional theory and its foundation.

The mechanisms of how institutions shape daily life are already widely discussed in the seminal papers in institutional theory by Meyer and Rowan (1977), DiMaggio and Powell (1983), and Zucker (1977). While the former two contributions offer a macro foundation of institutional theory by showing how organizations respond to institutional pressures, the latter article provides a micro foundation by showing how individuals pass on institutionalized behavior:

- Meyer and Rowan (1977) rejected the so far prevailing idea that only functional efficiency shapes the formal structure of organizations. Instead, they argue that organizational structures are not built upon functional efficiency, but rather on rationalized myths. These rationalized myths can be routines and practices that are imposed by society and reproduced in order to gain social legitimacy and assure survival (Meyer & Rowan, 1977). However, social expectations do not always coincide with requirements of functional efficiency. At that point, the authors argue that actors can decide on how to react to institutional pressures and introduce the concept of decoupling. This means that organizations can comply whith given institutions or can adopt rational myths ceremonially by building up a façade in order to maintain functional efficiency (Meyer & Rowan, 1977). Consequently, actual processes of production are decoupled from institutionally prescribed structures.

- DiMaggio and Powell (1983) raised the question why organizations are so alike in a given institutional context. To answer this question, they investigated the diffusion of institutions and the resulting homogeneity among organizations. They introduced two important concepts, namely the organizational field and institutional isomorphism. The authors define an organizational field as "recognized area of social life" (p. 148) in which organizations share the same institutional context. An organizational field is usually comprised of the most important actors with whom a focal organization is interacting, such as suppliers, customers, and regulators. In order to explain institutional isomorphism, DiMaggio and Powell (1983) identify three different forms of institutional pressures that lead to homogeneity among members of an organizational field, namely coercive, mimetic, and normative pressures (DiMaggio & Powell, 1983). Coercive pressures can be exercised by a strong player in the field on which the focal organization depends. Mimetic pressures refer to the imitation of other organizations that are considered to be more legitimate. This occurs particularly in uncertain situations. Normative pressures are associated with professionalism or education, causing a standardization of behavioral patterns. In turn, non-conformity with institutional prescriptions leads to a loss of legitimacy and sanctions that can threaten organizational survival.

- Zucker (1977) investigated the persistence of culture that consists of social knowledge and is part of the objective reality from the perspective of institutional theory. She highlights the persistence of institutions depending on the degree of institutionalization, arguing that more institutionalized institutions are more persistent than those that are less institutionalized. Moreover, when practices have become highly institutionalized, there is no need for control through sanctions or incentives because these practices are taken-for-granted (Zucker, 1977). Such control would rather lead to a de-institutionalization as it pinpoints and acknowledges the existence of alternative behaviors that would increase the likelihood to deviate from institutionally prescribed behavior (Zucker, 1977).

All in all, institutions prescribe behavior, are reproduced, endure, and show resilience towards attempts of change. Such a perception of institutions can easily explain stability and homogeneity in institutional contexts; however, it leaves little space for institutional change (Scott, 2001). Divergent institutional change in which actors deviate from prescribed templates is theoretically problematic (Battilana, Leca, & Boxenbaum, 2009) because actors are portrayed to be entirely driven by institutional prescriptions and appear passive or to be cultural dopes (Garfinkel, 1967). This early conceptualization of institutions as enduring and imperturbable (Hughes, 1939; Zucker, 1977) has not been without criticism (Walgenbach & Meyer, 2008 op. cit. Brint & Karabel, 1991; DiMaggio & Powell, 1991; Powell, 1991; Scott, 2001) since institutional theory was hardly able to explain institutional change. Consequently, recent scholarship has shifted its focus away from the explanation of institutional structures towards explaining institutional change. In addition to asking for how institutions guide human behavior, research in institutional theory became interested in the question of how humans create, maintain, and disrupt institutions (Lawrence & Suddaby, 2006) in order to explain endogenous institutional change (Battilana et al., 2009).

This more voluntaristic perspective is based on the seminal article “Interest and Agency in Institutional Theory” by DiMaggio (1988) who introduced the concept of the institutional entrepreneur in order to describe endogenous institutional change (Battilana et al., 2009). The introduction of this concept responded to the absence of agency in the original research in institutional theory, which is associated with complete embeddedness in the institutional environment (Walgenbach & Meyer, 2008). DiMaggio (1988) argued that there can be “circumstances that cause actors who do recognize and try to act on their interest to be unable to do so effectively” (p. 4). In other words, DiMaggio (1988) placed the ability to reflect on the institutional setting with institutional entrepreneurs as they possess real interest. Based on this assumption, DiMaggio (1988) contends that “new institutions arise when organized actors with sufficient resources see in them an opportunity to realize interests that they value highly” (p. 14). Since then, agency and endogenous institutional change have seemed theoretically possible in institutional theory (Battilana, 2006). Based on this view, agents know about their real interest and employ available resources, therefore providing the power to enact institutional change accordingly.

Triggered by DiMaggio (1988), a research area on agency in institutional theory started to emerge, leaving behind the image of an over-socialized actor (Powell, 1991). Before, research interests focused on how institutions influence actors; now the question was how actors influence institutions. Meanwhile, research on institutional agency causing institutional change has become a vivid research area that is well represented by the review on institutional entrepreneurship authored by Battilana, Leca, and Boxenbaum (2009). However, institutionalists commented that this new perspective was not consistent with fundamental assertions of institutional theory (DiMaggio & Powell, 1991).Therefore, the challenge for institutional theory has remained to propose a theory of action that is consistent with institutional theory (Battilana, 2006; DiMaggio & Powell, 1991). The key question has been how actors can change taken-for-granted institutions while these institutions still shape their behavior and thinking at the same time (Greenwood & Suddaby, 2006). In other words, agency should be conceptualized consistent with institutional theory. In response to this theoretical challenge, a multitude of studies on institutional agency was published in which many authors implicitly downplayed the importance of institutions. However, this stream of literature has not been without criticism. For example, Suddaby (2010) argued that "[i]nstead of passive cultural dopes, institutional theory now presents organizations as hypermuscular supermen, single handed in their efforts to resist institutional pressure, transform organizational fields and alter institutional logics" (p. 15).

This dissertation responds to Suddaby's (2010) criticism and intends to contribute to this debate by providing a more refined perspective on institutional agency and institutional change. Explanations of agency and change need to consider that actors are still guided by institutions and do not behave beyond the influence of institutions. In doing so, this dissertation contributes to the body of literature that wishes to reconcile these two seemingly conflicting areas in institutional theory by providing a balanced view on institutional agency that is still firmly grounded in institutional core arguments.

OVERVIEW OF THE PAPER-BASED DISSERTATION

All three papers in this dissertation contribute to the broad body of literature on institutional theory in general and to institutional agency and institutional change in particular. They intend to provide an explanation of endogenous institutional change without putting too much emphasis on agency in order to be sufficiently consistent with institutional theory. Each paper offers a different perspective on institutional agency and institutional change, which is briefly outlined in table 2.

	Articles		
	Non-strategic Agency and Unintended Institutional Change: A Power Based Perspective	Embedded Agency in Highly Institutionalized Fields: The Case of the German Accounting Industry	Continuous Change in Highly Institutionalized Fields: The Case of the German Accounting Industry
Research question	Is there a concept of power, which allows endogenous institutional change consistent with institutional theory?	How can embedded agency be explained in the German accounting industry?	How can endogenous institutional change in the German accounting industry be explained without an over-emphasize on agency?
Method	Theoretical	Empirical	Empirical
Findings	The article proposes the employment of Clegg's Framework of Power for the analysis of institutional change. It is consistent with fundamental assumptions and allows for agency at the same time.	In order to explain embedded agency, this article identifies three new mechanisms, which refer to the interaction of field members.	Institutional change in a highly institutionalized field can come about as a result of the process of institutionalization, which forgoes the emphasis on agency.
Purpose	Theory discussion	Theory development	Theory application
Pages	19 - 46	47 - 97	98 - 143

Table 2: Overview on articles of the dissertation

Non-voluntaristic Agency and Unintended Institutional Change: A Power Based Perspective

This first paper offers a new perspective on agency and institutional change, engaging with the concept of power, which is still under-considered in institutional theory (Clegg, 2002), even though power is an important concept when explaining agency and institutional change (Hensmans, 2003; Reay & Hinings, 2005). Notably, there are competing understandings of power in institutional theory. One is that institutions are overly powerful, so that agency basically cannot occur because actors cannot emancipate themselves from their institutional environment (DiMaggio & Powell, 1983). The other concept of power in institutional theory is that the institutional entrepreneur is overly powerful (Khan, Munir, & Willmott, 2007), which allows for an explanation of agency and institutional change, but ignores the key assertions of institutional theory that "behavior is substantially shaped by taken-for-granted institutional prescriptions" (Greenwood & Suddaby, 2006, p. 27).

Early and most prominent work in institutionalism, such as Meyer's and Rowan's (1977) seminal article, refers to "powerful institutional rules" (p. 343) that have binding character to actors. DiMaggio and Powell (1983) share this understanding when they describe institutional pressures as "powerful forces" (p. 148) that influence organizations, resulting in institutional isomorphism. These research articles emphasize the power of institutions over individual agents. Little attention, however, was given to the power of agents when considering institutional change. Consequently, such conceptualization of power might be sufficient for an explanation of stability and endurance (Hughes, 1936), but it does not offer a satisfactory explanation for agency and institutional change (Battilana et al., 2009). More recent work builds on DiMaggio (1988) who introduced the institutional entrepreneur as a powerful agent as being quite independent from institutional influence. Meanwhile, other literature refers to the actor's power (Hensmans, 2003; Khan et al., 2007; Levy & Scully, 2007) or the "ability to manage the transition process" (Greenwood & Hinings, 1996, pp.

1039-1040) in the explanation of institutional change: “The process of moving from one dominant logic to another involves actors using their power to accomplish such shifts” (Reay & Hinings, 2005, p. 352). Here, power is assigned to actors at the expense of institutions. However, this opposes fundamental assumptions of institutional theory.

In order to address this problem, this article proposes a concept of power that does not oppose key assertions of institutional theory, but still provides a satisfactory explanation of agency and institutional change. For this purpose, the paper argues for the application of the Framework of Power by Clegg (1989) when studying institutional change. While acknowledging the power of institutions, Clegg (1989) offers an explanation for agency that is still consistent with institutional theory. Part of his Framework of Power is disciplinary power, which is new to institutional theory and represents the innovations in the techniques of production in a broader sense. This concept of power can inform the debate on agency and institutional change because disciplinary power can empower actors to deviate from institutionalized behavior.

Overall, this paper has four major implications. First, it argues for the employment of Clegg’s (1989) Framework of Power when explaining institutional change. This framework includes disciplinary power that creates an environment open to change and can lead to institutional change thereafter. When new innovations are made due to competitive pressures, for instance, new behavioral patterns emerge, which become institutionalized. Second, Clegg’s (1989) Framework of Power highlights the importance of resource dependency in explaining agency and institutional change. In contrast to previous research, Clegg (1989) offers an integrative framework that includes agents, institutions, and, additionally, resource dependencies, thereby leaving behind theoretical eclecticism. Third, based on Clegg’s (1989) Framework of power, this paper proposes a less voluntaristic change agent, which is more consistent with institutional theory. In other words, agency is empowered through changes in the techniques of production. Fourth, the Framework of Power also provides an explanation of embedded agency because embedded actors are affected by changing availability of resources as well.

After the article's introduction, the usage of power in institutional theory is reviewed. This leads to the underlying concepts of power in institutional theory, which are presented and discussed. By addressing their shortcomings, the following section introduces Clegg's (1989) Framework of Power, which can inform our understanding of agency and institutional change. For this purpose, the next section will discuss a case of institutional change using Clegg's (1989) Framework of Power in order to demonstrate the framework's explanatory power. The paper closes with a discussion of the major findings and the implications for further research.

Embedded Agency in Highly Institutionalized Fields: The Case of the German Accounting Industry

The second article focuses on a recurring topic in institutional theory, which is the "paradox of embedded agency" (Seo & Creed, 2002, p. 226). The key question is: "How can actors envision and enact changes to the context in which they are embedded" although "behavior is substantially shaped by taken-for-granted institutional prescriptions" (Greenwood & Suddaby, 2006, p. 27)? Institutional theory would argue that embedded actors benefit more than others from existing institutions; consequently, there should be no incentive for embedded actors to change their institutional settings (Greenwood & Hinings, 1988). The paradox of embedded agency has become a central topic in institutional theory because this theory still lacks a theorization of institutional entrepreneurship that is consistent with its own key arguments (Battilana, 2006, p. 670).

Three different explanations of the paradox of embedded agency have been identified and are discussed based on their major contributions. The first way to explain embedded agency is via the exposure of embedded actors to new institutions from neighboring organizational fields. In such constellations, institutional contradictions emerge upon which embedded actors act. Such events are mostly likely to occur when boundaries between organizational fields are unclear (Greenwood & Suddaby, 2006). Also, the entry of new actors from yet unrelated fields into the focal field can enable embedded agency because new entrants carry new institutional logics, thereby also leading to institutional contradictions (Smets, Morris, & Greenwood, 2012; Zietsma & Lawrence, 2010). The second approach explains embedded agency based on institutional contradictions that are inherent to the institutional environment. Holm (1995), for example, argues that institutional settings are nested systems, characterized by complexity and multiplicity of interconnected institutions. This favors the emergence of unclear institutional prescriptions, which in turn creates space for embedded agency (Holm, 1995). Seo and Creed (2002) provide another example for explaining embedded agency and argue that embedded agency is the result of institutional contradictions that continuously emerge out of the ongoing process of institutionalization. The third approach explains embedded agency based on individual traits of embedded actors themselves. Characteristics that favor embedded agency can be social position and access to resources (Battilana, 2006) or the ability to reflect on one's own position in a field (Reay, Golden-Biddle, & Germann, 2006). Notably, embedded actors appear to some degree under-socialized, which is not entirely consistent with institutional theory.

Despite these three approaches of embedded agency, this paper reports a case from the German accounting industry in which embedded agency cannot be explained sufficiently based on these approaches. Instead, this case shows how the interaction of members of the organizational field causes embedded actors to enact change. The study is based on archival data and interviews. The data were coded following the grounded theory method by Strauss and Corbin (1998) in order to gain new insights into embedded agency in the German accounting industry (Yin, 2003). In general, this paper contributes to existing literature offering an interaction-based framework of embedded agency. Following the research method of the instrumental case study as defined by Stake (1994), this paper proposes three practices, which result in embedded agency. These patterns are 1) *creation of new institutions by* *embedded actors* to gain further legitimacy, leading to 2) a *struggle in the creation of new institutions* among field members, and 3) *institutionalized agency of embedded actors*.

Based on the findings, this paper has three major implications. First, the paper offers a more refined understanding of embeddedness by distinguishing between cultural, political, and economic embeddedness. Actors strive to increase their embeddedness along each dimension while the degree of embeddedness can differ between these dimensions. This finding is important because it enhances our understanding of embeddedness and, consequently, embedded agency. Despite being highly embedded in one dimension, actors can still strive to increase their embeddedness in other dimensions. Second, embedded agency can be triggered through the interaction of field members. It can be the case that embedded actors are challenged by more peripheral actors who seek privileges on the expense of embedded actors. In response, embedded actors intend to neutralize such attacks in order to protect their privileges. Third, the analysis shows that embedded agency can be shaped by the social context. In other words, in some venues, agency by embedded actors is socially expected. Such institutionalized agency portrays a less voluntaristic character of agency.

This article is organized in the following way: After the introduction, relevant literature is outlined, starting with institutions and institutional entrepreneurship. This leads to the presentation of existing approaches of embedded agency and an explanation of their inadequacy in explaining the phenomenon observed in the German accounting industry. In order to close this gap, the next section introduces the method of the empirical investigation. The section afterwards presents the case study including the collected data and their interpretation. In the following section, the findings are discussed, and propositions are developed, all of which are summarized in the interaction-based framework of embedded agency. The implications emphasize the insights on the concept of embeddedness, interaction as an enabling factor of embedded agency, and institutionalized agency. The paper closes with a brief conclusion.

Continuous Change in Highly Institutionalized Fields: The Case of the German Accounting Industry

The third article investigates institutional change in highly institutionalized fields. Highly institutionalized and mature fields are associated with stability and persistence (Scott, 2001; Zucker, 1977). Nevertheless, the German accounting industry has witnessed much change in recent years despite its high degree of institutionalization. Notably, such change was triggered by endogenous forces in which agency, however, played a subordinate role.

The study of institutional change in professional service firms and in particular in the accounting industry has a long tradition because professionalism itself stands for a high degree of institutionalization (Carpenter & Feroz, 2001; Scott, 1987). Accordingly, a wide variety of studies have been conducted that can be categorized based on three sources of institutional change (Schneiberg & Lounsbury, 2008): exogenous shocks (Cooper, Hinings, Greenwood, & Brown, 1996; Greenwood, Suddaby, & Hinings, 2002; Lee & Pennings, 2002), existence of institutional contradictions (Greenwood & Suddaby, 2006; Montgomery & Oliver, 1996; Smets et al., 2012; Suddaby & Greenwood, 2005), and forms of agency (Covaleski, Dirsmith, & Rittenberg, 2003; Lawrence, 1999; Lawrence, Malhotra, & Morris, 2012; Thornton, Jones, & Kury, 2005). While the focus on exogenous shocks and existence of institutional contradictions do not offer a satisfying understanding of institutional change, as they often leave out their origins, and focus instead on the diffusion of practices (Leblebici, Salancik, Copay, & King, 1991; Schneiberg & Lounsbury, 2008), the focus on forms of agency is not entirely consistent with institutional theory because it puts a strong emphasis on institutional agency (Suddaby, 2010).

This paper addresses this criticism and intends to provide an explanation of institutional change in the German accounting industry that can explain why sources of change emerge without overstating the role of agency. In doing so, the paper draws on a dialectical perspective of institutional change (Benson, 1977; Seo & Creed, 2002). In connection with this perspective, Seo and Creed (2002) argue that institutional change originates from institutional contradictions that are by-products of institutionalization processes. Studying institutional change in the German accounting industry is particularly interesting because it is a highly institutionalized and highly regulated field that looks back on a long tradition, is one of the largest accounting industries in Europe, and still witnesses much unrest. The study is based on archival data and interviews, which have been coded (Strauss & Corbin, 1998) in order to provide new insights into endogenous institutional change in the accounting industry (Yin, 2003). Based on the analysis, three different sources of institutional contradictions causing continuous institutional change are identified, namely "intrainstitutional conformity that creates interinstitutional incompatibilities", "legitimacy that undermines functional efficiency", and "isomorphism that conflicts with divergent interests" (Seo & Creed, 2002, p. 226).

This paper makes three major contributions to institutional theory. First, it offers an explanation of endogenous institutional change that does not rely on institutional agency and is still able to describe where change comes from and how it evolves. Second, it highlights the importance of institutional pluralism in the change process. The excessive adherence to one particular institution might take place at the expense of other institutions, which increases the tension upon actors and makes change more likely, thereby opposing the argument of Kraatz and Block (2008). Third, the paper offers an explanation of how highly institutionalized fields can change without relying on new entrants (Thornton, 2004) or institutions from yet unrelated fields (Greenwood & Suddaby, 2006). This insight is made possible when focusing on the process of institutionalization, which continuously creates new institutional contradictions.

This paper is organized in the following way. The section following the introduction reviews the literature on institutional change in professional services firms, which leads to identifying the gap in the literature and the contribution of the paper. The next section presents Seo's and Creed's (2002) dialectical perspective on institutional change, which will be used to investigate institutional change in the German accounting industry. After presenting the method of the empirical study, the case study is presented, using quotations and interpretations that uncover the mechanisms of institutional change. The last section of the paper presents a summary of the findings, a discussion, and suggestions for further research.

NOTE ON QUALITATIVE RESEARCH IN THE ACCOUNTING INDUSTRY FROM AN INSTITUTIONAL PERSPECTIVE

In order to conduct empirical research with the theoretical focus of institutionalism, the field of professional service firms, in particular the accounting industry, was chosen because this research site is associated with a high degree of institutionalization (Greenwood, Suddaby, & McDougald, 2006; Scott, 1987). Therefore, professional service firms are particularly interesting for studying agency and institutional change because institutional change is theoretically less likely to appear (Scott, 2001).

Moreover, professions are socially constructed (Scott, 2008) and follow a set of rules (DiMaggio & Powell, 1983) that prescribe the conduct of professional practice (Leicht & Lyman, 2006). Following his Pillars Framework, Scott (2008) describes professions based on regulative, normative, and cultural-cognitive pillars of institution: "The regulative pillar … stresses rule-setting, monitoring and sanctioning activities, both formal and informal. The normative pillar … introduces a prescriptive, evaluative, and obligatory dimension into social life; … and the cultural-cognitive pillar … emphasizes the centrality of symbolic systems [such as] the use of common schemas, frames, and other shared symbolic representations that guide behavior" (Scott, 2008, p. 224). Providing professional services is bound by certain rules such as accounting standards in order to assure quality and impede malpractice (Gross & Kieser, 2006).

Among professional service firms, the accounting industry is highly institutionalized (Greenwood & Suddaby, 2006; Greenwood et al., 2002), and its institutions can appear differently. For example, compulsory entrance exams in the accounting industry, which future professional auditors must pass, trigger a cognitive standardization. Those who become professionals have to pass a certain training that is associated with the acquisition of formal knowledge. Additionally, daily work in the accounting industry is regulated and organized by a large body of regulations, mainly consisting of accounting standards and their interpretations. This prescribes the task of auditors including what they are not allowed to do and how their tasks have to be exercised. Despite the high degree of institutionalization, the accounting industry has experienced various changes since the beginning of the 21st century, which makes it an interesting research site for studying agency and institutional change (Greenwood & Suddaby, 2006; Greenwood et al., 2002).

In doing so, both empirical studies from this dissertation investigate how institutional change in the German accounting industry have developed by taking different viewpoints. For this kind of research, the interaction of institutions and actors, their influence on each other, as well as change processes and mechanisms were particularly interesting. For both studies, the case study method was chosen because it seems most suitable when investigating events in-depth in their natural context (Eisenhardt, 1989; Yin, 2003). The motivation for these two papers was to explain institutional change in its natural setting by interpreting and making sense of observed incidences (Denzin & Lincoln, 2000). In accordance with Pettigrew (1990), the analyses in both articles should yield "holistic and multifaceted explanations of change" (p. 269), thereby extending existing theory on agency and institutional change (Eisenhardt, 1989). Theoretical sampling (Strauss & Corbin, 1998) allowed the collection of data from various archives and interview partners in order to cover the variety of facets in which agency and institutional change occur. While the first paper of the dissertation is merely theoretical, the second paper, which is on embedded agency, is based on the grounded theory method

(Strauss & Corbin, 1998) and offers new propositions, which can enhance existing theory on embedded agency. The third paper on a dialectical perspective to institutional change applies theory in order to explain and make sense of the empirical phenomenon.

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Non-voluntaristic Agency and Unintended Institutional Change:

A Power Based Perspective

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Non-voluntaristic Agency and Unintended Institutional Change:
A Power Based Perspective

Abstract

Competing concepts of power in institutional theory make the analysis of institutional change challenging. On the one hand, the assumption of powerful institutions leaves little space for agency and institutional change; while on the other hand, the assumption of powerful actors allows for agency but contradicts the fundamental assumption of institutional theory as stated before. This article wishes to propose a concept of power that is consistent with institutional theory and preserves core institutionalist assumptions, but still offers an explanation for agency and institutional change. To do this, it draws on a discussion of Clegg's (1989) Framework of Power that is used to explain agency and institutional change. It also suggests combining resource dependence theory with institutional theory while arguing for non-voluntaristic agency to explain institutional change and offering a new perspective on embedded agency.

Keywords: power, institutional change, agency, resource dependency, non-voluntaristic agency

INTRODUCTION

Power is a central concept in explaining agency in institutional theory (Hensmans, 2003; Reay & Hinings, 2005). However, there are competing understandings of power in the institutional literature. Either institutions are overly powerful, which impedes an explanation for agency (DiMaggio & Powell, 1983), or the institutional entrepreneur is overly powerful (Khan, Munir, & Willmott, 2007), which allows explaining agency but ignores the fundamental assumption of institutional theory, namely that "behavior is substantially shaped by taken-for-granted institutional prescriptions" (Greenwood & Suddaby, 2006, p. 27).

Classic works of institutionalism such as Meyer and Rowan (1977) refer to "powerful institutional rules" (p. 343), which are binding for organizations. Similarly, DiMaggio and Powell (1983) described institutional pressures as "powerful forces" (p. 148) that prescribe behavior to organizations, ultimately leading to institutional isomorphism. Both articles emphasize the power of institutions over individual agents. Such a conceptualization of power might be sufficient to explain institutional stability and endurance (Hughes, 1936); however, it does not provide any room for a satisfactory explanation of agency (Battilana, Leca, & Boxenbaum, 2009). The power of agency, which aims at changing institutions, received little attention at that time. More recent studies refer to the institutional entrepreneur (DiMaggio, 1988) as a powerful agent, while institutions are perceived to be less powerful. Authors often refer to the actor's power (Hensmans, 2003; Khan et al., 2007; Levy & Scully, 2007) or the "ability to manage the transition process" (Greenwood & Hinings, 1996, pp. 1039-1040) when they explain how agency changes institutions: "The process of moving from one dominant logic to another involves actors using their power to accomplish such shifts" (Reay & Hinings, 2005, p. 352). In this approach, power is transferred to the actor on the expense of the institution, thereby opposing the argument of the more traditional scholarship in institutional theory.

By addressing this theoretical problem, the major concern and contribution of this article is to propose a concept of power that is consistent with institutional theory and does not ignore core institutional assumptions, but still allows for agency in order to explain institutional change. For that purpose, the next section will review the role that the concept of power plays in institutional theory. This sets the frame for a critical discussion of Bourdieu's and Giddens' conceptualization of power in the subsequent section as their concepts of power have strongly influenced the way that power as a concept has been used in institutionalism (e.g. Battilana, 2006; DiMaggio & Powell, 1983; Dorado, 2005; Garud, Jain, & Kumaraswamy, 2002; Hensmans, 2003; Lawrence & Suddaby, 2006; Maguire, Hardy, & Lawrence, 2004; Ranson, Hinings, & Royston, 1980; Scott, 2001; Seo & Creed, 2002). Whereas Bourdieu's concept of power leaves little space for agency, Giddens' concept of power downplays the importance of power held by institutions, thereby creating space for agency. To address these shortcomings, the section thereafter introduces Clegg's (1989) Framework of Power, which acknowledges the power of institutions and at the same time leaves sufficient space for agency. His references to disciplinary power have a particularly great potential to advance the debate on agency and institutional change. In general, Clegg (1989) argues that innovation in technologies, also described as disciplinary power, can empower agency, leading to institutional change. The paper closes with research implications about the incorporation of disciplinary power and resource dependencies when explaining agency and institutional change. Moreover, it argues for a non-voluntaristic character of agency and shows that Clegg's (1989) Framework of Power can inform current debates on embedded agency.

POWER IN INSTITUTIONALISM

This section reviews the literature on institutional theory regarding the concept of power and highlights its centrality in institutionalism. This review will show that there is a disagreement in the usage of the term power among scholars of institutional theory. In general, two competing concepts of power make up the field of institutional theory. In the first approach, power is entirely assigned to institutions while in the second approach power is assigned to the institutional entrepreneur on the expense of institutions:

Based on the first approach, institutions exercise power from which actors cannot escape. This understanding of power is advocated by Meyer and Rowan (1977) in their seminal paper on adoption of rationalized myths for gaining legitimacy. Such a strong emphasis on institutions is typical for early works in institutional theory, which seems to rule out any power held by agents. When Meyer and Rowan (1977) argue that "powerful institutional rules … function as highly rationalized myths that are binding on particular organizations" (p. 343) and that compliances with these institutional rules assures survival, actors basically remain powerless. DiMaggio and Powell (1983) share a similar understanding of power in which institutions prescribe behavior to actors. For example, these authors see uncertainty as a powerful force that encourages imitation and consequently leads to mimetic isomorphism (DiMaggio & Powell, 1983). However, they still do not completely exclude actorship from their analysis. Both Meyer and Rowan (1977) as well as DiMaggio and Powell (1983) at least acknowledge the power of some specific actors such as the state, the profession, or a powerful organization, all of which enforce adherence to prevailing institutions. However, these actors seem to be beyond institutional influence, enforce isomorphism, and do not appear as change agents. Also, Zucker (1977) underlined the power of institutions. She does not explicitly refer to power but to resistance, which can be seen as counter power (Clegg, 1989). According to her, resistance is dependent on the degree of institutionalization, which means that the power of an institution increases in accordance with its degree of institutionalization (Zucker, 1977). In this case, actors are less likely to change institutions or have to be even more powerful to enact institutional change (Zucker, 1977). In conclusion, the conceptualization of power in fundamental scholarship of institutional theory leaves little space for power on the part of the actor or for agency to trigger any institutional change.

This has changed with the introduction of the institutional entrepreneur by DiMaggio (1988), the second approach where power is assigned to institutional entrepreneurship at the expense of institutions. The institutional entrepreneur was supposed to solve the theoretical problem of explaining endogenous institutional change in institutional theory (Battilana, 2006). With the introduction of the institutional entrepreneur, a new conceptualization of power entered the debate, which allowed actors enacting institutional change. The power of institutions was diminished in favor of the institutional entrepreneur who became a central concept in institutional theory. For example, Levy and Scully (2007) describe the institutional entrepreneur as a modern prince, alluding to Machiavelli. The development of a superior strategy brings the institutional entrepreneur into a more powerful position to enact change in his or her favor (Levy & Scully, 2007). Similarly, Reay and Hinings (2005) conclude that "radical change requires the purposeful use of power" (p. 379) on the part of an actor. Interestingly, the actor in this study remains widely under-socialized, meaning that this actor is independent from the power that institutions, which the actor is going to change, exercise. This idea has led to the criticism that "instead of passive cultural dopes, institutional theory now presents organizations as hypermuscular supermen [i.e. institutional entrepreneurs], single handed in their efforts to resist institutional pressure, transform organizational fields and alter institutional logics" (Suddaby, 2010, p. 15). In other words, the institutional entrepreneur has gained an overly powerful position in his or her institutional context without being centrally connected to the institutions.

Overall, this brief overview shows that there are competing concepts of power in institutional theory. However, the question still remains what force triggers agency without violating the institutional assumption that "behavior is substantially shaped by taken-for-granted institutional prescriptions" (Greenwood & Suddaby, 2006, p. 27). A satisfactory answer to this question needs a well elaborated concept of power, which goes beyond the dichotomy of agency and institutions. Therefore, extant concepts of power, which describe the interplay between agency and structure (or synonymously institutions), will be outlined in the following section in order to address their shortcomings thereafter.

BOURDIEU AND GIDDENS ON POWER[1]

The different perceptions of power in institutionalism suggest a closer look at underlying theories that are focused on the power of agency and institutions. For this purpose, the concepts of power by Bourdieu and Giddens will be outlined and discussed, as they take a prominent role among institutional theorists (e.g. Battilana, 2006; DiMaggio & Powell, 1983; Dorado, 2005; Garud et al., 2002; Hensmans, 2003; Lawrence & Suddaby, 2006; Maguire et al., 2004; Ranson et al., 1980; Scott, 2008; Seo & Creed, 2002). Although the idea of both Bourdieu and Giddens are often used synonymously, there are slight differences between them (Mutch, 2007). This section will show to which extent these prominent theorists in social science provide satisfactory concepts of power that can explain agency and institutional change consistent with institutional theory. In previous scholarship, little effort was made to reflect upon the limitations and implications of these concepts. The section afterwards will then elaborate on these shortcomings in order to show at which points Clegg's (1989) Framework of Power can inform the explanation of agency and institutional change in order to be more consistent with institutional theory.

Bourdieu

Bourdieu (1977) proposed a theory of practice that outlines and explains the interplay between agency and structure. The central concept in his theory is the notion of the "habitus". According to Bourdieu (1977, p. 72), "the structures constitutive of a particular type of environment produce habitus, systems of durable, transposable dispositions, structured

[1] Formal structure and criticism on Bourdieu and Giddens closely follows Mutch (2007).

structures predisposed to function as structuring structures, that is, as principles of the generation and structuring of practices and representations."[2] Bourdieu's (1977) definition of the habitus emphasizes the power of the structure that shapes human behavior. In other words, agency is not a product of an actor, but rather the product of the given structure (Bourdieu, 1977). He further highlights the durability of the habitus, which responds well to the taken-for-grantedness and resistance of institutions to change in institutional theory (Mutch, 2007). Thus, human behavior is reproduced by actors without them being aware of the institutions that shape their behavior.

In addition to the habitus, Bourdieu (1990) also introduces other concepts that show some potential for explaining agency. His conceptualization of the "field" refers to a social space in which actors hold social positions (Bourdieu, 1990). The field is characterized by continuous struggle for resources among those actors who belong to this field. In accordance with extant institutions in a field, capital is distributed among actors based on their position (Bourdieu, 1990). Actors in social positions that are more privileged by the institutional setting receive more capital and vice versa (Bourdieu, 1990). Consequently, the power held by actors diverges across the field (Bourdieu, 1988, 1990). In addition, more powerful actors are more likely to effect change (Bourdieu, 1990). At the same time, actors in low social positions strive to achieve higher social positions (Bourdieu, 1990). From this perspective, Bourdieu's concept of power seems to be an adequate approach for explaining agency. Therefore, many institutionalists refer to Bourdieu when explaining agency based on the social position of the focal actor (e.g. Battilana, 2006; Battilana et al., 2009; Maguire et al., 2004) or the access to needed resources (Lawrence, 1999).

The concepts of the field and habitus are related since a social position is associated with a certain habitus. Bourdieu (1977) argues that such fields are fixed by common beliefs that are shared among the members of a field and again shape their behavioral patterns. Mutch

[2] Mutch (2007) cited the same text passage, but from one of Bourdieu's later publications.

(2003, 2007) criticizes Bourdieu because he puts too much emphasis on habitus, leaving little space for reflexivity and thus limiting agency aiming at innovation and change. Similarly, Swell (1992) claims that "Bourdieu's habitus retains precisely the agent-proof quality that the concept of the duality of structure is supposed to overcome. In Bourdieu's habitus, schemas and resources so powerfully reproduce one another that even the most cunning or improvisational actions undertaken by agents necessarily reproduce the structure" (p. 15). As Bourdieu's (1977, 1990) concept of power strongly emphasizes reproduction and endurance of behavior, the major challenge of this approach remains to explain institutional change as it is "leaving almost no room for agency, and thereby for social change" (Battilana, 2006, p. 656).

Giddens

Similar to Bourdieu, Giddens (1981) proposes the duality of structure and agency. However, he argues that structure is "the medium and the outcome of the practices which constitute social systems" (Giddens, 1981, p. 27). This means that the structure as well as the actor can exercise power and that institutions can constrain or guide actors in their behavior (Giddens, 1981). At the same time, actors possess reflexivity, which refers to the ability to reflect on their action, their position in the social structure, and the structure itself (Giddens, 1990). The power of actors lies in their knowledgeability and consciousness, which derives from human practices (Giddens, 1991). Giddens (1991) argues that consciousness allows actors to change their own practices and structures. In other words, actors can emancipate themselves from extant institutions so that the power of institutions shifts to the background and space for agency opens up. The consequences of agency are not necessarily intended; nevertheless, they can become part of new routines and structures (Giddens, 1991).

Complementary to the conceptualization of agency, structure plays a relatively subordinate role: "Structure exists only as memory traces, the organic basis of human knowledgeability, and as instantiated in action" (Giddens, 1984, p. 377). Consequently, structure loses its prescriptive power for human action. Some critics raised the issue that Giddens exaggerated the the power of agency in social science (Mutch, 2007 op. cit. Layder, 1997). For Giddens, institutional constraints or guidance have limited relevance when explaining human behavior as the major driver is reflexivity (Mutch, 2007). While institutionalism rejects the idea of an emancipated actor who is able to critically reflect on institutions, Giddens provided a template for reflexivity and thus agency in institutional theory, which was adopted by many institutional theorists, although this has not been without criticism (Layder, 1997; Mutch, 2007).

POWER, AGENCY, AND CHANGE THROUGH THE LENS OF CLEGG

Although Bourdieu's and Giddens' conceptualizations of power have gained high popularity in institutional theory, they are not unproblematic. Several authors have criticized Bourdieu's strong emphasis of the habitus as it does not allow for change in terms of agency. This is based on Bourdieu's (1977, p. 72) strong notion of habitus as "durable" behavioral patterns produced by the "environment", which draws a rather deterministic picture of human action. Giddens (1984) instead highlights reflexivity of actors, which explains actors' interests and thus agency. However, the institutional project was thought to be a reaction to an overemphasis of voluntarism, which Giddens herewith reintroduces in institutional theory. Institutional theory is therefore in search of alternative concepts of power that do explain agency without violating the institutional assertion that "behavior is substantially shaped by taken-for-granted institutional prescriptions" (Greenwood & Suddaby, 2006, p. 27), for which this paper turns to the work of Stewart Clegg.

Clegg has deeply impacted contemporary research on power and organization studies (Davenport, Prusak, & Wilson, 2003).[3] He offers a postmodern theory of power that rejects a merely causal view of power and the dialectic relationship between structure and agency (Schram, 1991). Clegg's (1989) book *Frameworks of Power,* inspired by Foucault's writings, is a post-modern reconsideration of modernist approaches. In accordance with his post-modern perspective, power is not only constraining, but instead a positive productive force (Clegg, 1989). Clegg (1989) recognizes different types of power such as episodic power of agency, dispositional institutional power embedded in rules and practices, and facilitative structural power of a dominating system. All three types of power interact with each other (see chart 1) and must be taken into consideration when agency and institutional change is about to appear (Clegg, 1989).

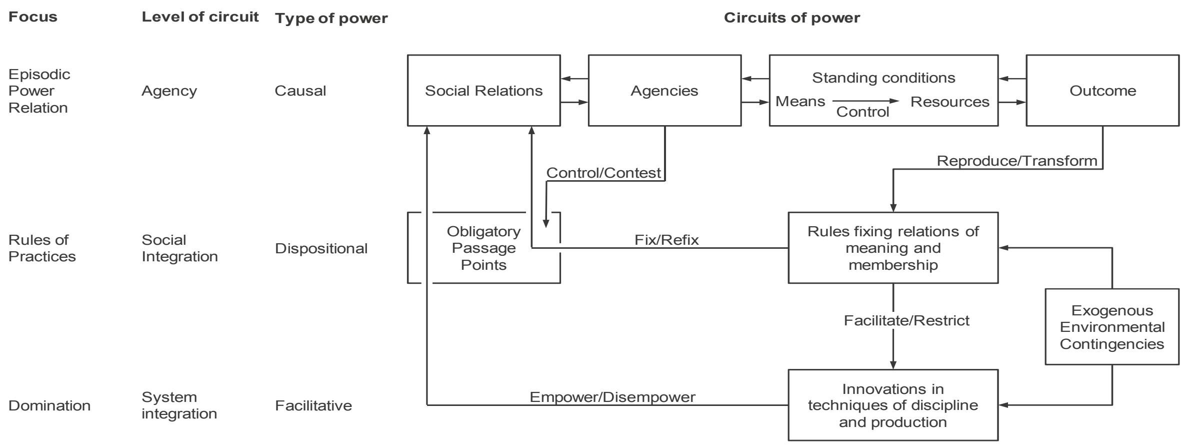

Chart 1: The Framework of Power presenting the circuits of power (Clegg, 1989)

[3] Clegg is one of the most cited researchers in his academic fields. His book "Frameworks of Power" alone, published in 1989, was cited more than 2175 times based on a Google Scholar inquiry in October 2012. He is recognized as one of the top 200 contemporary management thinkers by Davenport, Prusak, and Wilson (2003). In 2010, he was awarded the Academy of Management's 2010 Practice Theme Committee Impact Award by the Academy of Management.

Circuit of episodic agency

According to Clegg (1989), agency is the most obvious form of power. Notably, Clegg (1989) uses the term agency differently compared to authors such as Lukes (1974) or Dahl (1957). For Clegg (1989), agency is not an independent circuit because it is shaped by the circuit of social and system integration as outlined later on in this section. As the term "episodic" suggests, episodic power of agency is exercised sporadically and is temporally limited (Clegg, 1989). The exercise of power necessarily implies power relations between different actors so that this form of power cannot be analyzed as being detached from other actors (Clegg, 1989). For instance, even the most general communication between actors can be seen as a power relationship (Clegg, 1989).

Power can face counter power, referred to as resistance (Clegg, 1989 op. cit. Wrong, 1979), in a social context that includes other actors. Accordingly, the social environment is understood as consisting of "arenas of power relations" (Brint & Karabel, 1991, p. 335), where various actors interact with each other. In some social contexts, agency can also have a collective character when actors start to organize themselves, which can result in coalitions or social movements (Strang & Meyer, 1993). Such coalitions or social movements can appear more powerful than single actors and thus have an advantage when pursuing their goals. Therefore, episodic power is often engaged in setting up a favorable social environment by enrolling other actors in coalitions and alliances, which help to create, stabilize, or establish a central position for oneself in a power network (Clegg, 1989). Consequently, such coalition and alliance building makes the achievement of one's own interest more likely.

Moreover, episodic power is dependent on the so-called standing conditions (Clegg, 1989). Such conditions provide episodic power with the necessary resource endowment and represent resource control on the part of the actor. Clegg (1989) acknowledges that "what becomes institutionalized depends precisely on the power of agents' translation" (p. 227). Practices become institutionalized when an agent demands and translates new practices into new rules (Garud et al., 2002), and for that resources are needed. Consequently, success of agency is dependent on such resource endowments and resource control, which the actor in consideration has (Clegg, 1989).

In conclusion, episodic power is exercised by actors who can become agents for change (Clegg, 1989). However, such actors are neither rational nor powerful per se (Clegg, 1989). They are not motivated by "real" interest (Clegg, 1989). Instead, their power and exercise of power depends on the circuits of social and system integration, another one of Clegg's (1989) key concepts.

Circuits of social and system integration

Agency or episodic power, which is represented by the circuit of episodic agency, is embedded in the circuits of social and system integration, as Clegg (1989) has argued. Whereas episodic power is located on the micro level, the circuits of social and system integration are located on the macro level (Clegg, 1989). When change is about to happen, all three circuits of power are affected according to Clegg (1989). Still, in order to understand stability and change, special attention must be given to the circuits of social and system integration (Clegg, 1989).

Circuit of social integration. According to Clegg (1989), the circuit of social integration in his Framework of Power is similar to the concept of institutions: "The circuit of social integration is concerned with fixing or re-fixing relations of meaning and of membership" (Clegg, 1989, p. 224). The term "relations of membership" refers to an actor's network or social context, which corresponds to the concept of the organizational field in institutional theory (Clegg, 1989). Relations of meaning represent values and beliefs in such fields (Clegg, 1989). "Relations of membership" determine which rules[4] apply to whom. Such rules fix or re-fix relations of meaning and of membership (Clegg, 1989). Consequently,

[4] Rules in the circuit of social integration correspond to the Bourdieu's and Giddens' notion of "structure" and "institutions" in institutional theory.

reproduction or adherence to such rules on the part of the actor lead to institutionalization and compliance of further actors, ultimately leading to isomorphism in the field (Clegg, 1989). Overall, the circuit of social integration describes change towards institutional isomorphism responding to normative, coercive, and mimetic pressures as outlined by DiMaggio and Powell (1983). The reproduction of rules and thus the fixing of social relations represent the concept of institutional isomorphism (Meyer & Rowan, 1977). The circuit of social integration functions like a stabilizer in Clegg's (1989) Framework of Power. Rules on this circuit assure durability in the relations of meaning and membership through the stabilization of agency in the episodic circuit of power (Clegg, 1989).

Circuit of system integration. The circuit of system integration refers to the "empowerment and disempowerment of agencies' capacities" (Clegg, 1989, p. 224). This circuit describes the material conditions and disciplinary techniques of production that are necessary to control the physical and social environment and related capabilities (Clegg, 1989 op. cit. Lockwood, 1964). The circuit of system integration represents disciplinary mechanisms for reward and punishment (Clegg, 1989). Such techniques of discipline exercise disciplinary power (Clegg, 1989 op. cit. Foucault, 1977) through technologies, production designs, or job design. Clegg (1989) argues that the circuit of system integration is "a major conduit of variation in the circuits of power" (p. 233). Lockwood (1964), to whom Clegg (1989) refers, contends that incompatibilities between the institutional order and the material sub-structure provoke new forms of agency. Such new forms of agency are ultimately triggered by innovations in disciplinary techniques of production. This process is assured by pressures to improve the organizational performance through making or adopting innovations (Clegg, 1989). Such pressures can be competitive cost cutting, inventions or innovations, which are necessary when actors compete for resources.

In conclusion, the circuit of social integration stabilizes human behavior, impedes agency, and thus leads to inertia (Clegg, 1989). At the same time, the circuit of system integration is the “source of resources” (Clegg, 1989, p. 239), which is ever changing due to competitive pressures. This empowers agency when extant rules do no longer correspond with the material sub-structure (Clegg, 1989).

An alternative perspective

Whereas Bourdieu and Giddens include agency and structure, Clegg’s (1989) Framework of Power offers a more comprehensive and dynamic picture of forces that influence agency. He also includes the material sub-structure, which Bourdieu and Giddens do not explicitly incorporate in their theories and which was not discussed in previous institutionalist studies as a central element. In doing so, he abolishes the dichotomy of the institutional and technical environment, which was introduced by Meyer and Rowan (1977) and Scott and Meyer (1983). According to Clegg (1989), an explanation of agency and institutional change requires references not only to the institutional, but also to the technical environment because both are dependent on each other. The technical environment is continuously changing because it is subject to competitive pressures, leading to innovations (Clegg, 1989). Such innovations, which can be considered new disciplinary mechanisms of production, lead to empowerment of agency and the creation of new institutions (Clegg, 1989). In cases when the institutional environment does not correspond with the new technologies of production (Clegg, 1989). Therefore, institutional change is indirectly linked to economic and technological developments.

EXAMPLARY CASE OF TECHNOLOGICAL CHANGE, AGENCY AND INSTITUTIONAL CHANGE

The purpose of this section is to illustrate how Clegg’s (1989) Framework of Power can explain institutional change in contrast to traditional concepts of power by discussing a case of institutional change provided by Garud, Jain, and Kumaraswany (2002). This case will serve to better understand Clegg's (1989) Framework of Power, how it works, and what it contributes compared to traditional concepts of power. Garud, Jain, and Kumaraswany (2002) provide a well-illustrated case of institutional change linked with institutional entrepreneurship. This case covers the emergence of a new technology, agency, social relations, and new institutions. The authors investigated institutional change originating from the sponsorship of Java as a new technological standard for internet programming by Sun Microsystems; they argue that the promotion of new technological standards is associated with institutional entrepreneurship and that the diffusion of such technological standards represents institutional change. The authors emphasize the role of institutional entrepreneurship in institutional change, which is, however, not entirely consistent with original institutionalist ideas and the argument that institutions shape behavior. An alternative interpretation of the case based on Clegg's (1989) Framework of Power will provide new insights into the explanation of institutional change, which is more consistent with institutional theory.

The case of Sun Microsystems and Java by Garud, Jain, and Kumaraswany (2002)

Garud, Jain, and Kumaraswany (2002) describe Sun and their sponsorship of Java as the standard for internet programming. At that time, Sun's Java was competing against Microsoft's Blackbird. In order to speed up the diffusion of Java and gain market share, Sun chose an open system strategy. Consequently, rivals and vendors of complementary services could access Sun's knowledge. Major IT companies in the field began to use Java and developed complementary products around this new technology. As a result, the diffusion of Java gained momentum. This was favored not only by free downloads of Java, but also by its high compatibility with various platforms and particular trainings for using this software. The more firms subscribed to the new standards, the more other firms were attracted to subscribe as well. Accordingly, the legitimacy of the new standard increased.

During this evolution, the competition with Microsoft played an important role. In order to succeed in the market, Sun mobilized other actors for the usage of Java. By using Java, these actors were obliged to share their Java modifications with the public so that the new technology would evolve even faster. At first, Microsoft, as Sun's major opponent, ignored and even discredited Java, but finally licensed Java, as many other actors in the field had already adopted this system. Nevertheless, Microsoft remained rather aggressive towards Sun by developing extensions to increase the compatibility between Java and Microsoft's software. These extensions were not offered to the public and undermined Java's compatibility with other programs, which was an infringement of the license agreement. This led to a lawsuit in which Sun sued Microsoft. Additionally, in order to assure Java's compatibility, Sun introduced compatibility tests and certified Java applications. Still, Sun had a hard time to control Java as various concessions had to be made to other major licensees with high bargaining power. On the one hand, Sun ended up in the dilemma of either controlling or opening up its Java technology, while on the other hand, Java was widely acknowledged and used as a standardized software for internet programming.

Interpretation by Garud, Jain, and Kumaraswany (2002)

"How do […] standards [in organizational fields] emerge?" is the primary question asked by Garud, Jain, and Kumaraswany (2002, p. 207). For the authors, the term standard stands for an institution and the sponsor of a standard for an institutional entrepreneur since "institutional entrepreneurship [is] implicit in a firm's sponsorship of its technology" (Garud et al., 2002, p. 196). The sponsor, in this case Sun Microsystems, had mobilized other actors to increase Java's popularity and diffuse the new standard in order to gain support for its technology. In order to ensure adherence to the new standard, Sun made licensing agreements with its partners. However, its partners were apt to deviate from these agreements as the suitability of Java was limited in some situations. Consequently, Sun had to make continuous efforts to defend Java's market position and compatibility. Such strategic activities represent institutional entrepreneurship because, according to the authors, institutional entrepreneurs aim at establishing a new institution, in this case the establishment of Java as a new standard for internet programming. However, in this interpretation, the authors disregard the definition of institutions as regulations, social expectation, or cultural-cognitive schemes (Scott, 2001) because Sun Microsystems, as the alleged institutional entrepreneur, did not in fact create any of these three types of institutions, as based on the definition used in institutional theory. Therefore, it might be problematic to use the term institutional entrepreneurship in this context.

Alternative perspective using Clegg's (1989) Framework of Power

An explanation of the Java case based on Clegg's (1989) Framework of Power would differ from the explanation given by Garud, Jain, and Kumaraswany (2002), who describe Sun Microsystems as an institutional entrepreneur. First of all, it is necessary to clarify the terminology of institutional entrepreneurship and institutions. According to Clegg's (1989) Framework of Power, Java would not be an institution but merely a technology. Due to competitive pressures, particularly coming from Microsoft's program Blackbird, Sun Microsystems was empowered to develop this technology and choose an adequate strategy, such as the open source strategy, in order to survive in the market. Since Java seemed to be the more attractive technology, licensees deliberately chose this program by balancing costs and benefits. In order to further improve its competitive position, Sun Microsystems enrolled other actors in order to support Java's position in the market; these were deliberate actions on the part of Sun. In doing so, Sun Microsystems had to face strong resistance from companies that had products competing with Java such as Microsoft's Blackbird or bargained concession in the license agreement. Sun's actions were never designed to create new institutions, so that technically, there was no form of institutional entrepreneurship. Instead, other market participants started to use Java and reproduced this behavior of using Java. At that point, the usage of Java became institutionalized, to the point that even Microsoft adopted Java despite being Sun's major competitor due to the expectation of other actors: "Microsoft could no longer afford not to endorse Java without being left behind" (Garud et al., 2002, p. 203). This social expectation, which in institutional theory is defined as an institution (DiMaggio & Powell, 1983; Scott, 2001), was not deliberately planned by Sun Microsystems. Instead, the institutionalized usage of Java emerged without strategic intent to create a new institution and was rather the outcome of Sun's innovation and marketing efforts. While such strategic action, namely the sponsorship of Java, was done deliberately as a response to prevailing market conditions, the emergence of the social expectation, or in the terms of institutional theory the institution, was rather an unintended consequence.

Evaluation

If Sun's introduction of Java as a new standard for internet programming was considered a case of institutional entrepreneurship, coercive, normative, or mimetic pressures (DiMaggio & Powell, 1983) would have been created and should have forced other actors to adopt Java as a new standard. First, if a powerful organization such as an official standard setter had forced other actors to adopt Java or enforced a rule to adopt Java, there would be coercive pressures guiding other actors' behaviors. Second, if the market had just accepted programs based on Java, the social expectation would have guided actors to adopt Java. Third, if actors referred to Java as the one and only programming tool, then the Java technology would have truly became the standard as it is taken-for-granted. Accordingly, in order to be an institution, the usage of Java must have been prescribed by regulations, social expectation, or constitutive schema (Scott 2001). However, none of this happened when Sun developed and introduced Java, which does not make them institutional entrepreneurs, as argued by Garud, Jain, and Kumaraswany (2002). Nevertheless, a social expectation emerged at the time when many actors were using Java. Then, the market expected other actors to adopt Java including Microsoft. However, according to Garud, Jain, and Kumaraswany (2002), the creation of such a social expectation has never been Sun's objective. Sun's sponsorship aimed at penetrating the market with its new technology, which is well reflected in the open system strategy.

As the traditional concept of power, which highlights the power of agency of institutional theory, does not work in clearly describing how Sun's Java system became institutionalized, Clegg's (1989) Framework of Power offers an interesting solution, especially his use of the term technology. It is important to emphasize that technology and institution are two independent and distinct concepts. Fundamentally, there is an ontological distinction between technology and institution. Consequently, the innovator is not per se an institutional entrepreneur. The innovator merely offers and promotes a new technology, which is adopted by other actors due to competitive pressures, higher efficiency, or increased future benefits. Such adoption was not enforced by any institutional pressures. However, institutional pressures emerged out of the repeated employment of Java later on. Notably, Sun's original idea has never been to change institutions for its own benefit. Instead, Sun took strategic action to improve its own competitive position. Such action was the sponsorship of a new software standard. Due to this sponsorship, the adoption of these new standards became more attractive. Therefore, other actors in the field adopted the new technology because this software provided a competitive advantage for them as well. In other words, the sponsor of the new technology created a win-win-situation. The adoption of this new software standard led to new behavioral patterns, which fit the material sub-structure as Clegg (1989) would say.

DISCUSSION ON AGENCY AND INSTITUTIONAL CHANGE

Disciplinary power through techniques of production

While Bourdieu (1977, 1990) emphasizes the habitus and thus the power of institutions, he draws a more deterministic picture of human action. This hardly leaves space for agency and institutional change (Mutch, 2003). Giddens (1981, 1990) but instead emphasizes human reflexivity. Actors are able to question taken-for-granted institutions and change them in accordance to their needs. Here, power tends to reside with the actor. His concept of power partly contradicts core assumptions in institutional theory (Mutch, 2003). To solve this dilemma, this paper argues for using Clegg's (1989) Framework of Power, which includes not only agency and institutions into analysis, but also refers to disciplinary power as a third force in contrast to Bourdieu's and Giddens' concepts of power. This allows a step towards a theory of agency that is more consistent with fundamental institutionalist assumptions and needed in institutional theory (Battilana, 2006).

For example, Clegg's (1989) inclusion of the disciplinary power offers a vivid source for change. Innovations and new technologies of production, which are represented by the circuit of system integration, are continuously subject to change (Clegg, 1989). Competition and need for efficiency assure continuous changes in the disciplinary techniques of production (Clegg, 1989). When existing routines and behavioral patterns do not suit the new techniques of production, agency is empowered to create new routines and behavioral patterns (Clegg, 1989). Thus, institutional change happens. Institutional theory then explains isomorphistic change, which is the diffusion of respective behavioral patterns (DiMaggio & Powell, 1983). This perspective is consistent with institutional theory as agency does not deliberately act against institutions that shape actors' thinking.

Importance of resource dependence

The previous section has shown how disciplinary power can cause institutional change. This has implications for institutional theory because it calls for a resource dependence perspective on institutional change. As actors continuously learn about their environment, institutions emerge based on this generated knowledge (Berger & Luckmann, 1967). Consequently, a shortage of resources or limited supply provokes competition and a pursuit of efficiency (Clegg, 1989). In response to that, innovations are introduced and new institutions emerge out of new behavioral patterns (Clegg, 1989). This shows to which degree institutions are embedded in or rather dependent on the material sub-structure.

Attempts to integrate a resource dependence perspective with institutional theory have been introduced, for example by Oliver (1991) who used institutional theory in combination with resource dependence theory to explain strategic responses to institutional pressures. Additionally, Ingram and Simons (1995) found that organizational behavior is not conditioned by institutions alone. Instead, when investigating resource dependencies of an organization, its behavior can be better explained (Ingram & Simons, 1995). This is consistent with Greenwood's and Hinings' (1996) proposal to employ institutional theory and resource dependence theory jointly while resource dependence is represented by the market context. Seo and Creed (2002) also found that institutional legitimacy does not outweigh economic efficiency when discussing the Korean economic crisis in 1997. Furthermore, "within the constraints imposed by particular technological or economic configurations" (Clemens & Cook, 1999, p. 451), actors can change institutions to face new challenges. While these attempts move into the right direction, they still favor theoretical eclecticism. In contrast to these authors, Clegg's (1989) Framework of Power integrates both theoretical orientations into one coherent framework.

Based on Clegg's (1989) more comprehensive analysis, resources not only empower agency via disciplinary power (Clegg, 1989); they are also important for the enactment of agency. This link becomes more obvious when considering evidence from normative strategy research, which argues that strategies require resources for their implementation (Bower, 1970). Consequently, strategies that lead to the establishment of new behavioral patterns (Lawrence & Suddaby, 2006) can only be successful when necessary resources are available. Thus, resources, including material resources, do matter, even in an institutional environment. Economic efficiency saves resources, which can be used for other purposes. The more resources are available, the more resources can be placed on the development and enactment of new behavioral patterns. Clegg's (1989) Framework of Power refers to this interface as standing conditions, where the material sub-structure again plays an important role. Change only happens when actors have "sufficient resources" (DiMaggio, 1988, p. 14) in order to overcome constraints or resistance.

Abandonment of voluntaristic agency

Since the introduction of the institutional entrepreneur into institutional theory (DiMaggio, 1988), studies have often drawn on forms of voluntaristic agency to explain institutional change (Battilana, 2006; Maguire et al., 2004). This means that actors consciously intend to change their institutional environment, which negates past efforts to develop an alternative to agency-dominated theories (Battilana et al., 2009). Nevertheless, this approach has enjoyed increasing popularity in institutional research (Battilana et al., 2009). At the same time, it has received much criticism as the institutional project was launched in opposition to rational actors (Delmestri, 2006; Meyer, 2006; Suddaby, 2010) because institutional pressures determine actors' mindsets; consequently, actors should be hardly motivated to change institutions that shape their thinking.

Consistent with institutional theory, Clegg's (1989) Framework of Power portrays a non-voluntaristic agent whose behavior is guided by institutions. This is a major difference to Giddens (1984) who explains agency through reflexivity. Clegg (1989), on the other hand, argues that actors change institutions when they are motivated by technologies of productions and innovations. Consequently, institutions are not the result of voluntaristic or deliberate agency. New institutions emerge rather unintended and are the result of new behavioral patterns corresponding to new techniques of production as seen in the example in the section before.

An explanation of embedded agency

A central issue in institutional theory is the paradox of embedded agency (Seo & Creed, 2002). Several attempts were made to untangle this paradox. Some of them draw on ambiguous borders of organizational fields (Greenwood & Suddaby, 2006; Smets, Morris, & Greenwood, 2012; Zietsma & Lawrence, 2010), institutionally prescribed change (Holm, 1995; Seo & Creed, 2002; van Dijk, Berends, Jelinek, Romme, & Weggeman, 2011), and a more individualistic embedded actor (Battilana, 2006; Reay, Golden-Biddle, & Germann, 2006). None of them refers to the material sub-structure as a motivator for change. Also, embedded actors can be affected by changing resource availability, which motivates them to adapt existing routines to changes in the material stub-structures. Notably, embedded actors hold a central position for which they dispose of more resources than other actors in the field (Greenwood & Suddaby, 2006). Consequently, embedded actors are possibly not immediately affected by changing resource endowment.

So far, institutional theory tends to rule out explanations for embedded agency outside the socially constructed world. At the same time, however, institutional theory has come to its limits when it intends to explain such phenomena because institutions are associated with endurance and stability rather than change (Ansari & Phillips, 2011; Jepperson, 1991; Scott, 2001). In line with the argumentation of this paper, research on embedded agency could be informed by the adoption of Clegg's (1989) Framework of Power, which does acknowledge the existence of a material sub-structure that is linked to the socially constructed world and has the power to empower institutional change.

CONCLUSION

While Bourdieu's (1977) concept of power emphasizes the power of intuitions, which impedes an explanation of agency, Giddens' (1981) emphasizes human reflexivity, which explains agency but contradicts institutional theory. As an alternative, Clegg (1989) offers a Framework of Power that provides an explanation of agency consistent with institutional theory. In his view, agency is empowered by disciplinary technologies of production based on which new routines emerge and diffuse.

In addition, disciplinary power represented by technologies of production empower agency (Clegg, 1989), Yet, this force is hardly considered as a driver for agency in institutional theory. Changes in the technologies of production continuously emerge due to limited resources and competitive pressures (Clegg, 1989). This underscores the importance to consider institutional theory in conjunction with resource dependence theory in the analysis of agency. Clegg (1989) assumes that agency is motivated by changes in technologies of production and not by actor's reflexivity. Such new technologies then diffuse among other actors in the organizational field, leading to institutional isomorphism (Clegg, 1989). Therefore, Clegg (1989) draws an image of agency more consistent with institutional theory. Consequently, a new explanation for embedded agency can be proposed, as embedded actors are also affected by changes in resource availability and changing technologies of productions.

The inclusion of the material sub-structure through resource dependence has further implications for the voluntaristic character of agency and the paradox of embedded agency. Organizations strategically respond to changes in the material sub-structure and to competitive pressures. This creates new behavioral patterns that become institutionalized and lead to changes in the institutional environment. Thus, institutional change is not the outcome of voluntaristic agency as the literature on institutional entrepreneurship might suggest. In terms of the paradox of embedded agency, this new perspective would argue that even embedded actors are affected by limited resources and competitive pressures, based on which they also act upon the material sub-structure, subsequently leading to the institutionalization of new behavioral patterns.

Overall, this paper wishes to contribute to the understanding of agency and its role in institutional change. Institutional theory is well advised to include a resource dependence perspective in the explanation of agency and institutional change according to Clegg (1989). This perspective can yield important insights into the motivation to change behavior, which leads to unintended changes in the institutional environment, and has the potential to avoid theoretical eclecticism.

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Embedded Agency in Highly Institutionalized Fields: A Case from the German Accounting Industry

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Embedded Agency in Highly Institutionalized Fields: A Case from the German Accounting Industry

Abstract

This study examines a case of embedded agency from the German accounting industry, which existing approaches of the paradox of embedded agency cannot explain. Based on an instrumental case study, this paper will provide a new explanation of embedded agency by highlighting the interaction between the different actors of an organizational field. This study explains embedded agency based on three new behavioral patterns: (1) Creation of new institutions by embedded actors to gain further legitimacy, which leads to a (2) struggle in the creation of new institutions among field members, and (3) institutionalized agency of embedded actors that is provoked by social expectations. The paper also offers a more refined understanding of embeddedness in terms of different dimensions in which actors can be embedded. It proposes a less voluntaristic character of agency by discussing field member interaction as an enabler of embedded agency.

Keywords: paradox of embedded agency, field member interaction, institutionalized agency, legitimacy, institutional change

INTRODUCTION

Institutions guide thoughts and behaviors for which actors lose their reflexivity and thus ability to enact institutional change (Holm, 1995). The "paradox of embedded agency" (Seo & Creed, 2002, p. 226) refers to the question of "how can actors envision and enact changes to the [institutional] contexts in which they are embedded" although "behavior is substantially shaped by taken-for-granted institutional prescriptions" (Greenwood & Suddaby, 2006, p. 27)? According to institutional theory, embedded actors are most favored by their institutional setting; there should be no incentive for them to promote change in their organizational field (Greenwood & Hinings, 1988). This question has sparked an entire research area because "overcoming this paradox is crucial" since "it is a prerequisite to setting up the foundations for a theory of institutional entrepreneurship that corresponds to the theory of action of neo-institutional theory" (Battilana, 2006, p. 670).

In this area of research, scholars have been asking the same question: How can embedded agency be explained? Various approaches have surfaced that explain the paradox of embedded agency. The first approach draws on the exposure of embedded actors to new institutions from other organizational fields, which creates institutional contradictions and thus change. In such a scenario, embedded actors are exposed to new institutions when there are unclear boundaries between neighboring organizational fields (Greenwood & Suddaby, 2006). Also, new entrants to a focal field from yet unrelated fields can bring new institutions with them, which creates institutional contradictions as well (Smets, Morris, & Greenwood, 2012; Zietsma & Lawrence, 2010). The second approach explains institutional change as something that is inherent in the institutional setting. Institutional settings can be seen as nested systems, characterized by complexity and multiplicity of interconnected institutions. This can lead to unclear institutional prescriptions that open space for embedded agency (Holm, 1995). Similarly, Seo and Creed (2002) argue that institutional change is the result of the ongoing process of institutionalization, which continuously produces institutional contradictions upon which embedded actors act. The third approach relies on individual characteristics of embedded actors to explain embedded agency and assigns institutions a rather minor role in this process. Such characteristics can be the social position and access to resources (Battilana, 2006) or the ability to rethink one's own position in a field (Reay, Golden-Biddle, & Germann, 2006). This approach, however, relies on a rather under-socialized image of embedded actors, which is to some degree inconsistent with institutional theory.

While all three approaches have contributed to our understanding of embedded agency, none of them clearly explains the phenomenon of embedded agency witnessed in the German accounting industry. Instead, the reported case shows how the interaction between members of the organizational field has provoked embedded actors to enact change. This paper will contribute to the existing body of literature on embedded agency by proposing an interaction-based framework of embedded agency. Based on a qualitative approach following Stake (1994), this instrumental case study identifies three distinct behavioral patterns that prompt embedded agency: (1) creation of new institutions of embedded actors to gain further legitimacy, leading to a (2) struggle in the creation of new institutions among field members, and (3) institutionalized agency of embedded actors that is provoked by social expectations. A deeper understanding of these processes can shed a new light on the paradox of embedded agency. For that purpose, this study analyzed archival data collected from and interviews held in the German accounting industry, in accordance with Strauss' and Corbin's (1998) methodology, to develop a grounded theory of embedded agency that highlights the interaction of field members including embedded actors.

This paper is organized in the following way. First, it provides an introduction of key concepts in institutional theory and existing theoretical approaches addressing the paradox of embedded agency, culminating in a description of the research gap in this area. The next section outlines the context and method for analyzing the selected case from the German accounting industry. The subsequent case analysis presents three new behavioral patterns that explain embedded agency based on field member interaction. The section hereafter integrates these findings into a new framework of embedded agency and develops propositions based on the three behavioral patterns. The paper closes with a discussion of the study's findings and suggestions for future research.

THEORETICAL ORIENTATION

Institutions

According to the original conceptualization of institutions, institutions guide human behavior (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Zucker, 1977), which hardly leaves space for agency to develop. Institutions provide taken-for-granted scripts that are not questioned by individuals (DiMaggio & Powell, 1991). In this context, Scott (2001) distinguishes between the regulative, normative, and cultural-cognitive pillars of institutions. The regulative pillar consists of institutions that prescribe behavior and constrain agency such as laws and rules (Scott, 2001). For example, governments can impose and enforce these laws so that non-conformity is directly penalized (Scott, 2001). The normative pillar describes social obligations and enforces behavior through social expectations (Scott, 2001). In such scenarios, actors conform to expectations that can be related to a profession, rank, or social position (Scott, 2001). The cultural-cognitive pillar consists of institutions that guide our perception of reality, interpretative schemes, values, and beliefs (Scott, 2001). This means that behavior is taken-for-granted and not questioned as individuals are not aware of alternatives (Scott, 2001). Together, the regulative, normative, and cultural-cognitive pillars lead to coercive, normative, and mimetic pressures of isomorphism, respectively (DiMaggio & Powell, 1983). Such a perspective on institutions impedes any forms of agency and cannot explain institutional change (Scott, 2001) as it relies on "over-socialized" (Powell, 1991, p. 183) actors who are not able to reflect on and change their institutional setting.

Institutional entrepreneurship

Addressing this criticism of over-socialization, DiMaggio (1988) proposed a new understanding of agency, which was the birth of the so-called institutional entrepreneur. On the one hand, the conceptualization of agency should not contradict the fundamental ideas of institutionalism; on the other hand, it should allow for individual interest and the capacity to enact change (Goodrick & Salancik, 1996; Seo & Creed, 2002). In order to solve this dilemma, institutional theory widely assumed that institutional entrepreneurship was reserved to actors in the periphery of an organizational field as they are able to "envision and enact change", using the words of Greenwood and Suddaby (2006, p. 27). For example, Rao, Morrill, and Zald (2000) document how social movements that emerge in the periphery produce cultural innovations and change organizational structures. Hensmans (2003) also introduces the notion of challengers from the periphery who struggle to replace existing incumbents' institutions with new ones. Similarly, Ansari and Phillips (2011) demonstrate how consumers, as actors from the periphery, changed the telecommunication industry through new practices such as the usage of short message services. Other authors argue that institutional entrepreneurship is a particular phenomenon found mostly in emerging fields where institutions are still in development; thus, such institutions do not have the power yet to entirely guide or restrain agency (Garud, Jain, & Kumaraswamy, 2002; Maguire, Hardy, & Lawrence, 2004).

The paradox of embedded agency

According to institutional theory, agency on the part of embedded actors in mature fields does not exist because embedded actors are not capable to "envision and enact changes to the contexts in which they are embedded" as "behavior is substantially shaped by taken-for-granted institutional prescriptions" (Greenwood & Suddaby, 2006, p. 27). However, some empirical studies have identified embedded agency in such institutional contexts. This paradox has generated scholarship that tries to resolve this paradox, consisting of three major approaches that explain embedded agency in three different ways.

The first approach explains embedded agency based on the exposure of embedded actors to new institutions from other fields, which can lead to institutional contradictions. Greenwood and Suddaby (2006) illustrate this via their discussion of the North American accounting industry. Embedded actors, in this case the leading accounting firms, started introducing a new organizational form of multidisciplinary practices, which included various practices from different professional fields (Greenwood & Suddaby, 2006). According to Greenwood and Suddaby (2006), such behavior is owed to so-called boundary bridging and border misalignment. Border misalignment describes the exposure of central actors to new institutions, which happened in this case when clients of the big accounting firms demanded additional services that were not related to the profession of accounting (Greenwood & Suddaby, 2006). Border misalignment also describes the tension created by when the big accounting firms were subjected to professional standards that were still determined by local legislations even though they are global organizations (Greenwood & Suddaby, 2006). Consequently, global accounting firms have became rather resistant to institutional pressures emerging from local institutions (Greenwood & Suddaby, 2006). In the case of the North American accounting industry, the emerging institutional conflict and decreasing pressure from old accounting institutions favored the enactment of change on the part of embedded actors such as the big five accounting firms (Greenwood & Suddaby, 2006). Furthermore, Zietsma and Lawrence (2010) contribute to untangle the paradox of embedded agency by introducing the concepts of boundary work and practice work. While boundary work represents all activities to "establish, expand, reinforce, or undermine" (Zietsma & Lawrence, 2010, p. 194 op. cit. Arndt & Bigelow, 2005; Llewellyn, 1998) the boundaries of organizational fields, practice work includes all activities to “create, maintain, or disrupt” (Zietsma & Lawrence, 2010, p. 195) legitimate practices within an organizational field. When the boundaries of a field are blurred, an entry of new actors from other organizational fields is more likely (Zietsma & Lawrence, 2010). New actors “[engage] in practical agency designed to breach the boundary around [industry] decision making and disrupt existing practice” (Zietsma & Lawrence, 2010, p. 213). Under that condition, embedded actors aim at defending their previously held position by engaging in boundary and practice work as well (Zietsma & Lawrence, 2010). Another example is provided by Smets, Morris, and Greenwood (2012) who argue for a practice approach when describing institutional change. As actors, including embedded actors, conduct their daily work, behavioral patterns emerge that form new institutions and thus cause institutional change (Smets et al., 2012). The authors illustrate this via a case from a merger between a German and British law firm that was triggered by customers who demanded legal services across national borders (Smets et al., 2012). Due to the merger, practitioners from both jurisdictions had to accommodate new institutional prescriptions from the other jurisdiction, which were carried by the new colleagues (Smets et al., 2012). Overall, this general approach explains the paradox of embedded agency based on unclear borders between adjacent organizational fields. Notably, a prerequisite of this approach is the insufficient delineation of the organizational field, which is typically not associated with mature fields (Walgenbach & Meyer, 2008). This allows for the entry of new institutions or new actors who bring new institutions logics with them. As new institutions or such actors enter the field, institutional contradictions emerge, which cause embedded actors to enact change.

The second approach addressing the paradox of embedded agency explains embedded agency based on an institutional setting that provokes embedded actors to enact change. For example, Holm (1995) addresses the paradox of embedded agency by arguing that institutions are nested systems that frame action with an institutional context and that are simultaneously a product of action. Holm (1995) theorizes that "institutions [can] be seen as nested systems, drawing a distinction between actions guided by the established institutional order, on the one hand, and actions geared toward creating new or changing old institutions, on the other hand" (p. 399). Similarly, Van Dijk, Berends, Jelinek, Romme, and Weggeman (2011, p. 1510) argue that "embedded agency is possible because of affordances within institutional structures". In other words, embedded actors enact change because of their contextual embeddedness, which is empowering and not constraining (van Dijk et al., 2011). This is particularly the case when the institutional setting is characterized by heterogeneity, multiplicity, or ambiguity because they offer various behavioral alternatives to the actor (van Dijk et al., 2011). Although the authors reject a hyper-voluntaristic image of agency, they concede some degree of reflexivity to the actor in accordance with Giddens (1984). Moreover, Seo and Creed (2002) approach the paradox of embedded agency by proposing a dialectic perspective on institutional change. They argue that institutional change is triggered through institutional contradictions that emerge along the process of institutionalization (Seo & Creed, 2002). These contradictions can have four sources (Seo & Creed, 2002). The first source, namely legitimacy that undermines functional inefficiency, refers to a conflict between institutional legitimacy and technical efficiency (Seo & Creed, 2002). Although certain behavior might be socially accepted or desired, it is not necessarily technically efficient resulting in conflicts (Seo & Creed, 2002). The second source, adaptation that undermines adaptability, represents a lock-in situation due to strong isomorphistic pressures (Seo & Creed, 2002). Respective actors cannot respond to changes in the external environment anymore, which poses a conflict upon them (Seo & Creed, 2002). The third source, intrainstitutional conformity that creates interinstitutional incompatibilities, represents a situation in which multiple institutions guide human behavior (Seo & Creed, 2002). The adherence to one particular institution can lead to non-compliance with other institutions, which causes a conflict (Seo & Creed, 2002). Fourth, isomorphism that conflicts with divergent interests refers to tensions between human interest and institutional prescription, which can oppose each other (Seo & Creed, 2002). Overall, Seo and Creed (2002) argue that human action plays merely a mediating role. Actors who are embedded in institutional contexts act upon institutional contradictions rather than creating or consciously provoking them. Overall, all representatives of this approach to explain embedded agency rely on competing or unclear institutional prescriptions inherent to the institutional setting to create a space for embedded agency. However, competing or unclear institutional prescriptions are typically not associated with mature organizational fields (Walgenbach & Meyer, 2008).

The third approach leans to some degree towards a more individualistic understanding of agency while the importance of institutions shift to the background. For example, Reay, Golden-Biddle, and Germann (2006) describe an embedded actor who is experienced and able to reflect on his or her institutional environment. This allows for the following three micro-processes available to embedded actors: “cultivating opportunities for change, fitting a new role into prevailing systems, and proving the value of the new role” (Reay et al., 2006, p. 997). First, embedded actors can cultivate opportunities for change by seizing identified opportunities in order to introduce new roles associated with new behavioral patterns (Reay et al., 2006). Second, actors fit these new roles into prevailing systems, which means that they connect new behaviors with existing institutions (Reay et al., 2006). In doing so, embedded actors are aware of possible pitfalls and contextual restraints that could impede change (Reay et al., 2006). This process allows executing institutional change successfully (Reay et al., 2006). Third, actors prove the value of their new roles in order to increase legitimacy granted by other actors. This last micro-process completes the process of institutionalization (Reay et al., 2006). Embedded actors draw on these procedures to gradually change the way how work is performed by avoiding conflict and resistance (Reay et al., 2006). Similarly, Battilana (2006) argues that there are certain conditions under which embedded actors can appear as institutional change agents. In doing so, she chooses a micro-perspective as well. She contends that the perception of the field and the ability to access resources for enacting change is dependent on the social position of an embedded actor (Battilana, 2006). However, she knowingly leaves out that a social position goes hand in hand with specific behavioral patterns such as the habitus (Bourdieu, 1977). As a result, she draws a rather under-socialized image of actors that is similar to the concept of a peripheral player in an organizational field, as seen before. Despite providing interesting insights, such individualistic approaches cannot remain without criticism. Embedded actors are usually central to the organizational field or institutional context in which they operate. This original idea of embeddedness is left out of consideration here to some degree.

Research gap and contribution

All these three approaches to embedded agency are not unproblematic. The first two approaches draw on unclear boundaries of organizational fields and on institutional contradictions that emerge out of the existing institutional settings. This, however, is typically not associated with mature fields (Walgenbach & Meyer, 2008) whereas boundaries as well as institutions are expected to be well established in highly institutionalized fields, leaving little space for the emergence of institutional contradictions. The third approach presents enabling conditions for embedded agency that are associated with peripheral actors rather than embedded actors.

Overall, the literature on embedded agency as previously reviewed provides solutions to the paradox of embedded agency based on unclear boundaries of the organizational field, unclear institutional prescriptions, or an individualistic image of embedded agency. However, this study examines a case where embedded agency can be and indeed has been observed, but none of these three approaches can entirely explain this phenomenon. To close this research gap in the literature, this paper chooses a grounded theory approach to explain this particular case of embedded agency in the German accounting industry. This paper will propose that embedded agency emerges out of the interaction of field members and their behavior vis-à-vis each other. For example, Hensmans (2003) already showed that there is an ongoing conflict between incumbents and challengers in an organizational field. Similarly, DiMaggio (1983) described the organizational fields as a battlefield on which actors fight for the institution from which they can benefit most. These studies already investigate the interaction of field members in organizational fields. However, they do not connect field member interaction to the concept of embedded agency, which the present study will do in detail.

CONTEXT AND METHOD[1]

Rationale and research phenomenon

The present study was inspired by ongoing research in the German accounting industry, which around 2000 started witnessing much unrest despite being highly institutionalized. It seems particularly interesting to study the role of the Big Four accounting firms as the most embedded actors in the German accounting industry. These four leading accounting firms are actively engaged in shaping their institutional settings although they should not be able to envision and enact such changes according to institutional theory (Greenwood & Suddaby, 2006; Holm, 1995; Seo & Creed, 2002). Therefore, a qualitative approach seems most suitable for analyzing and explaining institutional entrepreneurship for three main reasons, following other prominent studies from this research area (Greenwood & Suddaby, 2006; Smets et al., 2012): First, a qualitative approach is used because the purpose of this paper is to provide an outline of social change in a complex institutional setting. Second, causalities and the motivation for behavior are not necessarily evident, which is why the qualitative approach was chosen. Third, in order to develop a theory based on empirical data, a qualitative approach is most suitable for such an inductive process of analysis.

[1] The structure and content of this section closely follows Greenwood and Suddaby (2006) due to many similarities in the research design.

Consequently, this instrumental case study helps to refine theory by contrasting existing findings with observed events (Greenwood & Suddaby, 2006 op. cit. Lee, Mitchell, & Sabylinsky, 1999).

Sources of data

Scope. This study relies on two data sources: archival data and interviews. The data collection was limited to geographical, temporal, and contextual criteria. Archival data from the German accounting industry as well as interviews with selected members from the German accounting industry were used for this case study analysis. Data covering events relevant to the German accounting industry from 2000 to 2012 was collected. This period of time was chosen as various events that dramatically affected the accounting industry took place during these years such as the Enron scandal, the binding introduction of international accounting standards, the financial crisis, the discussion around the Green Paper on auditing published by the European Commission, and the new voting procedure in the *Wirtschaftsprüferkammer*[2] (WPK). While not all events originated directly in Germany, they still had a deep impact on the German accounting industry. The data that was gathered revealed information about the behavior of members of this organizational field, namely the accounting industry, covering their efforts to shape this field as well as the interactions among members in the profession. The German accounting industry is a particularly unique case for studying institutional entrepreneurship of embedded actors for various reasons. First, Germany is the largest and most influential economy within Europe and the accounting industry is, accordingly, one of the largest and most influential ones in Europe (MarketLine, 2013). Second, the German accounting industry is an ever changing field and rather heterogeneous in terms of its field members, consisting of small, medium sized, and large accounting firms, industry associations, businesses, public national and supra-national

[2] Translation: Chamber of Auditing

organizations, and academic organizations; however, it is a highly institutionalized organizational field. This high degree of institutionalization stems from the long tradition of the German accounting industry, its high degree of professionalization, and its strong body of regulations, which set the frame for this industry. For these reasons, the German accounting industry provides an interesting field for studying embedded agency in the context of highly institutionalized fields.

Archival data. For the purpose of the study, three different newspapers were consulted, two daily newspapers, the *Frankfurter Allgemeine Zeitung* and the *Handelsblatt*, and one weekly newspaper, the *Wirtschaftswoche*. Each paper reports in varying depth about events in business and commerce. The *Frankfurter Allgemeine Zeitung* as one of the leading general newspapers in Germany provides background information and commentaries on ongoing debates on a daily basis. The *Handelsblatt* is one of the leading business newspapers and attempts to cover all business news on a daily basis. The *Wirtschaftswoche* offers summaries of ongoing debates on a weekly basis from a business perspective. These three different sources provide a strong and diverse basis for this analysis and allowed for incidences to be cross validated. Moreover, each newspaper offered a distinct and but complementary perspective. Articles used for the study were selected using only the term "Wirtschaftsprüfer"[3] without further restrictions in search engines in order to include as many relevant articles as possible. This selection of articles was particularly helpful in establishing a clear chronology of events, which was assured by the publishing dates of the articles. Furthermore, the articles provided necessary contextual information about relevant events, which was often not provided in interviews. The newspaper articles appeared more neutral in comparison to the interviews, which could be biased due to the interviewees' affiliation with a specific organization. The number of pages of all newspaper articles used in this study came up to 1897 pages. This number of pages was supplemented by an extensive search for background

[3] Translation: Auditor/accountant

information from websites by the various actors in the German accounting industry, WPK reports, comments on the Green Paper on auditing, press releases, internal reports if available, and annual reports of accounting firms. This part of the data research was rather opportunistic due to a selective availability of such resources. Still, this supplementary data turned out to be extremely helpful in understanding dynamics and interaction among field members in the German accounting industry.

Interviews. Interviewees were mainly practitioners from the accounting industry including one professor for auditing, who has practical experience in auditing as well. These practitioners ranged from auditors with a minimum tenure of three years to partners and board members of leading accounting firms. Based on the approach of theoretical sampling (Glaser & Strauss, 1967), a rather heterogeneous group of interviewees was chosen, which offered new insights and verified the statements that were made in previous interviews used in this analysis. The sample included auditors from each segment within accounting firms. Moreover, major representatives of the major professional associations in the field, such as the *Institut der Wirtschaftsprüfer*[4] (IDW), WPK, and WP.net[5], were interviewed. This study intended to include not only auditors from the Big Four, but also to interview practitioners from other accounting firms in order to include a wider variety of expertise and experiences. Since most interviewees hold distinct positions in the accounting industry, all respondents contributed new perspectives on industry dynamics and added new context factors for explaining embedded agency and institutional change. Because of the different but complementary responses, a fairly complete picture to describe the developments of field member interaction in the German accounting industry evolved. While some interviewees had particular information for mapping and analyzing field member interaction in the German accounting industry, other interviewees provided insights that enabled the outlining of the

[4] Translation: Institute of Auditors
[5] WP.net is a professional association that exclusively represents small accounting firms.

context factors of such interactions. The interviews ranged from 31 to 114 minutes in length. If permitted, they were recorded and transcribed. One out of the ten interviews was held by two interviewers whereas the remaining nine were held by one interviewer.

Data collection and analysis

The data was collected in four steps. First, newspaper articles from the *Frankfurter Allgemeine Zeitung* were analyzed. Then, six interviews were held with representatives from the German accounting industry followed by an analysis of newspaper articles from *Handelsblatt* and *Wirtschaftswoche*. Lastly, additional interviews with four representatives from the German accounting industry were held. This approach was chosen in order to build on the preliminary findings from the previous stage of the analysis. In addition, background information was continuously gathered from websites of actors in the accounting industry, WPK reports, comments on the Green Paper on auditing, press releases, internal reports if available, and annual reports of accounting firms. Overall, the collected data often referred to the objectives of the actors in the organizational field, the strategies to achieve them, the behavior of the actors towards each other, the position of the actors in the organizational field, the institutional pressures, and the high degree of institutionalization of the German accounting industry. Archival data was collected and interviews were held up to the point when theoretical saturation was achieved (Glaser & Strauss, 1967). Following Yin (2003), this study builds on existing theory with the aim to enhance literature and insights on embedded agency. For that purpose, the data analysis was conducted in Atlas.ti based on the procedure proposed by Strauss and Corbin (1998) that features open coding, axial coding and selective coding. Altogether, 206 codes and 19 families were used. In the process of selective coding, the author used the insights from the analysis and his prior knowledge about the German accounting industry to interpret of the data and to develop a justifiable narrative, following Strauss and Corbin (1998). For example, competition was often associated with efforts to extend one's own business. Overall, the development of the study's narrative was an iterative and reciprocal process, swinging back and forth between data and theory (Smets et al., 2012 op. cit. Locke, 2001), and the data was interpreted based on the previously acquired knowledge (Strauss & Corbin, 1998). Three major patterns emerged during this analytical process.

The first major pattern was the "creation of new institutions by embedded actors" to gain further legitimacy in the organizational field. The data analysis shows that embedded actors built up new institutions in order to gain further legitimacy and additional privileges. Since embedded actors are not supposed to envision and enact change in their institutional environment (Greenwood & Suddaby, 2006; Holm, 1995; Seo & Creed, 2002), this paper proposes to revisit the concept of embeddedness in terms of its dimensions and levels of embeddedness, which can inform further research on embedded agency.

The second pattern was "struggle in creation of new institutions" among field members. Based on the data analysis, different actors propose different interpretations of certain events; consequently, a fight for meaning and the prevailing institution emerges in the field. Regardless of the degrees of embeddedness, actors want their own interpretation and institution to prevail. This leads to a conflict between embedded and peripheral actors. Embedded actors intend to neutralize such attacks from peripheral actors or even increase the distance between the center and the periphery of the field by developing institutions that exclude other actors from their privileges.

The third pattern that emerged out of the data was "institutionalized agency of embedded actors", which is provoked by social expectations. As participation of embedded actors is institutionalized, they are expected to participate in certain decision making processes. Based on this premise, there is then no need to motivate embedded actors to participate. Institutionalized agency is associated with a high degree of embeddedness because embedded actors face more specific expectations from other field members. This creates space for embedded actors, where they can enact change.

The study's four-phase process, consisting of the alternation between analyzing archival data and conducting interviews, allowed for the verification of these emerging patterns throughout the research process. Consequently, findings in the early stages of the analysis could be verified by the results from the following stages. For example, the behavior of the Big Four towards the European Commission, in the context of the Green Paper on auditing, was described in the first stage of the analysis based on the archival data from the *Frankfurter Allgemeine Zeitung*. These insights were then verified with the responses from the second stage of the analysis, namely through interviews with experts from this organizational field, in this case six out of the total ten interviews. Table 1 provides an outline of the three emerging patterns and sources that identified them, with an illustration of the data segment.

To some degree, the emerging patterns were rather implicit in the data and only identifiable when including the broader context in which the study was taking place. Therefore, some illustrative examples are rather indirect indicators to respective emerging patterns. They are better understood in combination with further explanations, which will be provided in the next section.

Emerging pattern	Data source	Illustration
Creation of new institutions by yet embedded actors to gain further legitimacy	Interviews	"Well, I think regarding the introduction of IFRS that this entire topic was quite beneficial for the Big Four. They have the competence, the man power, and the global reach so that it is beneficial to provide accounting services in accordance with one standard such as IFRS … it is different for small accounting firms. Here the question is at which point they should audit according to a simplified version of IFRS."
	Archival data	Participation of the Big Four in the development of IFRS
Struggle in the creation of new institutions	Interviews	"There are rumors going around that the Big Four engage in intensive lobbying activities [as a reaction to the Green Paper]." "They [the Big Four] want to protect their market position."
	Archival data	Statements of Big Four representatives in press to impede the Green Paper on Auditing
Institutionalized agency of embedded actors	Interviews	"Politicians are dependent on information from third parties [accounting firms]" "Just consider the vast amount of decisions, which politicians have to make! They cannot cope with that without external expertise [from accounting firms]."
	Archival data	Description of the legislatives processes of the Green Paper on auditing General acceptance of the Big Four as the leading representatives of the accounting industry Contacts, which the Big Four have to other organizations

Table 1: Outline of emerging patterns and data source with illustrative examples

CASE STUDY

Research setting

Field. The research setting of the present study is the organizational field of accounting in Germany. The boundaries of the field and field membership are well defined. The large body of regulations, defined process of service provision, and expert knowledge in the German accounting industry emphasize the high degree of institutionalization and the maturity of the field (Scott, 1987). The German accounting industry has a well-defined center that is occupied by the Big Four. Their central position can be "delineated by their size, revenues, clients, and reputation" (Greenwood & Suddaby, 2006, p. 34). Their increasing centrality is also shown by their market share of 83 % in the 160 large companies being traded on the stock market or 75 % in the relevant market for accounting services in 2011 (Fockenbrock, 2011) in Germany. Further evidence for the Big Four's central position of is given by the fact that the European Commissioner for Internal Market and Services Michel Barnier directly addressed the oligopoly of the Big Four in the Green Paper on auditing, with the intention to break up their oligopolistic market power.

Actors. All actors in this study are affiliated with the German accounting industry. Organizations from other jurisdictions were included when their policy impacted the German accounting industry such as the European Commission. Accounting firms form the largest group under investigation and can be divided into three major groups. The largest accounting firms consisting of the Big Four, namely PWC, KPMG, Ernst & Young, and Deloitte Touche Tohmatsu (Deloitte), medium sized, and small accounting firms. Actually, there are only three big accounting firms in Germany since Deloitte has only about half of the revenues in the German market compared to the other three large accounting firms. Nevertheless, this paper includes Deloitte in the group of the four largest accounting firms because all four share the same interests and show similar behavior. Depending on the relevant issues in the accounting industry, different coalitions are formed among different accounting firms. In addition to accounting firms, professional associations play an important role in the German accounting industry. Traditionally, there are two major associations in the German accounting profession, namely the IDW and the WPK. In both associations, auditors from the accounting firms make up the membership and hold all the leadership positions, but the two associations differ in terms of membership and function. Membership in the IDW is voluntary whereas it is compulsory to be a member in the WPK. Also, the IDW has a mainly representative function while the WPK has a mainly supervisory function. Additionally, a professional association called WP.net was founded in 2005. Its mission is to represent the interest of small accounting firms. Moreover, the European Commission plays an increasingly more central role because of the ongoing process of European integration. For example, in October 2010, the European Commissioner for Internal Market and Services Michel Barnier issued the Green Paper on auditing, which suggests radical changes in the entire accounting industry, affecting all European member states. Many measures from the Green Paper directly address the superior position of the Big Four. The European Commission proposed, among others, joint audits, auditor rotation, or the creation of pure audit firms, which has led to major discussions within the German accounting industry. Even before the Green Paper on auditing, the European Commission had published several guidelines that were translated into national laws by the national governments in the European member states. However, the implementation of these guidelines was not accompanied by extensive discussions and the reluctance on the part of the Big Four as in the case of the Green Paper. National authorities, academia, and businesses usually participate in such discussions as well but play a minor role for the purpose of the study.

Historical development. Several scandals including Enron and WorldCom in the beginning of this century upset the worldwide accounting industry, including the German one. As a consequence of the Enron scandal, the accounting firm in charge, Arthur Andersen, was taken over by Ernst & Young, further strengthening Ernst & Young's already central position in the field of accounting. Debates about a regulation of accounting firms emerged in order to prevent such scandals and accelerated the development and introduction of International Accounting Standards (IAS) by 2005 in the European Union, which were called International Financial Reporting Standards (IFRS) later on. The internationalization of the accounting industry seemed to favor the spread of large multinational accounting firms in Germany although the local accounting industry was originally dominated by small and medium sized accounting firms. This development was to some extent not surprising as the Big Four held strong positions on the International Accounting Standards Board (IASB) responsible for the development of the IFRS.

Small and medium sized accounting firms started to comply with the new institutional environment, which favored size and internationality. Consequently, various mergers and acquisitions could be observed, particularly among medium sized accounting firms. Since the size of accounting firms has become a quality indicator when businesses select accounting firms, medium sized accounting firms responded by forming their own international audit networks in order to appeal to larger international customers. However, despite their efforts, they were not able to reduce their distance to the Big Four. At the same time, small and medium sized accounting firms intended to aggressively recover legitimacy, which they had lost to the Big Four. The companies that struggled most with the ongoing market development were small accounting firms because they had limited resources to accommodate recent changes in the accounting industry. Limited success in the accounting market empowered them to organize themselves in a professional association called WP.net, founded in 2005. In order to regain legitimacy, they intended to delegitimize the established voting procedure of the WPK president by claiming a lack of democratic character. Thanks to their lobbying activities and increased political pressures, they managed to change the voting procedure to elect WPK's president by 2010 so that smaller accounting firms were better represented. Consequently, the candidate from WP.net was elected as WPK's president in 2011 and expelled the former president who was affiliated with one of the Big Four. While smaller accounting firms intended to regain legitimacy on the national level, on the expense of the Big Four, the European Commission also questioned the oligopoly position of the Big Four on the European level. Michel Barnier, serving as the European Commissioner for Internal Market and Services, issued the Green Paper on auditing in late 2010, which explicitly addressed the oligopoly of the Big Four in the accounting industry. The European Commission claimed that the Big Four contributed to the preceding financial crisis and demanded to reform the accounting industry. Consequently, such reforms would constrain business opportunities and break up the market power of the Big Four.

The reactions of the Big Four to the loss of the WPK presidency and to the Green Paper were rather severe. Based on the change in the WPK presidency, the Big Four started to question this new voting system as votes were not only granted to individual auditors but also to every single accounting firm, a process that gives more votes to the multitude of small accounting firms relative to the Big Four. Big Four representatives highlighted the importance of the president's neutrality and his or her representative function of the entire profession in order to prevent bias on the part of the new WPK president favoring small accounting firms. Additionally, the Big Four responded to the allegations raised in the Green Paper on auditing. One allegation, for example, stated that the Big Four were redefining the organizational field and creating identities that included consulting as a part of auditing practice because consulting would enhance and result from auditing. Opponents of the Green Paper mobilized political support on the national and European level in order to weaken proposals suggested in the Green Paper. As a result, some of these opponents raised the issue that the profession of an auditor has traditionally been a free profession, for which such regulations as proposed by the Green Paper would be inadequate. In this discussion, the Big Four often emphasized that the recent development of present market structure is based on free market logic. Additionally, previous mergers and acquisitions, which have led to the oligopoly, had been approved by the European Commission. Therefore, the Big Four did not see a legitimate foundation for reversing this process.

These discussions about the Green Paper often took place in venues specifically designed for this particular purpose such as virtual platforms or high-level symposia. In the beginning of this legislative process, the European Commissioner for Internal Market and Services issued the Green Paper and invited opinions from all members of the organizational field, namely the accounting industry. As the Big Four are the most prominent members of this field, they were expected to actively participate in such discussions and, indeed, did. Because of a corporatist procedure of public decision making in the European Union (Holm, 1995 op. cit. Streeck, 1992), relevant actors are included in decision making processes. Since the Big Four are by far the largest players in the field, they could not have avoided participating in this process. Accordingly, they are sometimes even considered "system-relevant". This emphasized their importance in the organizational field and explains why they are not ignored by other actors in the field.

Paradox of embedded agency. The question remains: Why did the Big Four show such an aggressive behavior towards the market environment and still create new institutions to acquire further legitimacy although they are the most embedded actors? Moreover, what has motivated them to continuously shape their organizational field although they benefit most from extant institutions? Due to the restraining character of embeddedness (Friedland & Alford, 1991; Powell, 1991), these questions are of particular interest for institutional research. According to institutional theory, embedded actors are neither motivated nor able to envision strategies for enacting institutional change (Greenwood & Suddaby, 2006).

This paper argues that three major patterns in the accounting industry have led to the agency of embedded actors: (1) Creation of new institutions to gain further legitimacy on the part of embedded actors, which has led to a (2) struggle in the creation of new institutions among field members, and (3) institutionalized agency of embedded actors, which is provoked by social expectations. The patterns are presented in the order of appearance in the case of the German accounting industry.

Creation of new institutions by embedded actors to gain further legitimacy

Despite the Big Fours' high degree of embeddedness and central position in the German accounting industry, they still created new institutions in order to gain further legitimacy and privileges, which at first sight opposes the idea of embeddedness in institutional theory (Friedland & Alford, 1991; Powell, 1991). The creation and introduction of the IFRS exemplifies this. While the European Union sought to harmonize the accounting standards across Europe, the Big Four had the opportunity to influence the creation of new accounting standards, which again supported their position in the field of accounting. Practically, the Big Four held key positions in the IASB, which developed the new accounting standards (Botzem & Quack, 2009). For example, the chairman of the IASB from 2001 to 2011, David Tweedie, was a former partner of the Big Four company KPMG. Consequently, it was easier for the Big Four to adapt to the new accounting standards than for smaller accounting firms. Critics also noted the Anglo-American character of the IFRS, namely being more focused on investor decision making, which was new to the German accounting industry as Germany had its own accounting tradition to be more focused on creditor protection (Ramanna, 2011). For example, the *Frankfurter Allgemeine Zeitung* observed:

[The new accounting standards] are more and more aligned with the necessities of the Anglo-American capital markets. (Frankfurter Allgemeine Zeitung, 2001)

Notably, the Big Four share an Anglo-American background and already had knowledge about the peculiarities of the Anglo-American accounting tradition in their companies compared to German practitioners.

Besides the Anglo-American character of the new accounting standards, the IFRS brought a high degree of regulative complexity to the accounting profession of auditing. This had implications for the German accounting industry and especially for smaller accounting firms because they were often overburdened by these new laws. This was clearly observed by the *Wirtschaftswoche*:

In order to provide accurate financial information to investors, the IASB has issued thousands of pages with additional regulations, which the committee members themselves do not really understand. In doing so, the IASB has not done a favor to investors, businesses and accounting firms. (Wirtschaftswoche, 2010)

Apart from the Big Four, smaller accounting firms were hardly capable to deal with the extensive amount of new regulations that were issued. Due to their active role in the development of IFRS, the four leading accounting firms easily mastered the complexity of these new accounting standards, giving them yet another advantage over the small and medium sized accounting firms. If businesses needed expert knowledge about the new accounting standards of the IFRS, leading accounting firms naturally were their first choice because smaller accounting firms did not possess the necessary expertise. A partner from a medium sized international auditing network commented on this complexity of the new IFRS regulations and the resulting problems for smaller accounting firms:

[Small accounting firms] cannot deal with the technical issues of accounting ... [small accounting firms] just do not have the expertise. (Auditor from a medium sized accounting firm)

It was not surprising that the Big Four benefited from the new institutional environment, which they had created. In contrast to traditional German practitioners, the Big Four could take an active role in the IASB and shape the change process corresponding to their needs. In this regard, a member of a Big Four accounting firm drew a rather positive conclusion:

Well, I think regarding the introduction of the IFRS that this entire topic was quite beneficial for the Big Four. They have the competence, the man power, and the global reach so that it is beneficial to provide accounting services in accordance with one standard such as the IFRS ... it is different for small accounting firms. Here the question is at which point they should audit according to a simplified version of the IFRS. (Auditor from a Big Four accounting firm)

In sum, the Big Four could look back on a rather positive development connected with the introduction of the IFRS in Germany. It is interesting that despite being central to the field of the accounting industry and enjoying most privileges, they still engaged in the creation of new institutions in order to gain further legitimacy (Greenwood & Suddaby, 2006; Suddaby, Cooper, & Greenwood, 2006) along dimensions in which they were not embedded yet, something that is not clearly theorized in institutional theory yet. The Big Four's behavior pushed aside the small and medium sized accounting firms that have traditionally dominated the German accounting industry. An auditor from a small accounting firm concluded:

Well, [the Big Four] made it more and more difficult for [auditors from small accounting firms] so that we give up our business ... this was intentional politics. ... The accounting practice of small accounting firms is overregulated; ... [the Big Four] created an environment that they need [to succeed]. (Auditor from of small accounting firm)

Struggle in the creation of new institutions among field members

In addition to the finding that embedded actors search for legitimacy on dimensions in which they are not embedded yet, this section shows that embedded action can be triggered by field member interaction, an aspect that is still not sufficiently considered in institutional theory. For example, after the establishment of the IFRS, the position of the Big Four did not remain uncontested. Instead, they were challenged by other actors who had lost privileges to the Big Four. The most striking incidences were the accusation that the Big Four helped to uphold an undemocratic voting procedure in the WPK and the publication of the Green Paper on auditing, in which the Big Four were being held responsible for the financial crisis.

The voting system for the election of the WPK presidency

While the Green Paper originated on the supra-national level, attempting to curb the Big Four's influence, the professional association of small accounting firms WP.net managed to limit the Big Four's influence on the national level. By delegitimizing the established voting procedure to elect the WPK presidency (Oliver, 1992), WP.net gained political support to change the voting system. They stigmatized the WPK's voting system as undemocratic and enrolled high ranked politicians on their behalf. This increased the pressure on changing the existing voting procedure and therefore the pressure on its proponents. This political mobilization finally led to a change in the voting system and allowed small accounting firms to install their president. A member of WP.net, describing this process, stated:

We carried the discussion [regarding the voting procedure] into the public and informed the members of the Bundestag as well as the press. And it took about one year, but then, the new voting procedure was codified. This was not that easy. Finally, we had the new law of how to vote: secretly, directly, and freely. (Auditor from of small accounting firm)

Up to this incident, the president of the WPK had always been affiliated with the Big Four. After this change, smaller accounting firms, which traditionally had a strong stake in the German accounting industry before major Anglo-American players entered the market, finally regained a politically influential position. However, the struggle about the voting system was not over after the WPK elections. Despite being labeled as "direct, free, and secret", the legitimacy of the new voting system was questioned as it favored smaller accounting firms over larger ones. A member of a Big Four company explained:

Well, Mr. Gschrei [the new president of the WPK] really managed to get sufficient votes. But you have to note that there is a flaw in the new voting system. In Germany [not only every auditor but] also every accounting firm has one vote. In Germany, we have about 2,500 accounting firms, out of which 1,800 have about one or two auditors. Then it is obvious what the crux of this matter is. Single practitioners, who have their own accounting firm, have two votes, while 800 auditors at [a Big Four company] have only one vote each plus one for [the Big Four company]. (Auditor from a Big Four accounting firm)

In return for the loss of the WPK presidency, the Big Four intended to limit the new president's influence and initiatives, which, as they assumed, would have favored smaller accounting firms. The new president was well known for his critical attitude towards the Big Four. The Big Four and the IDW reproached him for continuing to push his own agenda, particularly for favoring small accounting firms at the expense of other accounting firms, as the president of the WPK has to officially represent the entire profession. A representative from the IDW reported from his own experience, speaking to the concerns expressed by the Big Four:

From time to time, I reminded him [the new president of the WPK] of [his new tasks and responsibilities as the president of the WPK]. During the election campaign [for the WPK presidency], he distanced himself even further from the Big Four ... And we had a discussion on that, in which I unmistakably told him that this will not work in the future because meanwhile, he has a different job ... But I think this will work in the future. (Representative from an accounting association)

In addition, the Big Four criticized the new WPK president for not performing all the president's tasks as they are codified in the statues of the WPK. Besides the supervision and control of the accounting industry, the WPK president has to represent the entire accounting industry and not only parts. This presumes neutrality on the part of the WPK president, which according to Big Four representatives was not demonstrated. A partner from a Big Four company commented on this behavior of the new WPK president:

I think it should not be about one's own agenda... it is not about politics in the WPK but rather about fulfilling important tasks [e.g. supervising the accounting industry]. (Auditor from a Big Four accounting firm)

The new president was not only accused for not representing the interest of the entire accounting industry, but also for not having the technical expertise to deal with his tasks, which is the supervision of the accounting industry, and for not being able to represent the industry on a supra-national level. A partner from a medium sized accounting firm summarized this criticism:

Now we have people in the WPK, who do not have the technical qualification; ... these are people who work as single practitioners. They have no idea about complex questions in our profession; ... they just do not have the expertise. And this is very disadvantageous for the entire profession in the context of the Green Paper because the WPK is the representative of the German accounting industry. But leave aside the technical expertise. The real problem is their 'mindset of small accounting firms'. They are always attacking the Big Four and the IDW even though they should represent the entire profession. (Auditor from a medium sized accounting firm)

Later on in the interview, this partner stated that as a result, the medium sized accounting firms as well as the Big Four started to organize themselves individually outside the WPK in order to represent themselves. At that moment, this seemed to be the most effective response for them in order to deal with the new situation in the WPK.

Overall, these developments in the German accounting industry highlighted the struggle in the creation of new institutions among field members, which institutional theory has not connected with the concept of embedded agency yet. The same partner from a medium sized accounting firm commented on this situation in the accounting industry. His statement pinpoints how embedded actors reacted to adverse actions from other actors in the field:

The profession [including the Big Four] seeks to get [the new president of the WPK] back on track. (Auditor from a medium sized accounting firm)

The Green Paper on auditing

Similar to the case of the WPK, the Green Paper on auditing directly addressed the Big Four, which is clearly stated in its first paragraphs:

The market for audits of listed companies is, in the main, covered by the so called Big Four audit firms. In terms of the revenues or fees received, the total market share of Big Four audit firms for listed companies exceeds 90% in a vast majority of EU member states. Entry into this top-tier section of the audit market has proven very difficult for many mid tier audit firms despite their capacity to work in the international audit market. Such concentration might entail an accumulation of systemic risk and the collapse of a "systemic firm" or a firm that has reached "systemic proportions" could disrupt the whole market. The market appears *to be too concentrated in certain segments and deny clients sufficient choice when deciding on their auditors. Moreover, being an auditor of large listed companies seems to create a reputational endorsement; such a positive association would then help the large firms in securing further high profile audit engagements and thus contribute to lack of dynamism in the market. Non Big Four firms on the other hand continue to suffer from a lack of recognition of their capacities by the largest companies. It would appear that there are also instances of "Big Four only" contractual clauses that are sometimes imposed on companies by e.g. financial institutions as a condition to grant a loan. (Green Paper on auditing)*

The Green Paper on auditing set off an adverse discourse in order to limit the market power of the four leading accounting firms. The intension was to strengthen smaller accounting firms vis-à-vis the increasing supremacy of the Big Four. Critics of market concentration and those who expected to benefit from the weakened Big Four joined this discourse. However, the Big Four, as major addressees, did not remain inactive and instead responded to such adverse action. In response to the question of how the Big Four would react to such developments, a representative from the Big Four stated the following, outlining the Big Four's strategy to interact with national and international leaders:

By getting into a dialogue and explaining. This accounts for representatives from businesses, directors, but also politicians and other persons, who have influence. ... Of course we have submitted our comments to the Green Paper [as it was invited by the European Commission]. But [additionally] we also clarify the issues with politicians. I myself was involved in various conversations in Brussels and Germany. The problem is that this topic is not their first priority. Therefore, there is a risk that the Green Paper is just rubber-stamped because nobody has really understood what it is about. (Auditor from a Big Four accounting firm)

While this statement represents the Big Four's perspective, small and medium sized accounting firms evaluated these activities such as the dialogue with politicians more critically. The usage of certain vocabulary on both sides in order to gain legitimacy for their own position was particularly interesting, a phenomenon that Suddaby and Greenwood (2005) have described as institutional vocabularies. Representatives from the Big Four used terms such as "dialogue", "clarify", or "explaining", while representatives from small accounting firms accused the Big Four of bearish "lobbying". In the context of this conflict, a leading German newspaper reported from the Green Paper discussion:

Newman [President of BDO international, a large German second tier accounting firm] criticized the political influence through lobbying on the part of the Big Four accounting firms. (Frankfurter Allgemeine Zeitung, 2011)

This point of view was shared by other members of second tier accounting firms. Also referring to lobbyism, a partner from a medium sized accounting firms stated:

There are rumors but I am not sure ... it could be wrong. It is said that the Big Four got about sixty people in Brussels, who are doing their job [lobbying] there. That is quite a bit, I think. (Auditor from a medium sized accounting firm)

It is hard to verify this information and find further additional evidence for this statement, although the reproach of lobbying towards the Big Four was not new. Prior to the publication of the Green Paper, some activities of the Big Four, such as committee work in professional bodies, demonstrated activities reminiscent of lobbying (Botzem & Quack, 2009). It is therefore not surprising that criticisms of lobbying emerged after the publication of the Green Paper. A similar statement about the Big Four's lobbying efforts during the Green Paper debate was made independently by a representative from a small accounting firm:

I came to know that the Big Four employ sixty people who are just traveling around the country in order to influence ... or rather to get in contact with decision makers. This ranges from members of the European Parliament in Brussels to the Landtage, and the Bundestag. They got access to the governmental departments. (Auditor from a small accounting firm)

Smaller accounting firms in Germany also followed the invitation to comment on the Green Paper, which led to another controversy. Small accounting firms, which were organized in their own professional association called WP.net since 2005, wanted to gain political momentum in this debate. They welcomed the legal initiative of the Green Paper because it addressed the dominance of the Big Four and because small accounting firms expected to benefit from the suggested measures. When the European Commission invited opinions on the Green Paper just after its publication, WP.net made its members submit pre-formulated standard comments supporting the position against the Big Four. This, however, was preempted by the Big Four. A member of the Big Four described how the struggle for influence evolved:

[A major representative from WP.net] let [other small accounting firms] submit mostly equally worded comments on the Green Paper. These comments were consolidated and treated as a single one, because we gave [the European Commission] the timely hint in advance not to miss that. (Auditor from a Big Four accounting firm)

Besides the formal aspects of this debate, the content of the Green Paper was also subject of the debate. In the Green Paper, the European Commission proposed various measures to weaken the increasing market concentration in the accounting field. This was generally welcomed by small and medium sized accounting firms. The fifth largest accounting firm in Germany, for example, already complained about the market concentration three years before the Green Paper:

The fifth largest German accounting firm BDO Deutsche Warentreuhand AG is alarmed by the ongoing process of concentration of the accounting industry. The companies listed in the German stock index (DAX) are only audited by two companies, namely KPMG and PWC ... while this is considered problematic in other countries, it seems well accepted in Germany. (Frankfurter Allgemeine Zeitung, 2007)

In contrast to small and medium sized accounting firms, the leading four accounting firms were able to benefit from the market concentration as criticized by the Green Paper (Newton, Wang, & Wilkins, 2013). The Green Paper argued that market concentration caused a lack of competition. Despite of the theoretical correctness of this argument, the Green Paper denied the ongoing price war among the Big Four which affected the entire industry and caused in particular small accounting firms to leave the market. In addition, the leading accounting firms could provide higher audit quality, which reinforced their strong position vis-à-vis accounting firms from other segments (Newton et al., 2013). Again, the Big Four responded to the argument of high market concentration by avoiding direct accusations; instead, they intended to weaken the legitimacy of opposing accusations by connecting their arguments to the economic context and historical development in order to justify extant market concentration, as one Big Four auditor communicated:

The market concentration is not the result of secret activities but rather the result of the market development … And previous mergers of accounting firms that now form the Big Four were approved by the European Commission. (Auditor from a Big Four accounting firm)

Later in the interview, the same interviewee refers to a process of “quality selection” that was taking place in the accounting industry and ultimately caused increasing market concentration. The European Commission, however, argued that audit quality could be assured by decreasing market concentration and fostering competition in the accounting industry. However, a representative from an accounting association, who was reserved towards the Green Paper, critically remarked the following about competition:

There is not enough competition? This is, I think, not the case. You know the discussion on declining prices and so forth. If there was no competition, then there would be no decline in prices. How should it come about instead? … I consider this [the assertion that there is no competition brought forth by the European commission] to be nonsense! (Representative from an accounting association)

The Big Four and those who opposed the Green Paper casted doubt on the argument of the lack of competition and discredited the Green Paper with reference to factual evidence.

While the intention of the Green Paper was to restore trust through audit quality, the Big Four argued that the proposed measures would lead to changes in the market structure but not to an increase in audit quality. The Big Four supported their arguments well with insights from academic research or experiences from other jurisdictions in which respective measures were already in effect. Accordingly, the Big Four came to the conclusion that the Green Paper would not enhance audit quality, but was primarily designed to break up their oligopoly. A partner from a Big Four company commented on the intentions to increase audit quality through the Green Paper rather cynically:

Well, quality still plays a role in the Green Paper on auditing. But the market structure plays a role as well. And sometimes you get the impression that the market structure and the concentration play a more important role than audit quality. (Auditor from a Big Four accounting firm)

The discussions around the Green Paper have shown how field members of the German accounting industry interacted with each other when struggling for legitimacy and for their institutions to prevail (Hensmans, 2003). While smaller accounting firms intended to recover privileges that they had lost to the Big Four along the process of consolidation in the industry, the Big Four fended off these attempts. The comment from a partner from the Big Four on the behavior of small accounting firms that welcomed the Green Paper with open arms and endorsed the European Commission shows the strong antagonism within the German accounting industry at the time:

I find it quite remarkable that those ladies and gentlemen welcome regulation for market segments in which they do not operate. This is really striking. The crux is that they – and I frankly say that – these people just want to get one over on the Big Four. (Auditor from a Big Four accounting firm)

Institutionalized agency of embedded actors

In addition to the previous two patterns, this case also shows that agency on the part of embedded actors can be institutionalized. Social expectations can create the opportunity in which embedded actors can enact their ideas when institutions do not clearly prescribe certain behavior. Evidence for institutionalized agency is given, among others, by the legislative process of the Green Paper. In its very beginning, in October 2010, the European Commission invited the opinions from all members of the organizational field. The official website of the European Commission stated:

Responses to the Green Paper are welcome until December 8th [, 2010]. On the basis of those responses, the Commission will decide on the need for any measures in the course of 2011. (Website of the European Commission)

The European Commission invited all stakeholders to participate in this process. This included "investors, lenders, management, employees, government authorities, auditors, tax authorities, credit rating agencies, equity analysts, regulators, business counter-parties and SMEs" as listed in the Green Paper. However, unlike most of these actors, the Big Four accounting firms were directly addressed by the Green Paper because it questioned their superior market position and business model. Since the Big Four were focal actors in the Green Paper, other members and affiliates of the accounting industry were particularly interested in their opinion on this legal initiative. Accordingly, the public expected them to participate in the legislative process. Moreover, the Big Four's participation in committee work and membership in professional associations in the German accounting industry highlights the degree to which their agency is institutionalized. In this organizational field, committees, boards, and associations play important roles as these entities are also expected to participate in legislative processes. For example, the IDW, as a leading professional association, makes suggestions about how to apply accounting standards. In addition, the

WPK supervises the accounting industry, while the *Abschlussprüferaufsichtskommission*[6] (APAK) supervises the WPK. Furthermore, the *Deutsche Prüfstelle für Rechnungslegung*[7] (DPR) was designed to act like a police for malpractice in accounting, and the IASB had developed the accounting standards IFRS. All these organs accomplish important tasks within the accounting industry and have strong political and cultural power. Excluding the WPK, representatives of the Big Four are active in each of these organs and hold key positions in them. Even if Big Four employees did not occupy these key positions, former Big Four employees or at least indirect contacts with the Big Four were often placed in these key positions. When these organs are consulted by politicians, for instance, such consultations therefore provide opportunities for the Big Four to take an active role during negotiations and decision-making processes. Depending on the issue, these organs are expected to evaluate legal initiatives, make a recommendation, and so forth. Similarly, the Big Four's business contacts with prestigious clients create other opportunities to often indirectly influence important decision-making processes affecting industry-related issues. As already mentioned, most important businesses in Germany were and still are exclusively audited by the Big Four. The Big Four also work for many governmental agencies, drawing on a long history of business relationships with them. This again highlights their strong position in political debates and their high degree of embeddedness as in the case of PWC, which was expressed by a German newspaper:

> *PWC takes mandates from the federal government and is in charge of processing requests for investments guarantees. PWC is a mandatary of the federal government and is regularly charged with risk estimation for foreign guarantees. (Spiegel, 2009)*

[6] Translation: Commission for auditor supervision
[7] Translation: German bureau for financial accounting examination

Similar evidence for the close relationship between the Big Four and public agencies was provided by interviewees who highlighted this strong relationship. Criticism was raised that on the one hand, public agencies supervise the accounting industry and that on the other hand, Big Four companies provide services to the public agencies. Also, the fact that the Big Four could take advantage of these relationships and shape legal initiatives was considered critically, as auditors from small and medium sized accounting firms clearly expressed:

Just when you consider PWC, which has historically strong relationships with the public sector. It is obvious that they have contact to leading decision makers in politics. Then they [PWC] are a service provider to the state. Consequently, they have direct contact to highly ranked politicians. At the same time, the department of commerce is in charge of the supervision of the accounting industry. (Auditor from a small accounting firm)

All Big Four companies have contacts to the different Ministries. Based on these contacts, topics are discussed. There is no other way to fend off a proposal [such as the Green Paper] for new legislation, than being politically active. (Auditor from a medium sized accounting firm)

A similar phenomenon that emphasizes the institutionalization of agency on the part of the Big Four could be observed in the law-making process of the European Union when the Green paper on auditing was published, a process that highlighted the close relationship between the Big Four and European politics. A peculiarity, which favored institutionalized agency, in this instance was the dependence of European politicians on external knowledge. Since European politicians discuss and decide on issues for which they neither have the necessary information nor the time to acquire it, they draw on external expertise. For example, in the case of the Green Paper on auditing, this expertise came from accounting firms. A representative from a professional association explained this process:

What is going on in Brussels is unthinkable in Germany. This is because in Germany, lawmakers will possess the necessary technical knowledge before laws are passed. Lobbying has a very negative connotation in Germany. But in Brussels, it is normal ... They [European politicians] need such external knowledge. ... Because of the multitude of regulations coming from Brussels, which is strongly driven by the European Commission, they [politicians at the European level] have limited knowledge regarding each single subject ... Without professional expertise from the outside, they could not make any decisions. (Representative from an accounting association)

Based on the complexity of this legislative process and the need for external expertise, European lawmakers in Brussels seemed not only to accept but rather to desire the participation of experts from the field of accounting. At that point in the decision-making process, the Big Four played an important role, as there were basically no other actors in the field who had more knowledge and expertise (Botzem & Quack, 2009). Moreover, they possessed the necessary resources to engage in active participation (Oliver, 1997) compared to small practitioners who are caught in their day-to-day business, do not enjoy leadership status when it comes to accounting issues, and do not have the necessary expertise either. Overall, this shows that the Big Four were and still are highly embedded in the formal interaction among field members. Being an inherent part of the formal process has allowed the Big Four to place and enact their ideas in the organizational field. In such forms of institutionalized agency, embedded actors can become change agents.

FINDINGS AND DISCUSSION: THE INTERACTION BASED FRAMEWORK OF EMBEDDED AGENCY

This study has explored three new ways in which embedded agency can emerge: (1) through the creation of new institutions by yet embedded actors to gain further legitimacy, which leads to a (2) struggle in the creation of new institutions among field members, and through (3) institutionalized agency of embedded actors, which is provoked by social expectations. These three patterns suggest that embedded agency, in the case of the German accounting industry, is framed by the Big Four's acquisition of new privileges on the expense of other actors and resulting field member interaction between the Big Four and other players in the organizational field (see chart 1).

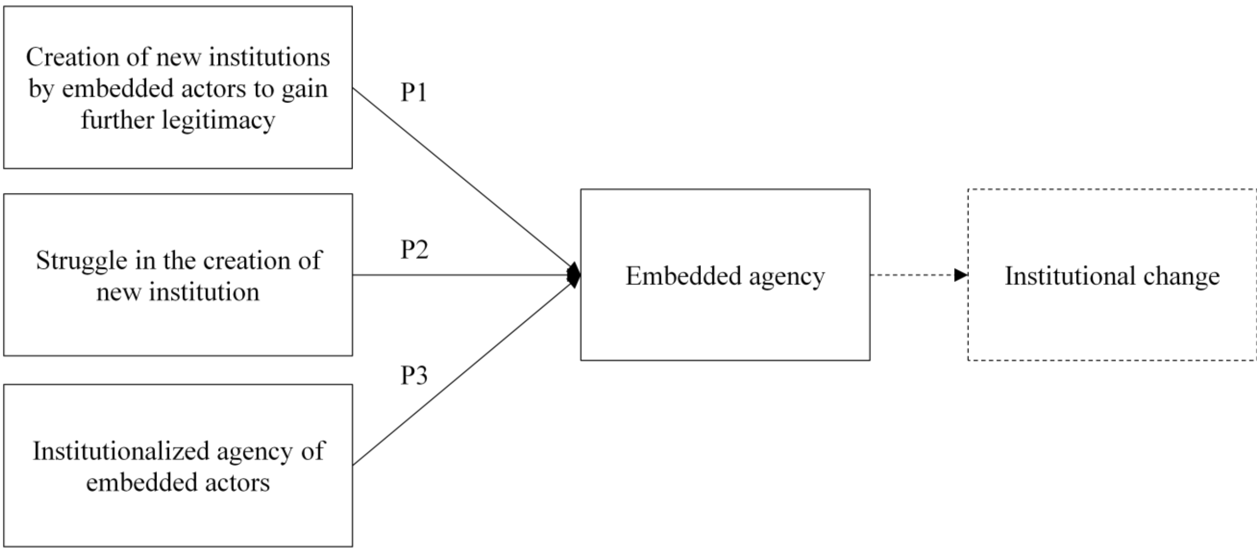

Chart 1: Process model of embedded agency

A key finding of the study is that embedded actors can indeed establish new institutions and acquire further legitimacy, however, in different dimension. This is particularly clear when considering the Big Four who created more and more favorable institutions for themselves in a field that was traditionally dominated by small accounting firms. While the Big Four are economically and politically highly embedded due to their market share and strong representation in professional committees, they still continued to increase their cultural embeddedness through their participation in the development of new accounting standards. This finding is similar to Holm (1995) who introduced the notion of multi-level systems when describing institutional contexts. Accordingly, institutions can exist on different levels in society ranging from an international to a local level, for instance; while institutions from each level can grant legitimacy. Also, Thornton and Ocasio (2008) argue that institutions can exist on various levels privileging actors in different ways. This allows for the articulation of the following proposition:

Proposition 1: Embeddedness can be defined along different dimensions (i.e. economical, political, or cultural); despite being embedded in only one dimension, embedded actors can increase their embeddedness along other dimension.

This study has shown that the Big Four gained legitimacy at the expense of other members in the field. However, small accounting firms, which traditionally had a strong position in Germany, managed to achieve a partial victory as shown in the WPK elections and the discourse set off by Green Paper. What followed were reactions on the part of the Big Four to fend off these attacks. This corresponds to Brint and Karabel's (1991) contention of organizational fields as "arenas of power relations" (p. 335) and DiMaggio's (1983) description of battlefields where actors fight for influence. In other words, peripheral challengers attacked the central incumbent of the field, in this case the Big Four (Hensmans, 2003). Both challengers and incumbents fight for their institution to prevail (Hensmans, 2003). Incumbent actors intend to remain in the most privileged position in the field, fend off challengers, and aim at increasing their embeddedness as reported in the case of the German accounting industry. Similarly, members of the organizational field struggle for establishing their institution in a dominant position (Reay & Hinings, 2005; Thornton, 2002). According to

Hensmans (2003), incumbent actors can defend their position through “articulating a logic of equivalence that excludes challengers from the legitimate boundaries of their logic of difference” (p. 360). This is consistent with Bourdieu (1977) who argued that actors strive to acquire more privileges. This leads to the following proposition:

Proposition 2: Embedded agency can be a reaction to the attacks from other field members who challenge embedded actors.

Additionally, because of the high degree of institutionalization in the German accounting industry, the interaction among members of the organizational field can be institutionally prescribed. Space for agency on the part of embedded actors opens up without precisely prescribing what to enact. Consequently, embedded actors have the opportunity to enact their own ideas, which might oppose opinions from other members of the field. A slightly different but to some degree similar concept was introduced by Clemens and Cook (1999). They distinguished between institutions whose statements “must, must not, or may be followed” (Clemens & Cook, 1999, p. 448), which also opens space for agency and institutional change. In the case in which actors “may” follow an institutional prescription, it is basically up to the actor in terms of what to enact. This leads to the following proposition:

Proposition 3: Regular incorporation of embedded actors by third parties can lead to institutionalized agency of embedded actors; this opens opportunities where embedded actors can enact change.

IMPLICATIONS

Refined understanding of embeddedness

Based on the mainly economic definition of embeddedness, referring back to the criteria of "size, revenues, clients, and reputation" (Greenwood & Suddaby, 2006, p. 34), the Big Four are undoubtedly the most embedded actors in the organizational field of the German accounting industry. While size, revenues, and clients can be measured in economic terms, reputation is hard to operationalize and based on a common sense or shared understanding of the Big Four. This study has shown that such an understanding of embeddedness based on mainly economic criteria is not entirely satisfying because embedded actors also seek to increase legitimacy in different dimensions, which can be described as cultural, economic, or political (Bunge, 2009). For example, leading accounting firms intended to increase their cultural embeddedness by reinforcing their position as opinion leaders in the accounting industry. Due to their participation in committees, which issue guidelines for the industry, interpret accounting standards, or define good accounting practices, they were able to increase their cultural embeddedness in the field. Their political embeddedness is reflected in the strong influence that they can exercise on other members of the field. Through their political power, they can fend off challengers by enrolling other actors on their behalf as it was done during the debate on the Green Paper on auditing, which originally aimed at diminishing the Big Four's economic market power. Contrary to findings from other studies, which argue that actors trade off economic and institutional imperatives (Greenwood & Hinings, 1996; Ingram & Simons, 1995; Oliver, 1991), this study argues that embeddedness in the cultural, economic, or political dimensions can be complementary; in other words, embeddedness in each of the three dimensions can be independent from each other.

Moreover, this study confirms the findings from previous research that embeddedness can be associated with different levels in wider society. For example, Holm (1995) and

Greenwood and Suddaby (2006) found that actors can be simultaneously embedded in institutions on the national as well as international level. A similar phenomenon was observed in the case of the German accounting industry discussed in this article. For example, on the national level in Germany, new institutions that were supposed to particularly privilege Anglo-American accounting firms first had to be built by the Big Four because the German accounting industry has traditionally been dominated by smaller accounting firms and had its own accounting tradition focusing on creditor protection. The Big Four's efforts to create new institutions, such as the IFRS, exemplify how the Big Four created an institution favoring them in the German accounting industry.

Interaction as an enabling factor of embedded agency

When considering the triggers of embedded agency, embedded agency is not necessarily the result of deliberate action, but rather the outcome of interactions between embedded actors and other field members. The impetus for embedded agency can be found in the competitive interaction with less embedded actors who intend to gain a more central position. When embedded actors act upon such attacks from less embedded actors, their actions seem to be reactive rather than strategic. As a result, embedded agency is the consequence of hostile behavior on the part of other actors in the field who attack embedded actors (Zietsma & Lawrence, 2010). Consequently, the impetus for such embedded agency is a past incident and therefore the opposite of what Emirbayer and Mische (1998, p. 962) call "oriented to the future" or "projective" agency. This is similar to the criticism by Suddaby (2010) who argues that the theoretical concept of the institutional entrepreneur draws a too individualistic picture of agency in which institutions lose importance when explaining actors' behaviors. Such criticism can be softened to some degree when using interaction between field members as an enabling factor for embedded agency because it accounts for the social context rather than an overly voluntaristic actor.

Context shaped agency as institutionalized agency

This study also shows that embedded agency is highly dependent on the context in which it takes place. At some point of time, social expectations create a space for embedded agency. This occurs when the interaction of field members is determined by the institutional environment. This case has shown institutions create certain opportunities in which actors are expected to participate. Embedded actors comply with this social expectation by participating. For this reason, embedded actors can easily seize such opportunities for becoming institutional entrepreneurs. Notably, the content of such change is not institutionally prescribed. However, also embedded actors are most likely to promote institutions that favor them most (Reay & Hinings, 2005; Thornton, 2002) on the expense of other institutions.

CONCLUSION

Summary and contribution

This paper began with a review of extant approaches to untangle the paradox of embedded agency. However, these approaches were not entirely suitable to explain embedded agency in the German accounting industry, which set the stage for the present study. After the introduction of method and context, three major patterns were identified in this case analysis of the German accounting industry: (1) creation of new institutions by embedded actors to gain further legitimacy, which leads to a (2) struggle in the creation of new institutions among field members, and (3) institutionalized agency of embedded actors, which is provoked by social expectations. A major finding was that embedded agency emerges out of the interaction of actors in an organizational field. The discussion further highlighted the non-voluntaristic character of embedded agency and proposed a more refined understanding of embeddedness.

Overall, this study contributes to our understanding of embedded agency by arguing that embedded agency can be caused by the interaction with other members in the organizational field: Embedded actors can react to challengers and comply with social expectations to enact change. In these contexts, agency appears less voluntaristic, and the role of agents' reflexivity is not overstated, which is more consistent with institutional theory (Mutch, 2007) and differs from various accounts on institutional entrepreneurship that draw a more individualistic picture of agency (Suddaby, 2010). Furthermore, the role of actor interaction in an institutional field is still under-considered in existing explanations of embedded agency. Therefore, this study provides a new perspective for studying embedded agency and institutional change. It shows that embedded agency can occur within a well delineated and mature organizational field without the appearance of new actors or the emergence of institutional contradictions.

Limitations

This paper reports a case study from a highly institutionalized field with well defined organizational boundaries such as the German accounting industry. Accordingly, the study has two major limitations. First, due to the nature of a single case study, the findings lack generalizability. However, a different study design would not have allowed uncovering the complex interactions between actors in the German accounting industry (Smets et al., 2012). Second, another limitation consists of the peculiarities of an empirical setting, in this case the German accounting industry, leading to the question whether the interaction among embedded and peripheral actors would be different in another setting. For example, the German process of political decision making is generally speaking more corperatistic than that in Anglo-American countries (Holm, 1995 op. cit. Streeck, 1992). Similar to several other studies on embedded agency, the organizational field in this study is mature and highly institutionalized; however, in this case study, the organizational field has clearly defined boundaries in relationship to neighboring fields. Accordingly, there is basically no exposure to new institutional prescriptions and no entries of new actors. But still, there has been much unrest in this organizational field. Therefore, the overall question remains whether these findings are transferable to other settings.

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Continuous Change in Highly Institutionalized Fields: A Dialectical Perspective on the Case of the German Accounting Industry

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Continuous Change in Highly Institutionalized Fields: A Dialectical Perspective on the Case of the German Accounting Industry

Abstract

Based on a dialectical perspective on institutional change, this paper studies the transformation of the German accounting industry since the Enron scandal up to the Green Paper on Auditing, covering the time period from 2000 to 2012. Corresponding to Seo and Creed (2002), this article identifies “intrainstitutional conformity that creates interinstitutional incompatibilities”, “legitimacy that undermines functional efficiency”, and “isomorphism that conflicts with divergent interests” (Seo & Creed, 2002, p. 226) as the drivers for recent change in this organizational field. The study provides an explanation of endogenous change that does not rely on institutional agency in explaining institutional change. Therefore, this explanation of institutional change is more consistent with fundamental assumptions of institutional theory than more voluntaristic approaches, explains endogenous institutional change in mature and highly institutionalized fields, and underscores path dependence in institutional change.

Keywords: accounting industry, institutional change, mature fields

INTRODUCTION

Highly institutionalized and mature fields are associated with stability rather than change (Hughes, 1939; Scott, 2001; Zucker, 1977). However, the present study reports a case from the German accounting industry where the opposite has been the case: While the German accounting industry is highly institutionalized, endogenous change has been observed. Although change has been endogenous in this particular case, human action has merely played a mediating role and has not been a central driver for change, which leaves the question what has been the central driver for this change.

Professional service firms and in particular the accounting industry offer a popular setting for empirical studies on institutional change because professionalism is often associated with a high degree of institutionalization (Carpenter & Feroz, 2001). When explaining institutional change, many of these studies use either the concept of exogenous shocks (Cooper, Hinings, Greenwood, & Brown, 1996; Greenwood, Suddaby, & Hinings, 2002; Lee & Pennings, 2002), presume the existence of institutional contradictions without explaining their emergence (Greenwood & Suddaby, 2006; Montgomery & Oliver, 1996; Smets, Morris, & Greenwood, 2012; Suddaby & Greenwood, 2005), or rely on forms of agency (Covaleski, Dirsmith, & Rittenberg, 2003; Lawrence, 1999; Lawrence, Malhotra, & Morris, 2012; Thornton, Jones, & Kury, 2005). However, the presumption of exogenous shocks or institutional contradictions do not provide a satisfying theory of institutional change (Schneiberg & Lounsbury, 2008) because explanations on their origin are usually not included. Lastly, the overemphasis of agency is not entirely consistent with institutional theory (Suddaby, 2010) and therefore not satisfying either.

In order to address this gap and make a contribution to the literature, this study analyzes the German accounting industry and explains change based on a dialectical perspective on institutional change (Benson, 1977; Seo & Creed, 2002). This offers an endogenous explanation of institutional change in a highly institutionalized field as well as explaining the origin of change without particularly emphasizing agency. In doing so, this paper conducts an empirical analysis of the German accounting industry covering the time period from 2000 to 2012. In order to make sense of the empirical data from the German accounting industry, the present study uses Seo and Creed's (2002) dialectical perspective on institutional change. Seo and Creed (2002) argue that institutional change originates from institutional contradictions, which are a by-product of institutionalization processes. At the same time, the dialectical approach does not overemphasize institutional agency. Based on this approach, this study identifies three sources of institutional contradictions in the German accounting industry that have led to continuous endogenous change despite the high degree of institutionalization and maturity of the field. In doing so, this framework does not refer to agency when explaining institutional change; instead, it draws a picture of endogenous change more consistent with institutional theory.

The remainder of the paper is structured as follows. The next section presents a brief literature review of how institutional change has been described in professional service firms, leading to the gap in the literature and the contribution of the paper. Afterwards, Seo and Creed's (2002) dialectical perspective on institutional change will be presented, based on which institutional change in the German accounting industry will be analyzed. The section thereafter outlines the method and analysis, whose results are presented in the section hereafter, describing institutional change in the German accounting industry. The following discussion and conclusion will provide a summary of the main findings as well as directions for further research.

LITERATURE ON INSTITUTIONAL CHANGE IN PROFESSIONAL SERVICE FIRMS

Researching institutional change in professional service firms has a long tradition. The consideration of such institutional change is particularly interesting in the context of professional service firms because professions are often closely linked with a strong institutional environment (Carpenter & Feroz, 2001). Institutions, defined as regulative rules, social expectations, and shared understanding (Scott, 2001), are supposed to provide guidance for human action (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Zucker, 1977). Their reproduction leads to a stronger institutionalization and stability in social life (Hughes, 1936; Zucker, 1977), which leaves littles space for instituional change (Scott, 2001). Since this conceptual understanding of institutions can hardly explain institutional change, institutional theorists have been looking for ways to explain institutional change that is still consistent with fundamental assumptions of institutional theory (Walgenbach & Meyer, 2008). In a brief review, Schneiberg and Lounsbury (2008) identified three different approaches to institutional change: exogenous shocks, preexisting institutional contradictions, and institutional agency.

Exogenous shock and institutional change in professional service firms

This area of research particularly focuses on the process of institutionalization given the abrupt appearence of a new dominant institution. However, the origin of such new institutions is often not included in and thus exogenous to the analysis. For example, Greenwood, Suddaby, and Hinings (2002) have investigated the impact of jolts on the institutional setting in the Canadian accounting profession. Such jolts, or shocks, lead to the deinstitutionalization of existing institutions and the institutionalization of new institutions; however, the origin of such jolts is not further investigated. Similarly, Cooper, Hinings, Greenwood, and Brown (1996) describe archetype change in Canadian law firms, which is subject to change in the institutional environment. As the wider discourse changes in which the law industry is embedded, the interpretation of organizational structures changes as well. This allows a shift between two different organizational forms. Moreover, Lee and Pennings (2002) analyze the diffusion of new governance structures in the Dutch professional service industry. The authors found that such a diffusion is mainly context driven. Merely referring to population ecology by Hannan and Freeman (1977), the authors explain these changes in the context of Dutch professional service firms; however, the question why such a selection took place was not addressed. In conclusion, this area of research has not been without criticism (Schneiberg & Lounsbury, 2008), leading to the conclusion that the origin of institutional change is located somewhere outside the organizational field of the analysis. Therefore, this approach seems not entirely satisfying and therefore offers an incomplete explanation of insitutional change (Leblebici, Salancik, Copay, & King, 1991).

Preexisting institutional contradictions and institutional change in professional service firms

In addition to exogenous shocks, institutional change can also be caused by institutional contradictions. For example, Montgomery and Oliver (1996) analyze responses of American healthcare organizations to "ambiguous and multiple pressures" (p. 649). They show how firms have dealt with unclear insitutional prescriptions in the context of the AIDS epidemic, which imposed economic and physical threat. While the authors describe human behavior in response to these threats, they neither make a statement on the emergence of new threats nor explain the origin of ambiguity and multiplicity in the institutional context. Moreover, Greenwood and Suddaby (2006) argue that actors can come in contact with contradicting institutions. They provide evidence from the leading five accounting firms in Canada, which are exposed to different organizational fields and thus to contradicting insitutions. The authors also show how the leading accountig firms act upon these contradictions. Although the authors also refer to the dialectical perspective by Seo and Creed (2002), they leave out the explanation of the mechanism that led to the emergence of such institutional contradictions and instead emphasize more institutional agency. Similarly, Smets, Morris, and Greenwood (2012) argue that actors who experience institutonal contradiction cause institutional change through the emergence of new behavioral patterns in response to such contradictions. In their study, the authors investigated the case of a merger of a British and a German law firm. Through the merger, the new firm's lawyers came in contact with new institutions from the other jurisdiction, which imposed an institutonal contradiction on them, leading to institutional change. Overall, these articles focus mainly on the process of institutional change, which is triggered by institutional contradictions. Consequently, they hardly make a statement on how such contradictions ermerge from the perspective of institutional theory. For example, they do not argue that institutional contradictions emerge out of the process of institutionalization as Seo and Creed (2002) have done; instead they rely on preexisting institutional contradictions without explaining their emergence or dedicating to their origin.

Agency and institutional change in professional service firms

Another prominent way to explain institutional change in professional service firms is agency-driven change. For example, Lawrence (1999) outlines how actors from the Canadian forensic accounting industry have strategically shaped their institutional setting. Based on this analysis, he proposes two types of strategies. First, actors can define rules and meaning through membership strategies. Second, actors can also engage in standardization strategies that aim at setting technical, legal, and market standards in order to determine the production process. Both strategies are enacted rather independently from institutional influence. Similarly, Suddaby and Greenwood (2005) investigated the usage of rhetoric strategies among accounting firms in order to increase legitimacy for new behavioral patterns. In their case, the acquisition of a law firm by an elite accounting firm caused major discussion on the legitimacy of this new organizational form. The accounting firms analyzed in this study connected new practices with extant institutional logics by reinterpreting and manipulating relevant institutions. Using such strategies, legitimacy for new practices could be recovered. Likewise, Thornton, Jones, and Kury (2005) investigate the incorporation of management consulting by accounting firms. This structural overlap led to an internal institutional conflict when professionalism, which originated in the accounting industry, clashed with new market requirements. The authors found that auditors changed their behavior as they became more indulgent vis-à-vis their clients in order to cultivate opportunities for selling more profitable consulting projects. Similarly, Lawrence, Malhotra, and Morris (2012) investigated the transformation of professional partnerships to managed professional businesses. They argue that agency allows "initiating and energizing radical change" (Lawrence et al., 2012, p. 102). In doing so, actors are able to emancipate themselves from extant institutions. Otherwise, they would not be able to trigger institutional change. Moreover, Covaleski, Dirsmith, and Rittenberg (2003) describe the conflict in the organizational field of the American accounting industry regarding the outsourcing of internal accounting services to professional accounting firms. In order to institutionalize such new practices, accounting firms have used institutional strategies with the intention to increase their acceptance. Overall, in these studies, human action is modeled as being independent from institutions. However, the usage of agency to explain institutional change is not unproblematic in institutional theory since it downplays the role of institutions (Fligstein, 1997). Therefore, agency as a driver for institutional change is not entirely consistent with institutional theory. Although most research articles do not advocate the extreme form of institutional entrepreneurs, which could be described as "hypermuscular supermen, single handed in their efforts to resist institutional pressure, transform organizational fields, and alter institutional logics" (Suddaby, 2010, p. 15), they still lean towards a stonger emphasis on agency, in which the focal actor has emancipated him- or herself from the institutional environment.

Research gap and contribution

Previous studies provide valuable insights into institutional change in professional service firms. However, studies relying on exogenous shocks and given institutional contradictions often omit the explanation where triggers of change come from. Other studies that explain institutional change through a form of agency often draw a rather voluntaristic image of actorship, which is not entirely consistent with institutional theory. In order to adderss these shortcomings, this study intends to explain institutional change through a dialectic perspective on institutional change (Benson, 1977; Seo & Creed, 2002). This perspective allows for an explanation of the origin of change as well as the change process and foregoes an overly voluntaristic understanding of agency.

DIALECTICAL APPROACH OF INSTITUTIONAL CHANGE[1]

To address this issue, Seo and Creed (2002) proposed a framework that explains endogenous institutional change and how it originates based on institutional contradictions. In explaining institutional change from a dialectical perspective, Seo and Creed (2002) refer to Benson's (1977) conceptual work. Benson (1977) argues that the complexity of institutional settings leads to incompatibilities between institutions, which open space for human action and thus institutional change. Likewise, Friedland and Alford (1991) contend that the most important institutions in Western society are contradictory and that there are various institutional alternatives for individuals and organizations. Consequently, actors compete with each other to establish dominant institutions. Similarly, Clemens and Cock (1999) describe contradictions as a major source of institutional change. Strategic actors can play off contradicting institutions, which can lead to the creation of a prevailing institution within an organizational field. Seo and Creed (2002) argue that in this process, human action merely plays a mediating role between institutional contradictions and institutional change because

[1] This entire section exclusively reproduces content from Seo and Creed (2002) if no other references are given.

human action is less voluntaristic. Humans are assumed to be partially autonomous and active exploiters of institutional contradictions. This causes change in a contradictory social world. Moreover, Seo and Creed (2002) also provide an explanation of how such institutional contradictions emerge; they are a “by-product of the processes of institutionalization” (Seo & Creed, 2002, p. 226). Because this paper wants to describe the continuity of institutional change, a more detailed description of Seo and Creed’s (2002) dialectical perspective will allow readers to understand not only how change unfolds, but also the antecedence of change. Based on this dialectical approach, institutional contradictions are neither the result of an exogenous shock or preexisting institutional contradictions, nor are they set up by change agents in the field.

What are the sources of institutional contradictions?

According to Seo and Creed (2002), there are four different sources of institutional contradiction that emerge out of the processes of institutionalization and that can trigger institutional change. The first is “legitimacy that undermines functional efficiency”. With this source, Seo and Creed (2002) refer to a prominent discussion in institutional theory about the importance of the technical environment relative to the institutional environment. They argue that the technical environment can conflict with institutional prescriptions; this is the case when institutionally prescribed structures and processes are not the most efficient solutions for an organization. They argue that such legitimate structures cannot be sustained in the long run because they can become suboptimal solution that exerts pressure on institutional arrangements. The second is “adaptation that undermines adaptability”. Here, Seo and Creed (2002) refer to situations in which organizations strongly comply with given institutions. Such compliance leads to a lock-in. Consequent adherence to a particular institution and resulting isomorphism diminishes the responsiveness to changes in the external environment. When actors lose adaptability to change in the external environment, conflicts can emerge and increase over time. For example, path dependent developments can lead to suboptimal outcomes because path dependency impedes change towards more optimal outcomes, which is also known as a lock-in situation. The third source is “intrainstitutional conformity that creates interinstitutional incompatibilities”. A larger society is composed of various locations where institutions are reproduced independently from each other. Nevertheless, actors from different locations can still interact with each other. When assuming the existence of various institutions in one organizational field, complete compliance with one particular institution might contradict another institution that prescribes a different behavior. Such tensions create institutional contradictions, which can lead to change due to extant inconsistencies. Lastly, Seo and Creed (2002) present “isomorphism that conflicts with divergent interests”. This means that institutional contradictions can emerge out of the tension between the interest of actors and extant institutions. This idea is well represented in DiMaggio’s (1988) notion of organizational fields as battlefields. Usually, the institution that is advocated by most powerful actors prevails. Consequently, when actors benefit from institutions, they intend to maintain them. However, in the case of divergent interests, a political struggle for the dominant institution emerges between incumbents and challengers (Hensmans, 2003). In such cases, challengers are motivated as they note that their interest is not represented by prevailing institutions.

What is the role of human action?

Seo and Creed (2002) argue that human action, which originates from institutional contradictions, creates change. Other than agency, such praxis does not imply strategic foresight. The authors present two complementary concepts when referring to actors, namely the partially autonomous actor situated in a contradictory social world and the active and artful exploiter of institutional contradictions. These concepts show that institutional change is not a predetermined process. Instead, actors can purposefully act upon institutional contradictions and let change evolve. First, partially autonomous actors situated in a contradictory social world are not cultural dopes (Garfinkel, 1967) who are entirely driven by institutions and show no kind of reflexivity or self-consciousness. However, a prerequisite for reflexivity or self-consciousness is the appearance of institutional contradictions. Such contradictions can turn passive reproducers of social behavior into reflective actors. Second, in order to address the question how change is initiated by actors, Seo and Creed (2002) introduce actors whom they describe as active and artful exploiters of institutional contradictions. Merely being aware of different institutions or institutional incompatibilities is not enough for enacting change, although it is a necessary condition. Actors have to mobilize resources and other actors so that change becomes substantial. Alternative institutional prescriptions must be offered before the change process can start. Actors purposefully choose existing alternatives that better suit their interests and needs.

CONTEXT AND METHOD[2]

Rationale

The present study emerged out of ongoing research in the German accounting industry, which at that point had witnessed major institutional changes within a rather short period of time (see Table 1) despite being highly institutionalized and being considered a mature field (Greenwood & Suddaby, 2006; Scott, 2001). These changes began during a period of accounting scandals including the Enron case and the breakup of Arthur Anderson in 2002. In the middle of the decade, various laws were issued in order to harmonize national laws within Europe such as TransPuG[3] or BilReG[4]. Besides that, the binding introduction of international accounting standards and the harmonization of laws within the European Union were most important in the accounting industry. The financial crisis, which started in 2007,

[2] Regarding formal structure, this section closely follows Greenwood and Suddaby (2006) because of many commonalities in the research design.
[3] TransPuG (Transparenz- und Publizitätsgesetz), translation: Law for Transparency and Publicity
[4] BilReG (Bilanzrechtsreformgesetz), translation: Law for the Reform of Financial Statements

also affected this organizational field. The public wondered how banks, which received clean audit reports from major accounting firms, went bankrupt shortly afterwards. In the aftermath of and as a reaction to the financial crisis, the European Commission published the Green Paper on Auditing in 2010 with suggestions to radically change the entire accounting industry. This publication triggered major discussions about the future of this industry, which are still ongoing.

From the perspective of institutional theory, the question emerges how such change can occur although there is such a strong institutional context represented by the long tradition of the accounting profession in Germany, professionalism, and the strong regulation of the profession. In order to answer the question of why highly institutionalized fields change, the insights from Seo and Creed's (2002) dialectical perspective on institutional change will be applied to this case. In doing so, institutional change will be explained based on institutional contradictions, which emerge as a by-product of the processes of institutionalization. This perspective avoids an overemphasis on agency that is more consistent with institutional theory as proposed by DiMaggio and Powell (1983) and Meyer and Rowan (1977). At the same time, this approach offers an endogenous explanation of institutional change other than referring to exogenous shocks or presumed institutional contradictions. For this purpose, the case study method is most appropriate (Eisenhardt, 1989; Yin, 2003) because it investigates the process of change in its natural context. Therefore, it follows the structure of other research articles of longitudinal institutional change (Reihlen & Wenzlaff, 2012; Scott, Ruef, Mendel, & Caronna, 2000).

Year	Event
2000	Flowtex scandal involving KPMG as the auditor in charge due to delusion on the part of Flowtex.
2000	Based on a guideline from the European Union the law pertaining to limited liability partnerships (KapCoRiLiG), is passed by which incorporated companies and limited liability corporations are treated equally (with some minor exceptions).
2001	Installation of external quality control (peer review), which follows the American model.
2001	Bankgesellschaft Berlin AG scandal involving PWC and KPMG due to publishing wrong information.
2001	Breakdown of Enron, which was audited by Arthur Anderson. In turn, Arthur Andersen lost its status as certified public accountant after a verdict. The German Division of Arthur Andersen went to Ernst & Young in Germany.
2002	The Law for Transparency and Publicity (TransPuG) was passed in order to assure more transparency regarding financial statements and to align national law with European law.
2002	Comroad scandal, in which Comroad published wrong revenues. As KPMG was hindered in auditing this firm, KMPG laid down its mandate.
2002	WorldCom scandal involving Arthur Andersen, which audited statements from respective years, in which fraud on the part of WorldCom was reported.
2002	On July 30th, 2002 the Sarbanes Oxley Act, which was the major legal response to previous accounting scandals, came in to effect in the USA.
2003	Health South scandal involving Ernst & Young. Health South was accused for overstating earnings.
2004	The law for financial statement reform (BilReG) was passed. A major part of it was the binding introduction of the IFRS for publicly held companies.
2004	The Law for Controlling Financial statements (BilKoG) established a two staged control mechanism for financial statements.
2004	The Law for Supervising Auditors (APAG) establishes a supervising commission over the accounting industry, which is independent from the profession, following the model of the USA.
2005	Binding introduction of the IFRS for publicly held companies.
2006	WPK and IDW develop suggestion for quality assurance in the accounting profession.
2008	Breakdown of Lehman Brothers, in which Ernst & Young was accused of having assisted in disguising the true financial situation.
2009	The Law for Modernization of Financial Statements (BilMoG) aims at increasing the competitiveness of German accounting standards vis-à-vis other international accounting standards.
2010	Green Paper on auditing was issued by the European Commission in response to the financial crisis. Statements from stakeholders within the field of accounting were invited.
2012/2013	Consultation and voting on modification of the Green Paper in the Committees for Legal and Economic Affairs of the European Parliament

Table 1: Chronological time line of major events that had an impact on the German accounting industry based on the data analysis

Source of data

Scope. This empirical investigation is based on two sources of data, namely archival data and interviews, whose scope is limited by geographical, temporal, and contextual criteria. The German accounting industry as an organizational field served as the source for the collected data. The data collection covered the period of time from 2000 to 2012 during which major events such as the Enron scandal, the introduction of international accounting standards, the financial crisis, and the Green Paper on auditing took place. Notably, some of these events did not originate in Germany. Nevertheless, they had a major impact on the German accounting industry; therefore, they were included in the analysis. The inquiry focuses on institutions, institutional change, field member behavior, and their interaction. This case is particularly interesting because despite the high degree of institutionalization and maturity of this organizational field, continuous unrest in the field makes the German accounting industry an interesting place for studying institutional change. These strong institutions are represented by a long history of the German accounting industry, professionalism, professional bodies, and a multitude of laws that regulate accounting practices in Germany.

Archival data. In addition to the interviews, the analysis uses newspaper articles that were published from January 2000 to July 2012. In order to avoid the bias of one particular newspaper, different newspapers with different focuses were consulted: first, the *Frankfurter Allgemeine Zeitung*, one of the leading general and daily newspapers in Germany that provides background information and commentaries on ongoing debates; second, the daily newspaper *Handelsblatt*, one of the major business newspapers, that concentrates on business news; and third, the *Wirtschaftswoche*, a popular business magazine, that publishes summaries of ongoing events on a weekly basis. This variety of three different newspapers offers a powerful basis for the analysis. Events were cross validated, and each source provided a new perspective that complemented the others. In order to select the newspaper articles, the search term "*Wirtschaftsprüfer*"[5] without any restrictions was used. For the analysis, it was particularly helpful to have publishing dates of the newspaper articles because this assured the correct chronology of events. In addition to the interviews, the newspaper articles often provided additional contextual information. The information offered by this archival data appeared more neutral compared to the interviews because newspaper publishers and journalists are not members of the organizational field of the German accounting firm. The archival data from newspaper articles altogether comprised 1897 pages. The analysis of this material was supplemented by an equally important analysis of additional sources such as comments on the Green Paper on auditing, websites of members of the organizational field, annual reports of accounting firms, *Wirtschaftprüferkammer*[6] reports, and internal reports if available.

Interviewees. Overall, ten different interviewees were consulted. One professor for accounting, two representatives of leading professional associations, and seven practitioners were interviewed, ranging from directors to auditors with at least three years of industry affiliation. Interviewees with different backgrounds were included in the analysis, following the idea of theoretical sampling proposed by Glaser and Strauss (1967). This allowed for new insights while simultaneously verifying information given by preceding interviewees. This selection of interviewees offered a comprehensive picture because all respondents offered different perspectives on changes in the accounting industry according to their positions. Different but complementary responses offered a sound picture of the changing developments in the German accounting industry. The lengths of the interviews ranged from 31 to 114 minutes. If permitted by the interviewee, interviews were recorded and then transcribed. Nine out of ten interviews were held by one interviewer and one interview was conducted by two interviewers.

[5] Translation: Auditor or accountant
[6] Translation: Chamber for Auditing

Data collection and analysis

The data was collected in four steps, going back and forth between archival data and interviews. First, archival data from the *Frankfurter Allgemeine Zeitung* was analyzed; these newspaper articles were available from a digital archive. Second, six interviews were held. Third, newspaper articles from the *Handelsblatt* and *Wirtschaftswoche* were analyzed, which were accessed via a digital archive as well. Lastly, four additional interviews were held. This approach appeared most suitable as it allowed building on preliminary findings gained in the process of analysis. Also, early findings could be verified or rejected in the course of the analysis. For example, when institutional changes in the German accounting industry were reported during the first stage of the analysis, as the archival data from the *Frankfurter Allgemeine Zeitung* revealed, these insights were compared with findings in later stages. The analysis took place simultaneously to the data collection until theoretical saturation had been reached, which is common for such a methodology (Glaser & Strauss, 1967). The data analysis followed Strauss and Corbin (1998), featuring the three steps of open coding, axial coding and selective coding. The analysis was conducted in Atlas.ti using 206 codes and 19 families. The overall data described major events in the German accounting industry including their antecedents and consequences. Both archival data and interviews made references to the behavior of members of the organizational field vis-à-vis these events, institutional pressures, and the high degree of institutionalization of the organizational field. In accordance with Yin (2003), this study builds on existing theory with the intention to gain further insights into endogenous institutional change.

In the process of selective coding the author used his expertise about the German accounting industry and the insights gained from the analysis to make sense of the data and to develop a justifiable narrative (Strauss & Corbin, 1998). For example, competition for market share and the ongoing publication of corporate growth and size represent an institution proposing a stronger market orientation in the organizational field. The narrative was developed iteratively and reciprocally, going back and forth between data and theory (Smets et al., 2012 op. cit. Locke, 2001). In this process, the data was interpreted based on the author's prior knowledge (Strauss & Corbin, 1998).

The analysis identifies three major patterns of institutional change corresponding to Seo and Creed (2002, p. 226), namely "intrainstitutional conformity that creates interinstitutional incompatibilities", "legitimacy that undermined functional efficiency", and "isomorphism that conflict with divergent interest". Table 2 provides a summary of the three patterns of institutional change including the sources of data and illustrations from the data.

Other than the previous description might suggest, the data collection as well as the data analysis was not designed as a linear process before its execution. Instead, the fieldwork was rather opportunistic regarding the data collection. Data was included when it seemed valuable for the study and when it was accessible to the researcher. Throughout the process of research, preliminary findings were continuously presented to and discussed with academics as well as members of the accounting industry.

Source of institutional contradiction	Data Source	Illustration
Intrainstitutional conformity that creates interinstitutional incompatibilities	Interviews	"Well, this kind of competition pushes everything into the wrong direction. Let me say, low accounting fees … might be beneficial for the clients. But the accounting industry suffers from that."
	Archival data	"Competition, which is in particular observable among the leading accounting firms, and the ruinous price war can lead to a decline in audit quality."
Legitimacy that undermined functional efficiency	Interviews	"You cannot audit against the market development. What are you supposed to do as an auditor? I cannot audit against lower market prices. If have a fair value of 100 on December 31st, I testify 100. And when this value is 50 on March 31st then is testify 50. If you have assets which are traded in whatever markets, then everybody knows that you have price risks."
	Archival data	"The term fair value suggests a fair or generally applicable value. But this term cannot keep this promise because the fair value according to the IFRS is neither transparent nor market oriented. The variety of possibilities in determining the fair value obviously shows leeway for politics in the IFRS."
Isomorphism that conflict with divergent interest	Interviews	"The problem is the management. Who is causing an accounting scandal? These are irregularities in first place in the company. If you consider the public discussion there is something wrong. There is an accounting scandal, it is made public, and then the accounting firm is affronted. But have you ever experienced that somebody says that these managers are responsible, that their names were made public, and that they are criminals?"
	Archival data	"Barnier's proposal does not address the real problem. The real problem is located in London and is called IASB and is composed of well constituted people from the industry, banks, accounting firms, and soon headed by the former politician … The IASB determines the accounting standards for about 100 counties, in which the IFRS is binding by the law."

Table 2: Overview of sources of institutional contradiction, data source, and illustrative piece of data

INSTITUTIONAL CHANGE IN THE GERMAN ACCOUNTING INDUSTRY FROM 2000 TO 2012

German accounting industry

Function of the accounting industry. Despite being private organizations, accounting firms hold a quasi-public function (Pany & Reckers, 1983); they audit financial information and assure their technical correctness. This service is particularly important for publically traded businesses because a clean audit indicates trustworthy data, which is necessary in order to make investment decisions. Consequently, incorrect audits would decrease trust in capital markets and lead to a shortage in the supply of capital, thereby jeopardizing the smooth functioning of the economy (Farber, 2005).

Actors. A wide variety of actors form the organizational field of the German accounting industry, with accounting firms forming the core of the industry. Among the accounting firms, there is a great diversity. The major players of this industry before 2002 were PWC, KPMG, Ernst & Young, Arthur Andersen, and Deloitte Touche Tohmatsu (Deloitte), also referred to as the Big Five. They have reached this dominant market position not only through organic growth but also through mergers. After the Enron scandal in 2002, Arthur Andersen merged with Ernst & Young in Germany while the name Arthur Anderson practically disappeared afterwards, reducing the Big Five to the Big Four. Despite the de facto oligopoly structure in the accounting industry, all these mergers were approved by antitrust agencies. In addition to this oligopoly, there are medium sized accounting firms and many small practitioners in the organizational field. In general, harsh competition describes the overall relationships between accounting firms. All accounting firms are organized in three major professional associations, which represent the entire industry or at least a significant part. The WPK is in charge of the auditor training and assures compliance with accounting standards. Another important task is the supervision of auditing practice and the prosecution of malpractice with the force of the law. For auditors, membership in this organization is compulsory. The *Institut der Wirtschaftsprüfer*[7] (IDW) is a volunteer association of auditors. Its task is more to consult politicians in legal initiatives as well as to identify and formulate shared interpretations of given laws within the accounting industry. Since 2005, another professional association exists called WP.net, which represents the interest of small accounting firms because small accounting firms considered themselves underrepresented in the IDW. In addition to these three professional associations, public authorities also play an important role in the accounting industry. Various accounting scandals had led to decreasing trust in the accounting industry and capital markets among investors. In order to reverse this development, the European Commission and the German Federal Government issued various guidelines and laws, respectively, to shape the accounting industry. Due to the international interdependencies of the German economy, actors from other jurisdictions have also played an important role. For example, the American accounting industry, the Security and Exchange Commission (SEC), and the US Government, which passed the Sarbanes Oxley Act in 2002, have a substantial impact on the German accounting industry. Moreover, the privately organized International Accounting Standard Board in London designed the accounting standards for Europe, including Germany.

Recent historical development. The development from 2000 to 2012 was marked by three major phases (see chart 1). First, a period of accounting scandals defined the period from 2000 to 2003, which culminated in the Enron scandal and the subsequent liquidation of Arthur Andersen. Second, the period from 2004 to 2008 was marked by stronger internationalization tendencies within the German accounting industry. The hallmark development at that time was the binding introduction of the International Financial Reporting Standards (IFRS) by 2005. Third, the financial crisis, which reached the German accounting industry in 2009, led to the a frank discussion revolving around the expectation gap and

[7] Translation: Institute of Auditors

culminated in the Green Paper on auditing issued by the European Commission, which proposed nothing less than a radical change within the European accounting industry.

Overall, the question remains: How could such institutional change emerge? The following sections try to provide an answer to this question, which includes an explanation of the origin of change without placing too much emphasis on voluntaristic agency. In doing so, the study draws on both Benson (1977) and Seo and Creed (2002) who proposed a dialectical perspective on institutional change.

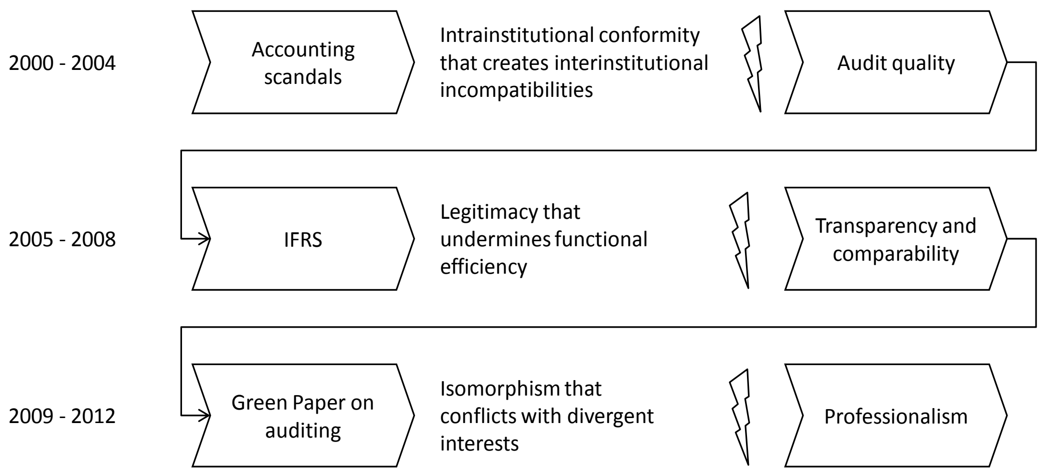

Chart 1: Institutional contradictions and change in the German accounting industry from 2000 to 2012 based on Seo and Creed’s (2002) dialectical perspective

2000 to 2003: Accounting scandals reported!

Accounting scandals and mistrust

In the beginning of the millennium, an increasing market orientation could be observed in the accounting industry (Zeff, 2003). Through the provision of non-audit services accounting firms received additional economic benefits (Simunic, 1984). In order to sell highly profitable consulting services, accounting firms started offering their accounting services initially at lower prices with the intention to up-sell consulting services later on (Johnson, 2001; Lee & Gu, 1998). The audit became more and more a standardized product, a so-called commodity (Macey & Sale, 2003), and decreasing audit fees exacerbated price competition. The public was concerned about this development because low audit fees were associated with low audit quality, as stated by a professor for accounting and the press:

Well, this kind of competition pushes everything into the wrong direction. Let me say, low accounting fees ... might be beneficial for the clients. But the accounting industry suffers from that. (Professor for accounting)

Competition, which is in particular observable among the leading accounting firms, and the ruinous price war can lead to a decline in audit quality. (Frankfurter Allgemeine Zeitung, 2000)

While the competition itself did not possess a negative connotation, there were concerns that it could cause audit quality to decrease in the accounting industry, so that audits would not provide the necessary information. Concerns were also raised about non-audit services as they might impair audit quality as well. From the perspective of large accounting firms, however, auditees became customers (O'Conner, 2002), and accordingly, they did not want to lose these customers by stating unfavorable concerns in their audits. In fact, there were various accounting scandals in the beginning of the decade where accounting firms did not impede or uncover malpractice in their client companies. For example, in Germany, irregularities were reported from Holzmann, FlowTex, and the Bankengesellschaft Berlin. However, the scandals involving Enron and WorldCom in the USA were the most prominent ones. Particularly important was the case of Enron in the USA at the end of 2002, which led to the breakdown of Enron and the liquidation of Arthur Andersen as the accounting firm in charge. Although these scandals happened within US American jurisdiction, its consequences also impacted the German accounting industry, as one interviewee commented:

Possibly one of the most important events in recent history was the Enron scandal, which led to the breakdown of Arthur Andersen. This had various effects. Trust in the accounting industry decreased in general. Then, several bills were passed. In the first place, it is worthwhile to mention the Sarbanes Oxley Act, which put diverse restrictions on accounting firms, in particular regarding the separation of auditing and consulting. This was also done in Europe, where guidelines from the European Union were translated into national law ... so that the same client was not allowed to be audited and consulted at the same time. (Auditor from a Big Four accounting firm)

In response to the accounting scandals and the breakdowns of client companies, the question was raised how auditors were able to give clean audit reports to companies that were obviously facing some financial problems. In response, the accounting industry argued that their task was to check financial statements only for technical correctness; however, the public inferred that a clean audit report confirmed a company's sound financial constitution (Cullinan, 2004). A professor for accounting commented on these diverting expectations:

But you cannot expect – and this is the expectation gap – that accounting firms can prevent accounting scandals or fraud from happening. This is not their task. ... Moreover, I think that the accounting industry would not be able to accomplish this. (Professor for accounting)

However, problems arose when auditors covered instances of malpractice, of which Arthur Andersen was accused in the case of Enron (Culpan & Trussel, 2005). Consequently, politicians saw themselves in the need to improve audit quality and restore trust in capital markets, leading to a discussion of various reforms within the accounting industry. Suggestions ranged from assurance of auditor independence through separation of auditing and consulting and new forms of auditor supervision such as a peer review to the need for global accounting standards. The discussion about the separation of accounting and consulting was particularly prominent since regulators argued that consulting would compromise auditing. In order to anticipate restrictive regulations, the leading accounting firms apart from Deloitte sold their consulting divisions before such bills were passed. A member of a medium sized accounting firm critically commented on this behavior as follows:

All the consequences out of Enron were overreactions. There was no need that Arthur Andersen had to disappear from the market. The public recognized that later on. Let's consider the Big Four and the separation from their consulting divisions. This was not necessary either. Possibly, it was a kind of anticipative obedience. (Auditor from a medium sized accounting firms)

This position was supported by various studies that could not find any evidence that non-audit services had compromised auditor independence and audit quality (Ashbaugh, LaFond, & Mayhew, 2003; DeFond, Raghunandan, & Subramanyam, 2002; Wines, 1994). This, however, was contested by studies that found at least some evidence that non-audit services can compromise auditors (Frankel, Johnson, & Nelson, 2002; Kinney, Palmrose, & Scholz, 2004), while others even went a step further by arguing that auditor independence in general is basically impossible (Bazerman, Morgan, & Loewenstein, 1997; O'Conner, 2002). A second important consequence of the recurring scandals was the call for additional supervision of the accounting industry in order to regain trust in public audits. Although the WPK, whose membership consisted of accounting firms, was already in charge of supervising the accounting industry, the concept of the peer review, in which accounting firms examined each other, was also introduced in order to maintain professional independence (Fogarty, 1996) and substantially increase audit quality (Hilary & Lennox, 2005) as outlined by the WPK:

The examination of published audits is part of the general supervision on the part of the WPK. It is executed ... through other members of the profession. ... The intention is to assure a high audit quality and to have a preemptive influence. (WPK, 1999-2002)

In doing so, Germany followed the US model. However, the possibly most far reaching and third measure to improve audit quality and restore trust in capital markets was the introduction of international accounting standards. At first, this was considered to be a response to increasing globalization. However, new accounting standards were also expected to yield better and more reliable information. Because the United States Generally Accepted Accounting Principles (US GAAP) had suffered in the aftermath of the Enron scandal, the European International Accounting Standards[8] (IAS) gained widespread acceptance in the international community, which made it easier to roll them out on an international basis, as argued by the press:

The case of Enron has shown that the US GAAP are not suitable as a role model for international accounting standards because they do not meet important requirements. (Frankfurter Allgemeine Zeitung, 2002)

[8] The IAS were called IFRS later on. Both terms are often used synonymously.

The Europeans welcome the Enron disaster. The International Accounting Standards Board (IASB) seeks to establish IAS as the global accounting standard. About 7000 publically traded companies have to do their accounting according to IAS. So far only 275 companies do so, while about 300 apply US GAAP. There could be one good thing about the crisis as the European Commission hopes: The Americans could accept that their accounting standards are not perfect. Now there could be at least the "chance that financial reports according to IAS could be accepted at the American stock exchanges in the future", which is the hope of Bernard Pellens, experts for financial statements at the Ruhruniversität Bochum. (Handelsblatt, 2002)

In another article in 2002, the *Handelsblatt* cited a comment by David Tweedie, the IASB president at that time:

The chance that the Americans and the Europeans agree on accounting standards was never bigger than today. Enron, WorldCom, and Tyco have shocked investors. The Americans have lost the arrogance that their standards would be the one and only for everybody else. This is a good premise for the task of David Tweedie: "Markets demand transparency. This is our license for strong measures." (Handelsblatt, 2002)

"Intrainstitutional conformity that creates interinstitutional incompatibilities"

A stronger market orientation guided both the accounting industry and larger accounting firms (Zeff, 2003). The establishment of non-audit services on the part of accounting firms was related to the generation of additional revenues in order to gain additional market power in a highly competitive industry. At the same time, various accounting scandals were reported that portrayed the accounting industry as seeking dominant market orientation and lacking regulations. Trust in audits decreased, threatening the smooth functioning of capital markets. At that point, intrainstitutional conformity started to create interinstitutional incompatibilities (Seo & Creed, 2002) because a stronger market orientation diminished trust in the accounting industry and put audit quality at stake. This was the starting point of a change process entailing new regulations.

This change process and the development of new regulations were still influenced by professionalism and professional freedom, which was strongly associated with self-regulation and self-supervision of the profession (Cooper et al., 1996). This is highlighted by the introduction of peer reviews as a form of external supervision. According to this peer review regulation, accounting firms were obliged to review each other in order to detect malpractice. In doing so, the control remained within the accounting industry. In this regard, the industry remained independent from other parties. Despite being a public body, the WPK, which was in charge of this quality control, is composed of practitioners from the accounting industry. This professionalism and professional freedom could be observed in the development of international accounting standards, which were developed by a privately organized committee including representatives from the accounting industry. While the European governments encouraged and supported the development of new accounting standards, the accounting profession was still entitled to work on this task on its own.

2004 to 2008: Ramification of new accounting standards

IFRS, comparability, and transparency

The aftermath of previous accounting scandals such as Enron or WorldCom was dominated by a discussion on how to regulate the accounting industry in order to impede and uncover future crises in time. During these deliberations, the accounting standards played a major role. Although the US GAAP had been celebrated as being most reliable and transparent, providing adequate information for investors, they lost their reputation due to various accounting scandals in the USA. The Europeans seized this opportunity to introduce their own accounting standards, the IFRS. The situation at that time fostered this development because the major alternative such as the US GAAP forfeited legitimacy and popularity, thus creating a space for an alternative. Taking advantage of this momentum, the European Commission decided to make the usage of the IFRS compulsory for companies as reported by the *Frankfurter Allgemeine Zeitung*:

The European Commission obliges every company, which is dependent on capital markets, to prepare their financial statements in accordance with the IFRS by 2005. ... By 2005, the IFRS will be established as the one and only accounting standard in Europe. It will promote trust in financial statements and reduce investors' risks and thus capital costs (Frankfurter Allgemeine Zeitung, 2003).

In contrast to the IFRS, previously used accounting standards in Germany were designed to protect creditors. Critics of these standards noted that these accounting standards would not provide information that was good enough for investor decision-making and that they drew an unrealistic picture of the financial situation because assets would tend to be undervalued. Instead, the IFRS resembled Anglo-American standards in being more investor friendly (Ramanna, 2011). Compared to the previously used German accounting standards, the IFRS were celebrated to provide better information for investment decisions because they would draw a more realistic picture of a company's financial situation (Daske, Hail, Leuz, & Verdi, 2008). Consequently, the IFRS appealed more to the international capital markets than the previously used German accounting standards. Overall, the intention of introducing the IFRS was the homogenization of accounting standards within Europe in order to increase transparency and comparability of audits and financial information across European member states. Both the *Frankfurter Allgemeine Zeitung* and the *Handelsblatt* reported on these efforts and developments:

The intention is to have comparable financial statements across Europe and to increase the transparency of financial statements. Standardized rules for accounting will facilitate receiving capital by providing better information to investors. Moreover, companies can more easily receive money from international capital markets. ... The IFRS draw an economically correct image of assets, revenues, and the financial situation, other than the more conservative German Law of Commerce. This often improves the situation of proprietary capital. Moreover, the introduction of the IFRS offers to review accounting practices in order to increase the effectiveness and efficiency. (Frankfurter Allgemeine Zeitung, 2003)

The IFRS ... represent the Anglo-Saxon idea of investor protection rather than the German idea of creditor protection. Financial statements according to the IFRS should draw a more realistic picture of the financial situation than the German HGB. (Handelsblatt, 2005)

However, already before the binding introduction of the IFRS, the Anglo-Saxon idea of investor protection was criticized, seemingly anticipating the next upcoming crisis. The IFRS followed the approach of fair value accounting (Botzem & Quack, 2009). Consequently, the evaluation of tangible and intangible assets followed a stronger market orientation. However, the first problem was that the majority of assets did not have market prices. Consequently, these values were subject to assumptions and estimation, thereby becoming less reliable. The second problem was that market prices can turn out to be rather volatile so that the value of particular assets can vary dramatically within few days, a fact that both the *Frankfurter Allgemeine Zeitung* and the *Handelsblatt* commented on:

The IFRS does not allow to regularly depreciate the goodwill. Instead, it must be reevaluated on a yearly basis. In doing so, a huge part of depreciations falls away, for which profits will increase tremendously as analysts expect. (Handelsblatt, 2004)

The term "fair value" suggests a fair or generally applicable value. But this term cannot keep this promise because the fair value according to the IFRS is neither transparent nor market oriented. The variety of possibilities in determining the fair value obviously shows the leeway for politics in the IFRS. (Frankfurter Allgemeine Zeitung, 2007)

Although these discussions emerged before the IFRS were introduced, they did not have any substantial impact on these new accounting standards. Another problem emerged around the complexity of the new standards (Jermakowicz & Gornik-Tomaszewski, 2006). In order to ease the problems regarding the fair value, assure market orientation, and meet particular national requirements, new rules were continuously issued to specify and extend the IFRS. However, this jeopardized comparability and transparency, the original ideas of the IFRS. It became difficult even for financial experts to fully master and understand these new accounting standards, as reported by the *Wirtschaftswoche* on two occasions:

Analysts as well as companies surrender to the massive regulations. Despite thousands of rules, financial statements have not become more transparent. (Wirtschaftswoche, 2008)

The IASB has published thousands of pages with new specific regulations in order to provide exact and market oriented information to investors. But meanwhile, nobody else other than the board members can understand them. This has not really helped investors, companies, and accounting firms. (Wirtschaftswoche, 2010)

This lack of comprehension caused a dilemma. The IFRS project was set off to provide transparent and reliable information to investors, but it turned out that the IFRS had a hard time in keeping this promise. The complex regulations turned out to be impractical for investors and extremely difficult for accounting firms to use for auditing. Problems of fair value accounting became worse during the economic downturn in 2007 (Lhaopadchan, 2010; Whittington, 2008; Wines, Dagwell, & Windsor, 2007) when market prices started to fall. The IFRS seemed to be inadequate tool for periods of economic downturn because they worsened the crisis as the concept of the fair value exacerbated the economic downturn. Since assets were continuously reevaluated while market prices fell, companies lost a tremendous value of their financial property. This problem was also a subject widely discussed in the press:

Because of the financial crisis, the IFRS are subject to public discussion. The fair value determination of financial instruments turned out to foster the crisis, particularly because the fair value has reduced the proprietary capital of banks and thus their possibilities to offer loans. (Frankfurter Allgemeine Zeitung, 2009)

As a result of the financial crisis, the European Commission sought to stabilize the financial industry and was looking for adequate measures to do so. The accounting industry was accused for giving clean audit reports to companies that went into economic trouble despite their positive audit reports. The European Commission argued that accounting firms could have foreseen the crisis. As a result, the Commissioner for Internal Markets and Service, Michel Barnier, issued the Green Paper on auditing, in which he proposed far reaching regulations for the accounting industry in order to prevent future crises, something that the previously introduced IFRS did not assure:

The measures adopted both in Europe and elsewhere in the direct aftermath of the financial crisis have focused on the urgent need to stabilize the financial system. While the role played by banks, hedge funds, rating agencies, supervisors or central banks has been questioned and analyzed in depth in many instances, limited attention has been given so far to how the audit function could be enhanced in order to contribute to increased financial stability. The fact that numerous banks revealed huge losses from 2007 to 2009 on the positions they had held both on and off balance sheet raises not only the question of how auditors could give clean audit reports to their clients for those periods but also about the suitability and adequacy of the current legislative framework. It seems thus appropriate that both the role of the audit as well as the scope of audit are further discussed and scrutinized in the general context of financial market regulatory reform. (Green Paper on auditing)

"Legitimacy that undermines functional efficiency"

The introduction of the IFRS dominated the entire accounting industry, setting the agenda for the period between the major accounting scandals in the beginning of the decade and the financial crisis starting in 2007. The political project of developing the IFRS was designed to assure transparency and comparability across Europe to impede future scandals and crises. Politicians and investors expected to receive better information on the financial situation of publically held businesses, thereby seeing the trust in the capital markets restored, something that other accounting standards could not achieve. Consequently, the IFRS became compulsory by law for publically traded companies; accordingly, accounting firms started to audit in compliance with the IFRS. Even though these standards were highly legitimate, welcomed by society, and prescribed by the law, they ultimately undermined functional efficiency (Seo & Creed, 2002). This became clear when the subsequent financial crises could not be prevented because the IFRS ultimately did not provide the needed information.

Because of the fair value concept inherent to the IFRS, financial statements became as volatile and unforeseeable as the market itself (Boyer, 2007). In a recession, the assets listed in reports based on the IFRS would lose value as market prices decreased. Recently audited firms, whose audit reports did not mention any concerns, broke down.

Again, the question emerged why auditors could not have foreseen this development that had led to another economic crisis and motivated the publication of the Green Paper on auditing in 2010. In order to impede future crises and restore functional efficiency, the Green Paper suggested various regulations. If implemented, they would cause substantial changes in the market structure and the business model of many accounting firms. This set the stage for the next phase of institutional change in the German accounting industry.

2009 to 2012: Financial crisis

Professionalism and the Green Paper on auditing

Since the beginning of the financial crisis in 2007 and in the years thereafter, politicians were eager to redesign regulations in order to end the ongoing crises and impede future ones. As a result, the regulating framework for the bank industry, rating agencies, and financial supervision were reformed. At the time, it seemed that the financial crisis had passed the accounting industry without substantial consequences, as stated by the *Frankfurter Allgemeine Zeitung*:

> *In contrast to banks, financial supervision, and rating agencies – and in contrast to the crisis in the beginning of the decade – nobody critically approached the accounting industry for having failed in the last two years. There were discussions on whether the IFRS and the fair value concept might have exacerbated the financial crisis. But here, the accounting industry was not the subject of the criticism, but rather the author of the new accounting standards. (Frankfurter Allgemeine Zeitung, 2010)*

This changed when the European Commission asked whether the accounting industry should redefine its task in light of the financial crisis. The accounting industry was criticized for giving clean audit reports to companies that started to be in economic trouble shortly thereafter. Consequently, the European Commissioner for Internal Markets and Services, Michel Barnier, issued the Green Paper on auditing. This triggered one of the major discussions in the German accounting industry. Major suggestions articulated in the Green Paper ranged from auditor rotation, joint audits, pure audit firms, and European supervision of the accounting industry to the appointment of accounting firms, auditor remuneration, and duration of the mandate determined by a public regulator. These measures were developed in order to create an institutional arrangement that would restore functional efficiency in the accounting industry, a fact that was heavily commented on by the German press:

In October [2010], the European Commission will issue a Green Paper, which states new requirements for the accounting industry. Insiders expect that these suggestions will turn the entire accounting industry upside-down. (Handelsblatt, 2010)

According to Barnier, the accounting industry has also contributed to the financial crisis. The huge losses of banks between 2007 and 2009 led to the question how accounting firms could audit these banks without stating any concerns. This is what he asks in the Green Paper on auditing. Those who are familiar with the legal initiatives from Brussels know that if an initiative has reached such a stage in the political process, it is hardly possible to stop it. ... The European Commission basically wants to transform the accounting industry into a legal inspection. Businesses should not choose their accounting firm on their own. An independent and public regulator should appoint the accounting firms, determine the audit fee, and fix the length of the mandate. Large businesses should not be reserved to the Big

Four accounting firms, for which joint audits should assure that also medium sized accounting firms get familiar with auditing large companies. (Frankfurter Allgemeine Zeitung, 2010)

The European Commission invited opinions on this proposal from members of the accounting industry and opened a discussion on the suggested measures. Since the suggestions made in the Green Paper were perceived to be rather extreme, a controversial debate emerged between advocates of the proposed changes and opponents. Varying coalitions within the accounting industry emerged depending on the particular measure suggested in the Green Paper. Generally speaking, big accounting firms, which were affected most by the suggested reform, rejected most measures more frequently and vehemently than smaller accounting firms, many of which expected to benefit from them. The entire debate around the Green Paper also led to a debate about the core value of the auditing as a free profession, which was considered to be at stake due to the strong regulations proposed by the European Commission. These regulations would have not only weakened the main addressees such as the Big Four; the overall market for accounting services would also have been destroyed, as many German newspapers argued:

The Commissioner for Internal Markets and Services, Michel Barnier, goes far beyond reasonable measures, which are partially already implemented in Germany in contrast to other European Countries. He presents a variety of measures, which should be discussed. In this paper there is a lot of explosive material because it reveals the attitude believing that the state could ease any problem by its regulations. For example, Barnier suggests a public agency that assigns accounting firms to businesses and determines the audit fees. A state, which defines accounting services, assigns auditees, and determines audit fees would be the end of any private accounting firm. (Frankfurter Allgemeine Zeitung, 2010)

Although medium sized accounting firms welcome the discussion around the Green Paper, they do not appreciate every suggestion, which is stated in it: Besides the regulation of audit fees, the assignment of mandates is a thorn in the side. "We are professionals. Therefore we reject an assignment through a public agency", says [an auditor]. Also the obligatory auditor rotation is not supported by medium sized accounting firms. "The external rotation does not necessarily lead to more competition. The threat is too big that a Big Four company will get the auditee." (Handelsblatt, 2011)

Continuing the debate on suggested measures, questions were raised about their effectiveness as a regulation (Humphrey, Kausar, Loft, & Woods, 2011). Opponents of the Green Paper in particular demanded to research the impact of the Green Paper's suggested measures on the market because they thought that these measures would not lead to the desired outcome. For example, joint audits are associated with higher audit fees (André, Broye, Pong, & Schatt, 2013) and do not increase audit quality (Bédard, Piot, & Schatt, 2012). Moreover, neither non-audit services (Zhang & Hay, 2013) nor auditor tenure (Blandón & Bosch, 2013) impair auditor independence or audit quality, respectively. These studies provided evidence that the Green Paper would not lead to the desired effect; instead, the IFRS were considered to be the reason for the financial crisis and not malpractice on the part of accounting firms. This argument was supported by the nature of the IFRS offering too much leeway in the valuation of assets, which opened space for extenuation or even manipulation of balance sheets. These suffrages within the accounting standards also led to a decrease of transparency and liability, which was criticized in various newspaper publications, as the citation from the *Handelsblatt* demonstrates, as well as by industry representatives, as the citation of a representative from the Big Four reveals:

Barnier's proposal does not address the real problem. The real problem is located in London and is called IASB and is composed of well constituted people from the industry, banks, accounting firms, and soon headed by the former politician ... The IASB determines the accounting standards for about 100 countries, in which the IFRS is binding by the law. (Wirtschaftswoche, 2010)

You cannot audit against the market development. What are you supposed to do as an auditor? I cannot audit against lower market prices. If I have a fair value of 100 on December 31st, I testify 100. And when this value is 50 on March 31st then I testify 50. If you have assets which are traded in whatever markets, then everybody knows that you have price risks. For sure, what was underestimated in the beginning of the financial crisis was the liquidity risk. Because in the beginning, it was a liquidity crisis. The iron rule that a bank could get liquidity any time was correct up to 2006. Nobody could imagine that this rule was refuted. We are not responsible for the negative development is those companies. And I never met a director, neither from the industry nor from a bank, who wanted to discuss the corporate strategy with me. And I am not responsible for that and I do not give any comments on that. Strategy consultants can do that. Well ... this is the old discussion on the expectation gap. (Auditor from a Big Four accounting firms)

While the IFRS was considered to be one cause of the problem, the opponents of the Green Paper also criticized the management of the audited firms. Their argument was that auditors were usually blamed in case of an accounting scandal even though the management caused the scandal through malpractice. While auditors merely review financial information, managers of the audited firms actually provide the information. Therefore, if managers deliberately provide wrong information, they in fact cause the scandal and auditors should not be held responsible for such malpractice, a sentiment that one auditor from a medium sized company expressed very clearly:

The problem is the management. Who is causing an accounting scandal? These are irregularities in the first place within the company. If you consider the public discussion there is something wrong. There is an accounting scandal, it is made public, and then the accounting firm is affronted. But have you ever experienced that somebody says that these managers are responsible, that their names were made public, and that they are criminals? (Auditor from a medium sized company)

In the course of this discussion, opponents of the Green Paper managed to soften the measures proposed by the European Commission. This was achieved through a stronger focus on factual evidence regarding the impact of suggested measures and credibly proposing alternative reasons for the crisis. But still, it was not possible to entirely inhibit the implementation of the Green Paper's suggested measures. While not being confirmed by the European Parliament, by the summer of 2013, it was most likely that there would be auditor rotation for companies of public interest after 14 years. This period of time can be extended up to 25 years, when such an exception would be allowed by the national legislator. There can be an unlimited provision of non-audit services as long as auditors do not check the work they have consulted before. Joint audits, which were particularly welcomed by smaller accounting firms, would not have been introduced either. Looking back on the discussion on the Green Paper, a member of a Big Four company commented as follows:

Well, I would say that an objectification is taking place. They start thinking about the effects of respective suggestions from the Green Paper. I would say that there were polemic discussions but now I observe an objectification and a real consideration of the impact, which *the suggestions in the Green Paper would have, without any hidden agenda. I would consider this development to be constructive and positive. (Auditor from a Big Four accounting firms)*

"Isomorphism that conflicts with divergent interests"

At first sight, the financial crisis did not seem to have any consequences for the accounting industry. Nobody could credibly prove any shortfalls on the part of accounting firms. However, the European Commission contended that the accounting industry was a part of the financial industry that caused the financial crisis. As one of the most powerful political entities, the European Commission was interested in enduringly stabilize the financial situation in Europe, for which the status quo was not an option. The existing institutional arrangement, which did not prevent the financial crisis, conflicted with the interest of the European Commission (Seo & Creed, 2002). As a result, a political struggle emerged between advocates of existing institutional arrangements and those who demanded new regulations since the existing ones did not suit their interest.

This becomes clear when considering the views of the European Commissioner for Internal Market and Services, Michel Barnier, who argued that the accounting industry contributed its share to the financial crisis and that therefore, reforms in this industry were needed. Consequently, the Green Paper of auditing was issued. Although a controversial discussion regarding the suggested measure followed, which led to softening the proposed measures, a reform of the existing legislation was about to take place.

DISCUSSION AND CONCLUSION

Other than the majority of studies about institutional change in the accounting industry, this study neither applies the concept of exogenous shocks and presumed institutional contradiction nor that of overly voluntaristic agency in order to explain endogenous institutional change. Instead, it offers an endogenous explanation of institutional change that is consistent with institutional theory. In order to provide such an explanation of institutional change in the German accounting industry, the focus of analysis must shift to the processes of institutionalization, which continuously produce contradictions and thus change (Benson, 1977; Seo & Creed, 2002). The dialectical perspective as developed by Seo and Creed (2002) eases two major problems in institutional theory. First, it allows explaining the origin of change. Therefore, there is no need to conceptualize exogenous shocks as given or presume institutional contradictions. Second, it does not overemphasize institutional agency. Instead, human action merely responds to institutional contradictions instead of creating alternative institutions or changing existing ones (Seo & Creed, 2002).

According to the data collected in this study, institutional change in the German accounting industry emerged when "intrainstitutional conformity created interinstitutional incompatibilities", "legitimacy undermined functional efficiency", and "isomorphism conflicted with divergent interest". Such a perspective presupposes that there are competing institutions in the organizational field that can conflict with each other (Clemens & Cook, 1999). At this point, actors come into the play. Actors artfully exploit institutional contradictions, which can lead to institutional change (Seo & Creed, 2002). This understanding of actorship opposes the voluntaristic image of agency, which has been derived from DiMaggio's (1988) seminal paper on "Interest and Agency in Institutional Theory". Instead, the dialectical perspective addresses the question under which circumstances actors create awareness of the institutional setting in which they are embedded.

The implications of this case analysis for institutional theory are threefold. First, it demonstrates that there is endogenous change that happens without institutional entrepreneurs. Although the institutional entrepreneur (DiMaggio, 1988) was designed to explain endogenous institutional change (Battilana, Leca, & Boxenbaum, 2009), this perspective has not been without criticism (Suddaby, 2010). The core assumption of institutional theory is that institutions guide human behavior (Scott, 2001) rather than shaping institutions as desired. Although there are prominent accounting firms in the German accounting industry, there is no particular actor in the field who takes a leading role in the change process. The empirical evidence shows that no particular actor is pioneering institutional change and acts emancipated from institutions. However, there is still institutional change.

Second, this study shows the importance of institutional pluralism (Jarzabkowski, Matthiesen, & Van de Ven, 2009; Kraatz & Block, 2008). Human action is guided by various institutions for which actors have to deal with competing institutional prescriptions (Clemens & Cook, 1999). In the context of the German accounting industry, institutional pluralism has emerged because accounting firms had to satisfy different stakeholders and laws. The existence of different and at least to some degree competing institutional prescriptions entails potential for change as in the conflict between market orientation and audit quality. However, opposing the findings from Kraatz and Block (2008), this study has shown that complete and exclusive adherence to one institution is associated with non-adherence to another institution and therefore increases the tension upon an actor and finally causes change. Consequently, actors would have to balance competing institutions in order not preserve the status quo.

Third, this paper shows how endogenous institutional change can occur in a mature and highly institutionalized field although such fields are more often associated with stable and enduring institutions (Greenwood & Suddaby, 2006; Scott, 2001). To explain such a phenomenon, previous studies often relied on unclear boundaries between adjacent organizational fields (Greenwood & Suddaby, 2006) or new entrants to an organizational field from yet unrelated fields who introduce new logics, thereby creating institutional contradictions as well (Smets et al., 2012; Zietsma & Lawrence, 2010). Notably, this has not been the case in the German accounting industry. Due to the high degree of institutionalization, there are well defined boundaries that impede new actors or new logics to enter the field. Instead, institutional change emerges out of the process of institutionalization and, therefore, seems to be an ongoing and endogenous phenomenon.

It would be interesting to uncover how future change evolves given present institutional contradictions (Friedland & Alford, 1991). The question is to which extent future institutional change can be foreseen and anticipated. Further research could be dedicated to the path dependent development of institutional change although Benson (1977) noted that dialectical change is hardly predictable because change is not deterministic. Still, action is channeled through the context (Dacin, Ventresca, & Beal, 1999), and institutional alternatives are identifiable ex-ante, so that the prediction of such action at least to some degree should be possible.

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