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# **Emergence of legitimacy crisis of the French auditing profession over 2000-2020 period: A critical historical analysis**

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**Abstract:** In this paper, we trace the movements of the French auditing profession over the 2000-2020 period shed light by legitimacy theory. The research methodology is qualitative and based on the review of documentary sources along with a series of 30 semi-structured interviews conducted with auditors, corporate directors and researchers in the audit field. We find that while the French auditing profession resisted and mobilized efforts over the last two decades to adapt to important mutations in the economic and regulatory environments for regaining its autonomy and recognition, it failed to re-invent or to re-construct its legitimation strategies and actions. Through the PACTE law promulgated in May 2019, the French auditors face a serious legitimacy crisis in upholding the public’s trust to maintain social legitimacy and to ensure the survival of auditing as a profession. The failure of the profession to defend its social legitimacy and power may lead to process of audit *deprofessionalization* in France, constrains the auditors to reconstruct their professional project and professionalization trajectory. From an inductive analysis of empirical data, we propose a conceptual framework of production of legitimacy that the auditing profession can adopt to maintain and nourish its social legitimacy and professional trajectory. This paper makes contribution to critical research in auditing and to literature on the sociology of the auditing profession.

**Key words: auditing profession, legitimacy, France, 2000-2020 period**

**\*\*\* Work in progress, please do no quote\*\*\***

## Introduction

By the first speech to the auditing profession during the 30<sup>th</sup> Congress titled “Transform the profession to meet the economic challenges of France”<sup>1</sup> organized by the National Company of Auditors (*Compagnie Nationale des Commissaires aux Comptes: CNCC*) on 21 November 2017, Nicole BELLOUBET, Minister of Justice, announced that a mission would be undertaken by the General Inspection of Finance (*Inspection Générale des Finances: IGF*) to measure the role of auditors in small businesses. The IGF mission achieved in March 2018 (IGF 2018) proposed to raise the audit thresholds to the indicated but not prescribed level of the European directive<sup>2</sup> for small businesses, which were aimed to reduce constraints on small businesses in the framework of the Action Plan for Growth and Transformation of Enterprises (PACTE)<sup>3</sup>.

The proposal sent shock waves through the whole auditing profession in France. Such a proposal would have a considerable systemic effect on the entire auditing profession, by removing at least 80% of its legal activities in commercial entities, corresponding to 153 000 mandates, and 40% of its fees, equivalent to 600 million euros. It would eliminate the professional practice of about 3 500 signatory auditors and nearly 7 000 collaborators throughout the national territory.

In responding to the IGF Report, the CNCC published the “*White paper of the profession of the external auditors to participate in an economy of confidence and security*” in April 2018. Since then, many actions mobilized the auditing professionals to fight against the PACTE law<sup>4</sup> and to re-invent their activities<sup>5</sup>. In 2019, the CNCC launched a national mobilization to undertake important changes. Many directions were proposed to the professionals to re-invent their missions, such as “limited” audit in small entities on voluntary basis or new missions in cyber security. Several questions arise then about the role and the legitimacy of auditors in the service of companies and society.

Despite the considerable interest in the mutation of the socio-economic and auditing environments in France following to corporate scandals in the post-Enron period, there is no literature studying the movements of French auditing profession and regulation over the last two decades in a critical historical perspective<sup>6</sup>. This paper has two objectives. The first one is to achieve a longitudinal study which is aimed to trace the evolution of the auditing profession and regulation in France over

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<sup>1</sup>“*Transformer la profession pour relever les défis économiques de la France*”- 30th Assises of CNCC.

<sup>2</sup>The mandatory audit threshold in France was set at 2 million euros in turnover for simplified share companies (SAS) and 3.1 million euros in turnover for limited liability companies (SARL). For public limited companies (SA), the audit is compulsory from the first euro of turnover. Under the PACTE Law, the government decided to raise these thresholds to the European level to reach 8 million euros in turnover for all companies.

<sup>3</sup>*Plan d'Action pour la Croissance et la Transformation des Entreprises (PACTE)*.

<sup>4</sup>On 17 May 2018, for the second time in the history of France, 4000 auditors (among 13 000 registered auditors) manifested on the street in many cities. One of the slogans was “A profession that doesn’t want to die”.

<sup>5</sup>Report « The Future of the French Auditing Profession » (*L’Avenir de la profession des Commissaires aux Comptes*) edited in June 2018 by a Committee of Experts presided by Patrick DE CAMBOURG, President of the French accounting standards board (*Autorité des Normes Comptables: ANC*), in order to identify new missions for French auditors.

<sup>6</sup>The most recent research on the history of French auditing was published by Casta and Mikol (1999).

the 2000-2020 periods. The second objective is to examine how the movements in auditing affect the legitimacy of the auditing profession. What are the explanatory factors of the evolution of French auditing at each key point of time? Were there legitimacy strategies and actions built up by the auditing profession in France? What brings to this critical loss of power through the PACTE law case? How can auditors regain their legitimacy<sup>7</sup> nowadays?

To answer these questions, we make use of a historical perspective in tracing the evolution of the French auditing profession over the last twenty years. The choice of the 2000-2020 period is explained by significant events impacting the profession during these years. In fact, the early 21<sup>st</sup> century was deeply remarked by the collapse of Enron and WorldCom, leading to the disappearance of Arthur Andersen, one of the biggest international audit firms, and to a negative image of accountants in the post-Enron period (Carnegie and Napier 2010). By inspiring the Sarbanes-Oxley Act promulgated in the USA in 2002, the Law on Financial Security (*Loi sur la Sécurité Financière: LSF*) issued in August 2003 led to the creation, for the first time in the French history, of an independent oversight body of the auditing profession, H3C (*Haut Conseil du Commissariat aux Comptes*). Since then, the French professionals are strongly impacted by the financial crisis in 2008, the international accounting normalization and the reforms of auditing in the EU since 2014, and more recently, the PACTE law in 2018-2019 and the Covid-19 sanitary crisis.

This paper is structured as follows. The first section presents the theoretical perspectives based on legitimacy theory and reviews literature on auditing and the process of production of legitimacy. The second section outlines the emergence of legitimacy crisis of French auditing over the 2000-2020 period and provides a critical historical analysis of two themes: the auditing profession and the audit market. The third section provides discussion and findings completed by the data collected from 30 semi-structured interviews with the auditing professionals, corporate directors and researchers in the audit field. Conclusions are summarized in the final section.

## **1. Theoretical background and conceptual framework**

This section addresses the theoretical framework in the following order. It begins to lay a theoretical foundation by defining the legitimacy and its objective and by exploring the concept of legitimacy in two distinct groups (in the strategic and institutional perspectives). As the problems of gaining, maintaining and repairing legitimacy may be distinct for an organization, this section then addresses the challenges inherent in legitimacy management, therefore outlines possible strategies and solutions in order to gain, maintain and repair legitimacy. Finally, it reviews the literature on auditing and the process of production of legitimacy.

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<sup>7</sup> One of the highlights of the Summer School organized by the regional company of auditors of Paris (*Compagnie Régionale des Commissaires aux Comptes de Paris: CRCC de Paris*) in September 2019 in Paris will be « Audit, the keys of the reconquest ».

## ***Legitimacy: a multifaceted concept***

In this subsection, we address the definition of legitimacy (what is legitimacy?), the objective of legitimacy (legitimacy for what?) and the multifaceted concept of legitimacy.

Legitimacy is a concept that has its origins in the Latin term *lex-legis*, root of the words “legal”, “legitimate”, but also “loyal”. Etymologically, legitimacy is the character of what is grounded in law and/or justice (Laufer and Burlaud 1980). The concept of legitimacy thus refers both to law, justice, fairness and faithfulness (Boddewyn 1995) but also to morality, equity and reason (dictionary of philosophic notions and dictionary Littré), then evokes the foundation of power and the justification of the obedience due to it (sociologies of Marxian, Thévenot, and Boltanski 1991).

From a sociological point of view, the validity and the effectiveness of the legitimating order are based on social mechanisms. Max Weber (1971) distinguishes three foundations of legitimacy: (1) a rational character, based on the belief in legality of normative rules which define the way in which one can designate a responsible person and enact a law (*legal domination*); (2) a traditional character, corresponding to the belief that rules and procedures, which have been perpetrated in social groups, respected by society, tried and tested in the past, are still valid (*traditional domination*); (3) a charismatic character, based on the submission to the exemplary value of a person (*charismatic domination*). Habermas (1978) emphasizes that legitimacy is not limited to respect of the laws emanating from the authorized institutions but represents the ability to invoke a beyond the law that makes the judgment of value and the eventual challenge of the laws. Sociologies of Marxian or critical inspiration - Marx, Bourdieu and his school - denounce the fundamental arbitrariness of all forms of legitimacy by showing how they are primarily related to the exercise and the justification of power.

In one of the earliest works on organizational legitimacy in management sciences, Maurer (1971, 361) gave explicitly the evaluative dimension to legitimacy by asserting that “legitimation is the process whereby an organization justifies to a peer or superordinate system its right to exist”. Thus, legitimacy is based on the idea of social contract which exists between the organization and the public at large (Shocker and Sethi 1974)<sup>8</sup>. Pfeffer and his colleagues (Dowling and Pfeffer 1975; Pfeffer and Salancik 1978; Pfeffer 1981) maintained this emphasis on the evaluation dimension of legitimacy, but highlighted cultural conformity rather than self-justification. Dowling and Pfeffer (1975, 122) then define organizational legitimacy as “*a condition or status, which exists when an entity’s value system is congruent with the value system of the large social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity’s legitimacy*”. Thus, the legitimacy represents a resource on which an organization depends to and permits it to rescue other resources (Pfeffer and Salancik 1978). Meyer

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<sup>8</sup>It is noted that the idea of the social contract is not new; it has been discussed by philosophers such as Hobbes (1588-1679), Locke (1623-1704) or Rousseau (1712-1778).

and Scott (1983) focused more on the cognitive dimension than the evaluation one, by asserting that organizations are legitimate when they are understandable, rather than when they are desirable. Jepperson (1991) emphasized the cultural congruence embedded in the term *legitimacy* that involves the existence of a credible collective account or rationale explaining what the organization is doing and why.

Suchman (1995, 574) adopts an inclusive, broad-based definition of legitimacy and acknowledges the role of the social audience by defining that “*legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions*”. Legitimacy is socially constructed, thus dependent on a collective audience.

Organizations seek legitimacy for many reasons, in order to pursue continuity and credibility as so as to seek passive and active support to “make sense” and to “have value” (Suchman 1995). If an organization simply seeks continuity and passive support, the level of legitimacy may be low. In contrast, if an organization seeks credibility and active support, the legitimacy demands may be stringent. To avoid questioning, an organization needs only “make sense”. However, to be more meaningful, more predictable and more trustworthy, it must also “have value”.

Two approaches can be defined in the legitimation process: strategic and institutional camps. In the strategic view (Dowling and Pfeffer 1975; Pfeffer 1981; Pfeffer and Salancik 1978; Ashforth and Gibbs 1990), legitimation is purposive, calculated and frequently oppositional, because of competition and conflict between systems of belief or points of view of social organizations. In contrast, to the institutionalists (DiMaggio and Powell 1983, 1991; Meyer and Rowan 1991; Meyer and Scott 1983; Zuker 1987), legitimacy is not an operational resource but a set of constitutive beliefs. Within this tradition, legitimacy and institutionalization are synonymous because both phenomena seek to make the organizations natural and meaningful and tend to emphasize the collective structuration of entire fields or sectors of organizational life. Because real-world organizations face both strategic operational challenges and institutional constitutive pressures, Suchman (1995, 577) suggests incorporating strategic and institutional views into a larger picture that highlights both the ways in which legitimacy acts as a manipulable resource (viewpoint of organizational managers looking “out”) and as a taken-for-granted belief system (viewpoint of society looking “in”),

### ***Challenges in legitimacy management: gaining, maintaining and repairing legitimacy***

As a cultural process, legitimacy management is an ongoing status (Chapman and Lowndes 2014) and concerns communication between the organization and its various stakeholders (Suchman 1995). As stakeholders whose approval is necessary for legitimating organization change over time, the mix of legitimation strategies needs to be adapted to different contexts and related challenges

for gaining, maintaining and repairing legitimacy responding to pragmatic, normative and cognitive dimensions (Suchman 1995).

Pragmatic legitimacy, or influence legitimacy, concerns on the self-interested calculations and exchanges of an organization with its most immediate stakeholders. This legitimacy is appreciated through direct exchanges and can involve broader political, economic or social independencies in which organizational action visibly affects the audience's interest by measurable results.

Normative or moral legitimacy is based on beliefs when its activity actually promotes social well-being as defined by its public and its socially constructed value system, which is "the right thing to do". In general, it takes one of three forms (Scott 1977; Scott and Meyer 1991): evaluations of outputs and consequences, evaluations of techniques and procedures, and evaluations of categories and structures. Suchman (1995) adds the fourth form concerning evaluations of leader and representatives.

Cognitive legitimacy considers an organization as necessary, desirable or inevitable based on comprehensibility for an episodic support and on some taken-for-grantedness for a long-term support.

These three subdivisions of legitimacy co-exist and do not constitute a strict hierarchy. They often reinforce each other but can come into conflict as well. Pragmatic legitimacy rests on audience self – interest, whereas moral and cognitive legitimacy implicate larger cultural rules. Pragmatic and moral legitimacy rest on discursive evaluation and can be won by participation of organization on explicit public discussions, whereas cognitive implicates unspoken orienting assumptions. If an organization moves from the pragmatic to the moral to the cognitive, legitimacy becomes more elusive to obtain and more difficult to manipulate, but also subtler, more profound and more self-sustaining once established (Suchman 1995).

The process of gaining, maintaining and repairing of an organization legitimacy includes its strategies to satisfy audiences within its cultural environments in all pragmatic, normative and cognitive levels (Suchman 1995).

Gaining legitimacy is a challenge faced by organizations that need to build or to extend (Ashforth and Gibbs 1990). In this case, organization seeks firstly to conform to environments by building its reputation, using character references, producing outcomes, employing co-optation, symbolism and mimetic isomorphism or formalization as so as professionalization. Secondly, organization selects among environments a favorable one. Strategies such as market research, recruiting co-optation targets, seeking labels, defining goals are some examples of environment selection. Finally, organization manipulates environments in order to show its own credibility, its ability to respond to constituents' demands or persuade constituents that it has this ability. Managers can promote new explanations of social reality, advertise products, accumulate new success, proselytize for a morality in which their outputs, procedures, structures and personal occupy

positions of honor and respect. They can also create new beliefs, persist, popularize and standardize new models by encouraging isomorphism.

Legitimation is not a possession or a completed task but needs to be preserved, because of fluctuation demands of heterogeneous and instable audiences. Maintaining legitimacy aims to manage legitimacy in perceiving future changes and protecting past accomplishments (Suchman 1995), by employing boundary-spanning personnel as bridges to learn about audience values, beliefs and reactions (Levitt and March 1988; Scott 1992).

To perceive emerging pragmatic requests and monitor multiple interests, organization must consult opinion leaders and co-opt audiences into organizational decision making in order to provide cultural insights to managers. To perceive emerging moral demands, organization must monitor ethics by professionalization and chartering certain organizational members to participate external normative discourses (DiMaggio and Powell 1983). Finally, to perceive cognitive beliefs, organization must explore multiple outlooks by consulting doubters.

To protect achieved legitimacy, organization may transform episodic legitimacy to continual forms. In the pragmatic level, it may protect exchange by policing reliability, communicating honestly and stockpiling trust. In the moral level, it may protect propriety by policing responsibility, communicating authoritatively and stockpiling esteem. Finally, in the cognitive level, organization may protect assumptions by policing simplicity, speaking matter-of-factly and stockpiling interconnections.

Repairing legitimacy “represents a reactive response to an unforeseen crisis” (Suchman 1995, 597) due to a retraction of audiences supports which can lead to a resource interruption for organization. The actions of de-legitimated organization concern normalization and restructuring. Pragmatically, managers can deny the problem. However, this solution may severely deplete the organization’s long-term legitimacy reserves. Thus, they can choose to excuse the problem by questioning the organization’s moral responsibility. They can also justify the disruption in order to refuse their lack of managerial control. By this way, they redefine means and ends to make the disruptive events appear consonant with audiences moral and cognitive beliefs by creation of monitors and watchdogs and disassociation strategies, such as replacing personnel, revising practices or reconfiguring. Finally, managers can explain the disruptive events to preserve supports. These restructuring strategies must be conducted without panic and can create new identity for organization.

### ***Auditing profession: a continuous process of legitimation***

The main factors which help to identify characteristics of the organization can be: age (Stinchcombe 1965); characteristics of the environment (Aldrich and Fiol 1994); organizational population dynamics (Hannan and Freeman 1977); specific role of actors in the field such as the state, professional organizations, peers or media (DiMaggio and Powell 1983; Baum and Powell 1995); role of social movements (Davis & al. 2005); strategies of organizations to cope with the



pressures of environment (Oliver 1991); or categorizations conducted by different external audiences (Zuckerman 1999).

It is not an exception for the auditing profession who is in a continuous search of social trust. The word “audit” comes from the Latin word *audire*, meaning “to hear”, “to listen”. Auditing first engaged in form of ancient checking in China, Egypt and Greece. Checking clerks were appointed in those days to check the public accounts to locate frauds and to verify whether the receipts and payments were properly recorded.

The modern auditing established during industrial revolution (1840s-1920s). During this period, audit practice can be regarded as “traditional conformance role of auditing”. Since then, the demand for audit services is not only for prevention and detection of fraud, but also to add credibility to the financial statements<sup>9</sup>. Otherwise, the demand for audit services is the direct consequence of the participation of the third parties in the company, who demand accountability from the management in return for their investments in the company. An audit is required to assure the reliability of information provided by the management in order to meet public expectations (Watts and Zimmerman 1979, 1986). Consequently, audit is not a naturally coordinated series of technical steps; it is a social enterprise relying deeply on embedded perspectives (Dirsmith and Haskins 1991). In this way, techniques must be legitimate before they can be efficient (Fischer 1996); change and reinvention of the audit process depend on a micro-politics of legitimizing changes for practitioners which will lead to the legitimacy of the macro system represented by professionalism, auditor independence and institutional trust in audit practice (Pentland 1993).

The evolution of accounting profession over 30 years can be devised into three historical moments (Dirsmith, Covalesski, and Samuel 2015) following the social movement. The first moment is characterized by the attempts to centralize control in professional service firms and the ensuing challenges to the autonomy of auditor judgment. The second involves strategic moves by the profession to rebrand in the direction of general business advice and assurance services. The third moment refers to the progressive development of professional service firm actors as entrepreneurs. During this evolution, audit profession has known same failures caused by losing autonomy, power and prestige of whole auditing professional activities, especially after the Enron scandal (Carnegie and Napier 2010). It was the case during 1930s in France when auditing profession lacked economic, social or cultural factors in a field (Ramirez 2001).

Since then, audit is no longer about finding control errors but legitimacy with clients and stakeholders is essential (Power 2003). Auditors should not only enhance integrity and credibility, but also provide value added service. The re-legitimization is thus achieved through the discursive strategies of stake inoculation, stake confession, stake alignment and stake transcendence (Whittle, Carter and Mueller 2014).

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<sup>9</sup> For more detail on auditing history, see Porter & al. (2005), Lee and Azham (2008) and Iuliana (2012).

## ***Research methodology***

The research methodology is qualitative and based on the review of documentary sources along with a series of semi-structured interviews conducted with auditors and various stakeholders. **Appendix 1** summarizes the characteristics of documentary sources used in the study, which are composed of publications issued by the Government, documents issued by the CNCC, professional magazines as well as financial and economic press. The review of documentary sources was completed by 30 semi-structured interviews which took place at various times between September 2017 and November 2020. **Table 1** summarizes the features of each interview.

**Table 1: Overview of interviews undertaken (*insert here*)**

Interviews	Assigned symbol	Position	Experience (in years)	Date	Duration (in minutes)
I-1	Auditor-1	Associate, Big 4	40	25/09/2017	60
I-2	Auditor-2	Senior manager, Big 4	20	17/10/2017	120
I-3*	Auditor-3	Associate, small firm	10	14/12/2017	85
I-4	Auditor-4	Associate, small firm	30	15/03/2019	60
I-5	Auditor-5	Associate, small firm	10	25/04/2019	90
I-6*	Auditor-6	Associate, small firm	20	09/07/2019	45
I-7*	Auditor-7	Associate, small firm	30	16/07/2019	66
I-8	Auditor-8	Associate, President of a CRCC	40	25/07/2019	120
I-9*	Auditor-9	Associate, elected member of a CRCC	30	01/08/2019	100
I-10*	Auditor-10	Associate	20	28/08/2019	66
I-11	Auditor-11	Associate, small firm, elected member of CNCC	30	05/09/2019 & 16/10/2019	130
I-12	Auditor-12	Trainee auditor, major firm	10	17/09/2019	45
I-13*	Auditor-13	President of CNCC, associate, Big 4	40	01/10/2019	50
I-14	Auditor-14	Former associate of Bigs, small firm	40	09/10/2019	60
I-15	Auditor-15	Senior manager, small firm	30	22/10/2019	75
I-16*	Auditor-16	Retired, major and small firms	42	06/11/2019	100
I-17	Auditor-17	Trainee auditor, small firm	5	21/11/2019	75
I-18	Auditor-18	Trainee auditor, Big 4	5	27/11/2019	60
I-19	Researcher-1	Emeritus professor, historian, auditor	42	08/10/2019	105
I-20	Researcher-2	Emeritus professor, auditor	42	21/11/2019	100
I-21	Researcher-3	Emeritus professor, historian, auditor	42	22/11/2019	120
I-22*	Corporate director-1	Director, SME	15	15/07/2019	30
I-23*	Corporate director-2	Director, SME	30	24/07/2019	45
I-24*	Corporate director-3	Director, SME	20	17/09/2019	35
I-25*	Corporate director-4	Director, SME	25	19/11/2019	30
I-26	Corporate director -5	Financial Director	45	07/02/2020	40
I-27	Corporate director -6	Financial Director	50	18/02/2020	43
I-28*	Researcher-4	Emeritus professor, specialised in commercial law	42	20/10/2020	50
I-29	Auditor-8	Associate, President of a CRCC	40	23/10/2020	135
I-30*	Auditor-19	Associate, President of a CRCC	40	16/11/2020	90
<b>TOTAL</b>					<b>2230</b>
* remoted interview					
Auditor-8 re-interviewed in the context of the COVID crisis					

For the purpose of the study, the sample was constructed according to the method of purpose sampling, by which the interviewees were selected by informed choices based on the two combined criteria: (1) level of experience of the interviewee in the field and his (her) sensibility to the research question; (2) points that required further development in the analysis. The method of purposive sampling gives the advantage of producing a homogenous database to enhance the internal validity of a study (Royer and Zarlowski 1999). Thus, the sample was gradually created as the research progressed and the interpretations were constructed. Moreover, the size and the composition of the sample resulted from a process of going back and forth from the research question to the data analysis.

The choice of conducting interviews in 2017, in 2019 and in 2020 allowed the authors to observe the phenomenon of PACTE law completely: before, during and after the event. Three interviews were conducted with auditors in an exploratory perspective at the early stage of the research project in 2017, just before the turning point marking the Government's intention to raise the audit's thresholds for small entities. Seventeen interviews carried out with auditors during the 2019-2020 periods contributed to enrich our archival analysis of the evolution of the auditing profession in France, particularly by providing the interviewees' reactions and reflections following the PACTE law. In parallel, six interviews conducted with SME's corporate directors helped to better understand the stakeholders' perception on the utility and the relevance of audit services. Finally, four interviews carried out with researchers-historians in the audit field at the stage of finalization of the paper helped the authors to enrich the discussion and to verify the validity of the research's findings. In total, we collected 2 230 minutes of discussion from 30 interviews.

As the research progressed, the questions were reformulated, and new questions were added in order to examine the different facets of the problematic under study as so as to achieve theoretical saturation. The process of data collection was closed until no new theoretical reflections, concepts or interpretations could be gathered. All interviews were conducted after an agreement had been signed with the interviewees in order to guarantee the anonymity and the confidentiality of data collected. Interviews can increase the likelihood that interviewees will agree to respond more frankly where the researcher can explain the significance of the study and assure them of its confidentiality (Salant and Dillman 1994, 42). Interviews allow the researcher and the interviewee to go back and forth to explore particular issues when necessary. The author is better aware, through qualitative research, of the institutional context in which the phenomenon of interest takes place (Power and Gendron 2015). Flexibility was used in the ordering of questions to improve the continuity of the interview and neutral participation was used to encourage explanation. Other relevant issues were explored as they arose during the interview process. During each interview, the focus was made on crucial events and interpretations of the interviewee depending on his interest and sensibility to the events occurred. For all the interviews, extensive notes were taken by one author and the completeness of data collected was checked by the other author at the end of each interview.

We conduct then the content analysis of the interview data collected by deciding the themes and sub-themes to be coded. Each interview note was examined separately by each author prior to selection and coding process in order to develop an in-depth knowledge of the empirical data. The first level of coding is performed on the basis of a list of themes chosen preliminarily as so as of the theme sources that emerged from the database itself. The second-level of coding is accomplished by the theorization of the empirical data shed light by the concepts of legitimacy, then validated through discussion with researchers in the audit field. In order to reduce reproducibility, stability and coding errors, a coding decision made by one author (i.e. allocation of a text to a particular theme or sub-theme) is re-examined by the other author. Reproducibility is a test of enquiring into whether what is being coded is an accurate descriptor of the content being analysed (Campbell 2017, 354).

In the present study, the inductive approach was used in association with qualitative methods of data collection and analysis. This alliance permitted the authors to understand the phenomenon of legitimacy crisis of the French auditing profession, an open-ended question. “Inductive reasoning is often referred to as a “bottom-up” approach to knowing, in which the researcher uses observations to build an abstraction or to describe a picture of the phenomenon that is being studied” (Lodico 2010, 10). This approach aims to generate meanings from the data set collected in order to identify patterns and relationships to build a theory. As a result of inductive analysis of the empirical data, we propose a conceptual framework of production of legitimacy that the auditing profession can adopt to maintain and nourish its social legitimacy and professional trajectory. Once the conceptual framework was constructed, it was empirically tested and validated through discussion with researchers-historians in the field.

In the next section, we analyze the emergence of legitimacy crisis of French auditing over the 2000-2020 period in a critical historical perspective, by developing the following themes: the auditing profession and the audit market.

## **2. Emergence of legitimacy crisis of French auditing**

### ***The French auditing profession***

In France, although oversight functions existed occasionally before 1863, the law of 23 May, 1863 on limited companies introduced the statutory audit in limited-liability companies (De Beelde, Gonthier-Besacier, and Mikol 2009). The word “*Commissaire*” appeared in the French legislation for the first time in the 1863 Act (Mikol 1993). But it is the law on companies of 24 July, 1867 which institutes the function “*Commissaire de sociétés*” in the middle of the industrial revolution.

The auditor was called “*commissaire des comptes*” (auditor of the accounts), “*commissaire de surveillance*” (supervisor) or “*censeur*” (censor) (Houpin and Bosvieux 1935, 291)<sup>10</sup>.

The initiative to organize the accounting profession was born in 1912 with the creation of *Compagnie des Experts-Comptables de Paris*. In 1927, a state-recognized certificate for accountants was created by the Ministry of Education (Mikol 1993, 5). The organization of the French accounting profession on a legal basis (*Ordre des Experts-Comptables et des Comptables Agréés* or OECCA) was later established by the Law of 3 April 1942.

The auditing professional body (*Compagnie Nationale des Commissaires aux Comptes* or CNCC) was created much later in 1970 following to the promulgation of the Companies’ Law of 24 July 1966 and the decree of 12 August 1969. The word “*commissaire aux comptes*” was then created. The decree of 12 August 1969 included a definition of the objectives of an audit, the qualification requirements of the auditors, their independence and professional secrecy. The CNCC was placed under the authority of the Ministry of Justice while the OECCA was linked to the Ministry of Finance. Nevertheless, before 1970, only the regional institutes of auditors (*Compagnies Régionales des Commissaires aux Comptes* or CRCC) existed (De Beelde, Gonthier-Besacier, and Mikol 2009). Those institutes assembled in a federation which was not a real professional body under the authority of a ministry. A significant percentage of the OECCA’s members were also “*commissaires aux comptes*”. The OECCA and the bodies representing the “*commissaires*” worked together in different subjects. The OECCA has been transformed into OEC (*Ordre des Experts Comptables*) in 1994.

The accounting profession in France is particular in its setting: the existence of two titles (*expert-comptable* and *commissaire aux comptes*) and the duality of professional bodies, one representing chartered accountants and the other representing statutory auditors. “*Expert-comptable*” is in charge of elaboration of accounts and consulting services while “*commissaire aux comptes*” is authorized to certify the accounts. If a large number of French “*commissaire aux comptes*” are also “*expert-comptable*”<sup>11</sup>, the two professions are institutionally separated. This separation can be justified essentially by the difference in the legal requirements of audit work in France while accounting is characterized by a contractual relationship between professional accountants and their clients. This French singularity around two institutions finds its legitimacy in the history of a profession which knows two acceptations of the concept of revision, concept that locks in a duality which is founded and establishes borders that, from abroad, can appear to be more artificial (Rossignol and Saboly 2010, 19).

In Anglo-Saxon countries, the term “accounting profession” is commonly used to refer to the work activity of chartered accountants and auditors. Given the existence of dual professional bodies in France, one representing chartered accountants (OEC) and the other representing statutory auditors

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<sup>10</sup> For more details about financial crisis, accounting and legal movement and adaptation in the end of 19<sup>th</sup> century, see Lemarchand (1995); Lemarchand, Levant, and Zimnovitch (2017).

<sup>11</sup> Holders of chartered accountant diploma (*diplôme d’expertise comptable* or DEC) were allowed to register with the national company of statutory auditors (CNCC) in order to obtain the authorization to exercise the statutory audit (H3C 2020). As of November 5, 2020, the “*Haut Conseil du Commissariat aux Comptes*” (H3C) directly exercises its mission of registering auditors until then implemented by the CNCC (H3C 2020).

(CNCC), in this paper we use the terms “auditing” and “auditing profession” to refer to the activity of French statutory auditors (*la profession de commissaire aux comptes*).

In this section, we analyze the evolution of French auditing over the last two decades shed light by legitimacy theory, by return on the documentary sources and the data collected from our 37 hours of discussion with the auditors and other stakeholders about the utilities of auditing service, the relations between auditors and audited companies as so as the recent movements of the profession and reflections on its future professional project.

### ***Evolution of French auditing over the 2000-2020 periods: end of self-regulation and evolution of the profession at two speeds***

The impact of Enron’s collapse in 2001 was greater because it was closely followed by the bankruptcy of WorldCom in the USA and by several significant scandals all over the world such as Parmalat in Italy, Royal Ahold in the Netherlands, Equitable Life Assurance Society in the UK and Vivendi Universal in France. The wave of worldwide corporate collapse and scandals was directly associated with highly questionable accounting and auditing practices which weakened undeniably the public confidence in corporate financial reporting and auditing as well as corporate regulation. Carnegie and Napier (2010, 365) suggested that Enron and other financial scandals in which professional accountants were implicated to accentuate the fragility of the accounting profession’s attempts to project its business professional stereotype as a positive image.

Being hardly shaken by Enron phenomenon and by inspiring the Sarbanes-Oxley Act, the Law on Financial Security issued in August 2003 in France enacted many reforms which were aimed to reinforce corporate governance, financial disclosure, auditor independence and oversight of the auditing profession through the creation of H3C (*Haut Conseil du Commissariat aux Comptes*).

According to legitimacy theory, when there is a severe breach of a social contract by an organization which fails to comply with societal expectations, the community may revoke its contract to continue operations (Deegan and Rankin 1996, 54). An organization’s survival will be threatened if society perceives that the organization has breached its social contract. Organizational legitimacy is therefore a resource on which an organization depends for its existence. The study of Carnegie and Napier (2010, 362) suggests that the collapse of Arthur Andersen in 2002 was perceived as the firm’s failure to meet societal expectations in the Enron case which led to the revocation of its social contract.

The 2001-2004 periods were also characterized by the collapse of Salustro Reydel<sup>12</sup> as one of the two biggest French audit professional firms to be able to compete with the Big Four international audit firms. Salustro Reydel audited the accounts of Vivendi Universal, Group of CAC 40<sup>13</sup> specialized in telecommunication and environment, which was considered to have adopted questionable accounting practices and announced consequently a loss of 13, 6 billion euros for the

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<sup>12</sup>KPMG’s merger offer was accepted by Salustro Reydel on 15 July 2004.

<sup>13</sup>The 40 biggest French companies.

2001 period. A conflict arose as to how Vivendi Universal wanted to account for the sale, through a very complex transaction, of a participation in BskyB, a British cable operator. The CEO of the Group, Jean-Marie MESSIER, advocates a solution that shows a profit for his group. The management of the audit firm Salustro Reydel is ready to agree to this opinion<sup>14</sup>. Once the episode is over, the main leaders of Salustro tear themselves apart. As a result, the name Salustro Reydel disappears to the profile of KPMG. In this paper, it is suggested that the disappearance of Salustro Reydel was not only considered as a serious failure to comply with societal expectations, but also as a threat to the legitimation and institutionalization of the auditing profession in France. Organizational legitimacy and identity of the French auditing profession were therefore weakened.

The 2005-2009 periods are characterized by the implementation of the Law on Financial Security, the construction of legitimacy of H3C as newly-created audit oversight body, the progressive acceptance of this organism by the auditing profession as well as by the cohabitation between H3C and the auditing profession in the regulatory space (Hazgui 2015). Those periods are also marked by the financial, banking and economic crisis. The bankruptcy of Lehman Brothers in September 2008 was shaking the global financial system and causing a panic on global stock markets. However, it is observed that there were no legitimation strategies, actions and process put in place by the auditing profession in France, particularly following corporate collapses and scandals occurred during the last period.

The 2010-2014 periods are characterized by the initiation of the audit reform at the European level. The fact that during the 2008 financial crisis numerous banks revealed huge losses 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. Consequently, on 13 October 2010, the European Commission had issued the green paper on audit policy (lessons from the crisis) in order to open a debate on the role of the auditor, the quality of audit, the governance and the independence of audit firms, the supervision of auditors, the configuration of the audit market, the provision of audit and non-audit services as well as the simplification of rules for Small and Medium Sized Enterprises (SMEs).

As a result of the intensive debate carried out in Europe on the auditing environment and the audit regulation in the early 2010s, the European Commission had issued in 2014: (1) Directive 2014/56/EU that sets out the framework for all statutory audits, strengthens public oversight of the audit profession and improves cooperation between competent authorities in the EU; (2) Regulation No 537/2014 that specifies requirements for statutory audits of public interest entities (PIEs), such as listed companies, banks and insurance undertakings. The European audit reform brought important changes to the French auditing profession during this period. Auditors of PIEs must therefore rotate on a regular basis and are no longer allowed to provide certain non-audit services

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<sup>14</sup>Xavier PAPER was head of accounting doctrine office of Salustro-Reydel, believes that the operation shows a loss. To protect himself from the pressures, he warns the Commission of Stock Exchange Operations (COB). Vivendi Universal then asks for his head. The management of Salustro is ready to comply, but the COB protects PAPER.



to their audit clients. The fundamental change for the French auditing profession which leads to the re-writing of the code of ethics in April 2017 was the move from a model of prohibiting non-audit services in general and authorizing exceptionally several non-audit services to a model of black list comprising of prohibited non-audit services; non-audit services beyond the list will be authorized. Furthermore, audit firms have henceforth obligation to put in place an internal quality control system and to carry out an annual evaluation of the system. It seems that auditors mobilized significant efforts during this period to adapt to the changes introduced by the audit reform in France as well as to prepare for implementation of two important standards (IFRS 9 on financial instruments and IFRS 15 on revenues). Consequently, the auditing profession deals with inability to re-invent or to re-construct its legitimation strategies and actions in order to gain social legitimacy.

The PACTE law (law 2019-486 of 22 May 2019), in its article 20, has substantially modified the provisions governing the function of the statutory audit performed by the statutory auditors in France. Thus, the point that has been the subject of much debate in France since November 2017 is the modification of the thresholds required to appoint auditors for small businesses, which are not prescribed of the European directive. The PACTE law enacted henceforth the removal of obligation for small entities to make their financial statements certified by an auditor. That means, any company, irrespective of its form, is no longer required to nominate an auditor if it does not exceed two of the following three thresholds: (1) total balance sheet: 4 million euros; (2) turnover: 8 million euros; (3) number of employees: 50. Under legitimacy and social contract theories, the auditing profession in France lost its legitimacy because the costs of audit were perceived to be greater than its benefits to the small entities themselves as well as to the economy and the society in general. The auditing profession failed to meet social expectations in the case of small businesses, at least up to the 2018 period. The failure to meet the social trust was perceived by the society as so severe that the social contract between the society and the auditing profession was revoked, that means, oversight of financial information by statutory auditors was considered no longer necessary and relevant for small businesses according to the cost-benefits trade-off.

For the first time in the auditing history in France, the PACTE law proposes a “limited and less constrained audit”<sup>15</sup> for small businesses on a voluntary basis. Legitimacy theory suggests that, in order to encourage small businesses to contract voluntarily a limited and less constrained audit, the auditing profession must make efforts constantly and continue to enhance its performance, by demonstrating that it provides benefits to society in excess of costs.

In this paper, it is considered that the inability of the French auditing profession to defend its status and power in the PACTE law case as a guarantor of financial information of small businesses

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<sup>15</sup>The application of dispositions provided by the law is accompanied by the issue of two French standards of audit (NEP 911 and NEP 912). Limited and less constrained audit includes: (1) certification of the annual accounts; (2) preparation of a report on the financial, accounting and management risks to which the company is exposed. This report must be adapted to the situation and activity of the company; (3) removal or exemption of other legal due diligence stipulated in Article A. 823-27-1 of the French Commercial Code.

constitutes a great challenge to the ongoing auditing professional project in France. Larson (1977, xvii) defines the professional project as “an attempt to translate one order of scarce resources – special knowledge and skills – into another – social economic rewards”. Taking into account material and moral consequences of removal of statutory audit for small businesses, the failure of the profession to defend its social legitimacy and power may lead to process of audit deprofessionalization in France. The inability to found auditors’ status as a profession rather than a trade or industry constrains the auditors to reconstruct their professional project and professionalization trajectory.

Carnegie and Napier (2010, 360) suggest that society’s perception of the legitimacy of the accounting profession and its members is grounded in the verbal and visual images of accountants that are projected not only by accountants themselves but also by the media. In this paper, it is suggested that the image of the French auditing profession had been weakened in the PACTE law case and the most important challenge to the profession would be its image. In order to build up positive image to the economy and the society, the auditing profession should make constant efforts to communicate transparently its process rather than its outcomes. Carnegie and Napier (2010, 362) observe that research in the accounting profession adopting a historical perspective has shifted from an emphasis on the ideals that accountants claim to possess such as ethics, expertise and education, to the social and political status of accountants as well as to the processes by which accountants claim to undertake their activities. As a result, working on its image would help the auditing profession to improve its attractiveness which had been considered as being seriously damaged through the PACTE law case.

By examining the white book issued by the French auditing professional body (CNCC 2018) and the IGF report elaborated by General Inspectorate of Finance (IGF 2018), it is suggested that the inability of the profession to defend its power resulted ultimately from profession’s failure to communicate the audit process to the society, which helped the society in return to access the relevance and the utility of audit. The IGF’s report (IGF 2018, 5) concluded that the effect of the certification of the accounts on the quality of the latter, measured by the adjustment rate and the rate of tax controls made without adjustment, is not significant for small businesses. The results of corporate failure prevention mission carried out by the auditors using the alert procedure are also not significant for small businesses (IGF 2018, 5). The CNCC’s white book (CNCC 2018, 5) then cited: “A measure of the effectiveness of statutory audit in terms of the number of reserves and revelations of criminal acts denies the very foundation of the auditor's mission: risk prevention and dissuasion”. While Jedidi and Richard (2018) consider the expectation gap as an object of discourse and a component of the boundary work mobilized by French auditors to preserve their professional autonomy, in this paper, it is suggested that expectation gap was used in detriment of French auditors.

### ***The audit market***

Before 1960, the French audit market was not developed, despite the presence of international firms' offices in Paris very early<sup>16</sup>. The important expansion and concentration movement of the French audit market during the last four decades of the 20th century can be explained by the internationalization evolution, the growing impact of the international audit firms as so as the imitation of French local professionals. The demand for auditing service arose in line with economic growth and accompanied the international opening of the French economy, so that allowed the profession to enhance its status and prestige<sup>17</sup>.

As stated by Piot (2001), the French auditing environment is characterized by three factors: less liberal than the Anglo-American one; weak legal protection for outside investors, both shareholders and creditors (La Porta and al. 1998); composition of entrepreneurial organizations with concentrated ownership and high managerial power. The French audit market seems to be less liberal compared to the Anglo-Saxon ones because of major regulatory divergences (Piot 2004). The six-year term of mandate also restricts free market competition. The obligation of joint audit in the companies publishing the consolidated statements allows small and medium-sized auditing firms to access the mandates of those companies jointly with the big international firms (Piot 2004). The resistance and the adaptation of French auditors were for the purpose of regaining their autonomy, recognition and prestige, but also of ensuring a strong French presence in the audit market. But this protection increases the expectation gap, so that can lead to a loss of legitimacy of the audit profession in front of its users<sup>18</sup>.

In this market, three categories exist in parallel: the big international firms (Bigs), the large national firms (Majors) and the others (medium and small local firms). The distance in terms of turnover between these groups is very important (Casta and Mikol 1999; Pigé 2003) and the barriers to competition between them depend on the basis of the characteristics of their client portfolios (Piot 2001). In this mature and saturated auditing market, there is also a global and sectoral concentration that characterizes an oligopoly situation on the market of listed companies (Piot 2005, 2008). Despite the Bigs' undisputed dominance in large audited companies, Majors play an important role in the audit market, especially among medium-sized audited companies, and dominate certain business sectors. Gonthier-Besacier and Moizer (2001) found no significant differences between the Big Five and large local firms on the perception of audit firms in France. Concerning the local audit firms, they have smaller, less complex and less geographically dispersed clients.

The Green Paper edited by European Commission about Audit Policy (EC, 2010, p.15) shows that the French market appears to be too concentrated in certain segments and deny clients sufficient choice when deciding on their auditors. This concentration contributes to systemic risk and to lack

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<sup>16</sup>Price Waterhouse was arrived in France in 1916, Cooper Brothers and Arthur Andersen in 1929. The first French audit firm, *Fiduciaire de France*, was created in 1922.

<sup>17</sup> For further reflections about the development of French auditing market since 1960s, see Casta and Mikol 1999, Ramirez 2003; Pigé 2003; De Beelde and al. 2009.

<sup>18</sup> The similar resistance of French auditors has happened in the past, i.e. the prohibition on the use of an Anglo-Saxon name for the auditing firm during 1975-1979, or the creation of the French Association for the development of the Audit (*Association Française pour le développement de l'Audit: AFDA*) by Salustro in 1982.

of dynamism in the market and so that, non-Big firms continue to suffer from a lack of recognition of their capacities by the largest companies. The Commission proposes some measures such as joint audit in listed companies, mandatory rotation of auditors and re-tendering, contingency plan and reassessment of the drivers of previous consolidation.

The development of French auditing passes also through three periods as seen in the international market (Dirsmith, Covalski and Samuel 2015). The first period, from 1960s to 1980s, is characterized by the implantation to ensure the autonomy of auditing as a profession. The second, from 1980s to 2000, refers to the redeployment of consulting activities by audit firms to become real multidisciplinary partnerships<sup>19</sup>. The third period, from 2000 up to now, is characterized by the weakening of public trust to audit sector, which leads to reinforcement of control exercised by the oversight body and a failure of auditor's power.

The disappearance of Arthur Andersen, one of the Bigs after the collapse of Enron in 2002 and the merger of Salustro Reydel, one of the Majors, with KPMG in 2004 after the scandal of Vivendi Universal, weakened the trust of public on the audit profession. In this situation, the small audit firms could confirm their position by their proximity with SMEs clients.

The IGF's report issued in March 2018 in the frame of PACTE Law (IGF 2018) states that the French market has the particularity of a lower concentration than in other countries (share of "Big seven" represents 26% of the mandates, against 74% for the only "Big four" in the United Kingdom) and a bigger number of audited companies (182 500 against 46 255 in Germany)<sup>20</sup>. Furthermore, the service of auditor is considered too costly for SMEs (5 500 euros per year on average for a SME) and redundant with which is proposed by the accountant. As a result, the IGF's report proposes to align the audit thresholds for small businesses to the level adopted by other European countries.

Nevertheless, in its white book published in April 2018, the CNCC contests that these comparative analysis of thresholds with other European countries is incomplete<sup>21</sup>. The only reference to Germany can be understood from a strictly political point of view but is not relevant because it ignores a fundamental difference in behavior with regard to discipline and compliance with laws and regulations, and because it ignores differences in the composition of the economic fabric.

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<sup>19</sup>Nevertheless, after the report carried out by Yves Le Portz's working group at the end of 1997, the audit firms are not allowed to execute, in parallel, consulting and statutory auditing services.

<sup>20</sup>The key figures for the profession are as follows in 2018 (cited in the De Cambourg's report named *The Future of the French Auditing Profession*, June 2018, 14): 260 000 mandates held by 9 600 auditors (among of 13 000 auditors registered on the CNCC's list), for a total fee of 2.5 billion euros. Commercial enterprises account for 80% of these mandates (208 000). Auditors are also active in the public sector and in associations receiving more than 153 000 euros in public subsidies.

<sup>21</sup>According to CNCC, the IGF's report does not cite Spain, which has chosen intermediate thresholds for the statutory audit, nor Sweden and Denmark which were aware of the negative effects of thresholds rise on tax fraud, nor Italy which recently decided to lower mandatory audit thresholds in small businesses in order to remedy reported increase in tax evasion.

Germany has 46 255 certified companies compared to 182 500 in France, but audit fees amount to 7.5 billion euros in Germany against only 2.5 billion euros in France, and the French SMEs account of more than 95% of French companies in number. Therefore, according to CNCC, the audit costs of French companies are much lower compared to their neighbor.

In reality, many auditors of SMEs resume the accounts prepared by accountants and certificated them without adding more check or inventory (auditor 5). The SMEs' managers meet their auditors once or twice a year, principally at the general meeting (auditor 9). The auditors' laxity and their insufficient effort to exchange with companies create the confusion about the role and the knowledge of two professionals, auditors and accountants, which is really regrettable (auditor 10). Furthermore, it is mentioned that there is no independence between these professionals, because they have the same background and most of them, in executing these two activities in different companies, exchange their clients (auditor 1). In the sense of Fischer (1996), audit techniques in SMEs are efficient but are not legitimate. Consequently, the legitimacy conditions in macro-level (professionalism, auditor independence and institutional trust in audit practice) posed by Pentland (1993) cannot be ensured. However, since the PACTE law, a tension seems to be raised between auditors and accountants, in addition to the existing concurrence between auditors and lawyers on the service market for companies (auditor 8). As consequence, the small audit firms will be directly affected and in the very short term, their audit market share will not exist anymore. They shall merge together or abandon the audit services to concentrate on the accounting services (auditor 7).

As a result, it is suggested in this paper that the modification of audit thresholds for small businesses through the PACTE law case shall lead to a failure of attempts to dynamize the audit market in France, therefore to a process of *deprofessionalization* for the French local small audit firms. The configuration of the French audit market would be more likely to present a systemic risk as it would be concentrated on the Big Four and the Majors.

### **3. Discussion and findings**

In this section, we will explain the auditing movement in the last twenty years by return on the legitimating literature and the data collected from our 30 hours of discussion with the auditors about the utilities of auditing service, the relations between auditors and audited companies as so as the recent movements of the profession and reflections on its evolution in the future.

**The table 2** summarizes the evolution of the auditing profession in France over 2000-2019 periods by highlighting critical events and movements, associated eventual socio-economic and political links as well as consequences and explanatory factors shed light by the theoretical framework constructed on the basis of legitimacy theory.

**Table 2: Emergence of legitimacy crisis of the auditing profession in France over the 2000-2019 period**

Periods	Main characteristics	Socio-economic and political links	Consequences and explanatory factors
2000-2004	Law on financial security; Reinforcement of financial security and corporate governance; Creation of H3C, oversight body of the French auditing profession	In the USA: collapse of Enron and Worldcom, disappearance of Arthur Andersen, promulgation of Sarbanes-Oxley Law; In France: announcement of catastrophic results by Vivendi Universal for the 2001 period, collapse of Salustro Reydel.	Failure to comply with societal expectations; <b>Threat to the legitimation and monopoly power.</b>
2005-2009	Implementation of the Law on financial security; Construction of legitimacy of H3C; Cohabitation between H3C and the auditing profession.	Financial, banking and economic crisis; Collapse of Lehman Brothers	Failure of the auditing profession to put in place legitimation strategies, actions and process; <b>Failure to maintain legitimacy and legitimation.</b>
2010-2014	Audit reform in EU: issue of the Green Book, EU Directive (2014/56/UE) and Regulation (537/2014); Proposal of a list of prohibited non-audit services, authorization of non-audit services beyond the list.	Accounting normalization efforts following the 2008 financial crisis (IFRS 9 on financial instruments issued by IASB in response to the financial crisis)	Significant efforts mobilized to adapt to the changes; Inability to re-invent or re-construct legitimation strategies and actions; <b>Failure to regain legitimacy and power.</b>
2015-2019	Implementation of EU Directive and Regulation; Rewriting the code of ethics; Reinforcement of the independence of auditors of PIE; PACTE law promulgated in May 2019: no more statutory audit for small businesses, introduction of "lightened and less constrained audit" on a voluntary basis.	Election of Emmanuel Macron as President of the French Republic on the 14th May 2017. Macron was 39 years aged and considered as a pro-European politician; Macron claims company growth and economic model transformation.	Expectation gap taken in detriment of the auditing profession; Inability of the profession to defend its status and power; Failure of the ongoing professional project; <b>Failure to repair legitimacy.</b>

We find that while the French auditing profession resisted and mobilized efforts over the last two decades to adapt to important mutations in the economic and regulatory environments for regaining its autonomy and recognition, it seemed to suffer from inability to re-invent or to re-construct legitimation strategies and actions in order to gain social legitimacy. These periods are deeply remarked by worldwide corporate collapses and financial crisis which led to significant weakening of public trust in corporate financial reporting and auditing and raised a debate on the role of auditor

as policeman for prevention and detection of fraud as well as guarantor of credibility added to financial reporting. In such auditing environment considered as less liberal and more protected by regulatory measures than the Anglo-American one (Piot 2001), the French auditing profession and auditors seemed to consider that their social legitimacy and power were legitimately founded. Suchman (1995) suggests that legitimacy is never fixed but an ongoing process by which the perceived legitimacy of an organization is continuously evolving and (re)constituted through social enactment, and legitimacy risks to disappear if the organization does not handle and make known its actions it performs in accordance with societal expectations.

Consequently, the French auditing profession failed to exercise, justify and nourish its power through critical events identified over the last two decades. For example, it seemed to deal with inability to set up legitimation strategies and proactive legitimation actions to regain public trust, particularly following corporate collapses and scandals occurred during the 2000-2004 periods. More recently, the modification of audit thresholds for small businesses in May 2019 constituted the most important shock for the profession over the last twenty years and a serious threat to the legitimization and institutionalization of the auditing profession in France, led therefore to a loss of its image and legitimacy, a crisis of identity and a process of *deprofessionalization*. What brings to this loss of power? How can auditors regain their legitimacy and power? The contradictory debate between the Government and the auditing profession through their reports (IGF's report issued in March 2018 and CNCC's white book issued in April 2018) showed a failure of the latter to legitimate its actions via disclosure and to reduce expectation gap in order to gain legitimacy and power.

According to the auditor 6, the insufficiency of exchange between auditor and society actually exists and is due to the lack of ethical training and control. This auditor pointed out that, before the creation of H3C, there was no independence between the CRCC/CNCC controllers and the auditors during ethical controls, because they were in the same network and controlled each other. For the client, auditing is not clearly distinguished with accounting service, so that auditing service is considered as not to bring any more value added in comparison to accounting service.

Too long time having settled only on the technical role because of the monopoly position (auditor 8), the French auditing profession ignored its roles of legitimacy and selling (Humphrey and Moizer 1990). The IFG report showed a low number of qualified reports signed by auditors. In responding to this comment, the auditors argue that their objective is not to certificate accounts with reserve, but to propose recommendations to audited companies in order to help them to avoid all risks. Nevertheless, the fact is that the profession could not identify the benefices of these recommendations due to absence of statistic studies about the tax evasion or risks avoided (auditors 5 and 10). French auditing is a closed and mysterious world, even for university researchers<sup>22</sup>. It

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<sup>22</sup>In Accounting Control Audit review (CCA), the most ranked French-language research journal in the field, only 38 articles on the audit theme were published, for 20 years from 1995 to 2014, representing 10% of the total number of articles (Berland & al. 2015). This very limited number can be explained by few thesis supported in auditing, because of the difficulty related to access to the data and to the field of study.

seems that the government considers auditors as incompetent policemen, because no financial problems were detected by auditors. Facing this accusation, the auditors argue that their role is to bring the credibility to financial statements in preventing fraud before it is executed (Hayes and al. 2005), that they have an obligation of means but not of results, and that audit missions follow strict professional standards which do not permit them to communicate their control process to clients (auditor 10). Finally, no one can observe the audit service - a “black box” created intentionally by auditors. In consequence, this obscuration promotes opacity rather than transparency and harms the auditor’s image. Moreover, the audit outcome which is the audit report is so standardized that stakeholders cannot find more information on the audited company.

Consequently, none of the three legitimization strategies proposed by Dowling and Pfeffer (1975) (co-optation, objectives and products/production system in line with environment’s expectations) was conducted by the French auditing profession. In other words, neither "pragmatic management" nor "symbolic management” (Ashforth and Gibbs 1990) are carried out to ensure the legitimacy of the auditing service. The French auditors, although their significant history, too proud of their monopoly position in a long period, maybe because of their age<sup>23</sup> (Stinchcombe 1965) and of recent expansion of audit fields in the public and associative sectors (auditor 10), did not speak the same language with their stakeholders, including with the government and the SME clients, have loosen their dynamic and have not prepared to any change<sup>24</sup>. In consequence, they are totally shocked in this crisis of legitimacy due to the refusal of these clients.

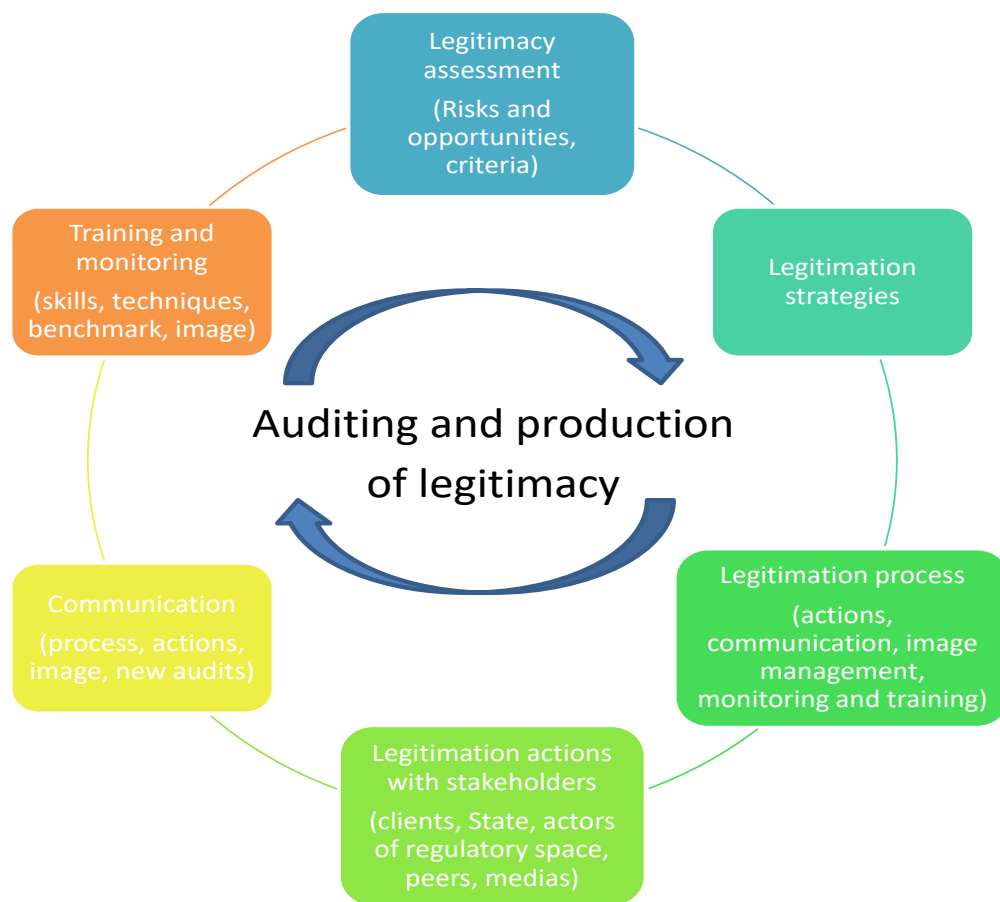
According to the auditor 10, a President of a regional company of auditors (CRCC), passing the resistance reaction in 2018, auditors are aware of this loss of power in the middle of 2019, and begin to search a new role in the economy (Lewin 1947) in reinforcing the third role in an audit planning which is the marketing (Humphrey and Moizer 1990). Henceforth, the auditors shall act as entrepreneurs to regain the social trust. The auditor 10 mentions the new obligation for auditors to issue a second audit report in which they have to explain the audit process and their recommendations to clients. Moreover, they will be trained to propose “new audits” to clients such as certification on cyber security, a potential market. Thus, they will have to modify their resource and exercise pragmatic legitimacy by changing the product system (Ashforth and Gibbs 1990) and reinforcing the exchanges with the public (Suchman 1995). The auditor 11 who has passed many years of experience in a Big and a Major expressed her concern about the “second report” which would be normalized and therefore give neither more value added for clients nor more occasions for clients to exchange with their auditors. She expressed also her great doubt about the ability of auditors to embark on a new field such as information systems despite the training promised by professional bodies. In proposing a voluntary limited audit with a mandate of three years, auditor will be a service supplier and could fall into the risk of loss of independence vis-à-vis the customers.

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<sup>23</sup>The French auditors are mostly the baby boomers, whose average age is about 55, which is opposite to the young President Macron who represents the X generation.

<sup>24</sup>During the interview, the auditor 8, a 44 years aged woman, compared the elected auditors of CNCC as the “mummies” who didn’t understand the evolution and expectations of audited companies and were afraid of changes.





**Figure 1: Playing field of the production of legitimacy of auditing**

The figure 1 provides a framework of production of legitimacy that the auditing profession can adopt to maintain and nourish its social legitimacy and its status as a profession. The profession should make an assessment of its legitimacy by identifying risks, opportunities and conditions to be met to gain its social legitimacy. It has to define legitimation strategies, components of legitimation process such as actions, communication, image management, “new audits”, training and monitoring. It has to take then legitimation actions with stakeholders such as clients, State, other actors in the regulatory space, peers and medias, because the construction of legitimacy with clients and stakeholders is essential (Power 2003). The profession and its members should also legitimate their actions via disclosure and exchanges with clients and stakeholders. Particularly, they should work on their image by making more disclosure and by communicating more transparently about audit process in order to reduce the expectation gap, which helps in return to gain legitimacy and power. Finally, auditor training on hard and soft skills, on new audits and on

how to meet societal expectations as well as monitoring would enable the profession to ensure the social construction of legitimacy.

### **Conclusion**

The movements in the French auditing profession over the last two decades analyzed under legitimacy theory provide evidence that the audit professional trajectory has been threatened by a severe breach of the social contract. Our discussions conducted with the professionals stimulated that while the profession made adaptation for regaining its autonomy, recognition and prestige, it failed to establish and defend its legitimacy and power.

The question of legitimacy of an organization arises when a disadvantageous historical event happens to it. The arrival of the PACTE law in France seems to be the occasion for the society to confirm its deception towards French auditors, especially in SMEs, and forces them to re-construct their professional project and professional trajectory. As a consequence of loss of legitimacy, French auditors face a crisis of identity and are seeking a portrait which is neither traditional accountant nor business professional as drawn by Carnegie and Napier (2010). Auditing practice must be regarded as a self-regulating system, a structure moving constantly following the economic, regulatory and political pressures for changes; practice and legitimation of practice must go together (Power 2003). However, in the case of French audit for small businesses, these two things did not yet match together, which led to the loss of trust of stakeholders.

This longitudinal study makes contribution to literature on the sociology of auditing profession. In this essay, we try to understand the movements of the French auditing environment, regulation and practices through socio-economic and political factors. As a result of inductive analysis of the empirical data, we propose a framework for the profession's re-conquest of legitimacy to create new social contract and to continue its existence. This proposal is far from being a self-evident set of techniques but must concern on a continuous improvement, a series of hopes and aspirations (Power 2003), including strategies clearly defined in a multidimensional frame: legitimacy assessment (risks, opportunities, criteria); legitimation process (action, communication, image management, new audits); training and monitoring (skills, techniques, benchmark, image). More important, these fields must be revisited constantly in accordance with the expectations of various stakeholders (clients, State, actors of the regulatory space, peers, medias).

### **Appendix 1: Documentary sources**

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