BAD APPLES, BAD BARRELS AND BAD CELLARS: A 'BOUNDARIES' PERSPECTIVE ON PROFESSIONAL MISCONDUCT

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BOUNDARIES, GATEKEEPERS AND PROFESSIONAL MISCONDUCT

Parmalat - formerly one of the largest dairy companies in the world - went bankrupt on 24th December 2003, leaving behind a "hole" of 14 billion euros, a sum almost twice the company's 2002 sales turnover. Subsequent investigations revealed that the company's financial accounts had consistently and deliberately been falsified for each of the 13 years that Parmalat was listed on the Milan Stock Exchange. During those years, professionals – who are supposed to act as gatekeepers (Coffee, 2005; 2006) – did not (or, in some cases, decided not to) see what was going on. Deloitte – which was auditing the company's group accounts – did not raise any concerns until October 2003 when they issued a disclaimer on the company's accounts, as they could not determine the amount of a fund held by a subsidiary. Standard and Poor's constantly rated the company at the investment grade and even improved its outlook only a few months before the company defaulted. Securities analysts, similarly, remained positive on Parmalat's shares until the company was already on the verge of bankruptcy, only a few days before the fraud was detected, 57 of 66 of their equity research reports recommended buying or holding the company's shares.

Enron's story, one of the biggest scandals in American history, is not much different, although it took place in the supposedly more developed U.S. stock market. As in the Parmalat story, professionals did not effectively perform their ascribed roles. Arthur Andersen, the company's auditors consistently approved Enron's accounts without raising any concerns, and failed to inform "the company's audit committee about both the accounting policies in use at Enron and the unusual transactions the company had conducted" (Batson Report, 2003: 40-41). Management consultancies such as McKinsey, which advised Enron, endorsed its strategic repositioning and praised its "asset light" strategy (Kipping et al., 2006). Not until four days before bankruptcy was declared on 2nd December 2001 did rating agencies lower their ratings of the company to below the mark of a safe investment. As late as October in the same year, 15 securities analysts rated Enron a "buy" and 12 of them recommended it as a "strong buy". Even as late as 8th November, when Enron disclosed that nearly five years of earnings would have to be recalculated, 11 of 15 analysts continued to recommend buying the stock. Only three analysts issued "holds" and one a "strong sell" – even though (admittedly in retrospect) Howard Schilit, an independent analyst, dismissively concluded that "for any analyst to say there were no warning signs in the public filings, they could not have been reading the same public filings as I did" (*Forbes*, 2002).

The above stories reveal how elite professions and professional service firms are implicated in some of the world's most prominent examples of corporate corruption. Moreover, there is no apparent slackening of the trend: "If accounting scandals no longer dominate headlines as they did when Enron and WorldCom imploded in 2001-02, that is not because they have vanished but because they have become routine" (*The Economist,* 2014: 24). Yet the professions have historically justified their influence and privileges with reference to their "gate-keeping" responsibilities (Coffee, 2005; 2006), their commitment to social trusteeship (Brint, 1994) and the importance of their fiduciary role (Thornton et al., 2005). There is, in other words, a "regulative bargain" (Cooper et al., 1988: 8; Freidson, 2001) whereby the state grants the professions a monopoly and self-regulation in exchange for the commitment to maintain ethical standards and use their expertise to serve the public interest (Macdonald, 1995).

Instances of wrongdoing by any occupation or organization are cause for concern, but those practised by professions such as law and accountancy are especially worrisome, for two reasons. First, the organizational form of the professional service firm is designed to ensure professional competence and integrity – so its apparent failure requires understanding. Second, and more profoundly, the professions are integral parts of the institutional system of checks and balances which should prevent corporate corruption of the sort practised by Parmalat and Enron. As such, the professions play a critical role in the financial markets because "capitalism cannot function without trust" (*The New York Times,* 2012). However, as the episodes of corporate corruption reported above unequivocally indicate, they are, at best, failing in this gate-keeping role or, at worst, are actively involved in the very forms of misconduct that they are responsible for overseeing. Instead of being lauded exemplars of ethically driven professional conduct, "major accountancy firms have become the unacceptable face of capitalism… Scratch the surface of any financial scandal or a tax dodge and the invisible hand of major accountancy firms is highly evident" (Mitchell and Sikka, 2011: 8).

In this chapter, we analyse the institutional conditions that increase the likelihood of professional misconduct. We seek to address the following questions. To what extent are professionals involved in corporate corruption? Under what circumstances do professions tend to aid rather than police misconduct? What is the relationship between professional misconduct and the institutional context in which professions operate? We define professional misconduct broadly as any behaviours, legal or illegal, that contravene normative expectations and professional codes of conduct. Under this definition, law firms advising their clients on how to shelter their income from taxation, and accounting firms turning a blind eye to their clients' accounts, are instances of professional misconduct. In both cases, professionals violate the professional norms that supposedly regulate their behaviour.

We begin by reviewing three perspectives on professional ethics: the *functionalist perspective* that ties professionalism to the public interest, the *conflict perspective* that focuses on the self-interested practices behind professional claims, and the *ecological perspective* that ties misconduct to the changing relationships and boundaries between multiple stakeholders. We then frame and elaborate our analysis against this latter perspective by connecting professional misconduct to the tensions, risks and conflicts generated by key institutional boundaries which are increasingly fragmenting professional practice. These shifting and complex boundaries, we propose, are generating a range of blind spots, opportunities and temptations that are contributing to the incidence – and increased risk – of professional misconduct. We conclude by suggesting a programme for future research.

Professions and Ethics

The notion that professional occupations are distinguished from regular businesses and trades by their superior moral fibre is well established in the foundational writings in the sociology of the professions (Carr-Saunders and Wilson, 1933; Durkheim, 1957; Parson, 1954). For these founding fathers, professions were defined by "an admirable sense of responsibility" and "a pride in service given rather than by interest in opportunity for personal profit" (Carr-Saunders and Wilson 1933: 471). As a result, professions were seen as civilizing forces that could act as "stabilising elements in society" and "centres of resistance to crude forces which threaten steady and peaceful evolution" (Carr-Saunders and Wilson, 1933: 497). For Durkheim (1957) the civic sense of the professions was a part of a system of moral restraints that could address the anomie of modernity, and for Carr-Saunder and Wilson (1933) the established professions were even a bastion against the barbarities of Nazism and Stalinism.

In short, for these and other functionalist writers, the professions have a normative value that comes from the role they exercise for the benefit of society, and from the superior ethics, altruism and civic conscience of their members. Similar assumptions, albeit with less hagiographic undertones, characterise the ultimately flawed taxonomic project of trait theorists (e.g. Greenwood, 1957; Barber, 1963; Millerson, 1964), which sought to analytically distinguish professions from other occupations based on their key empirical attributes. Professional ethics based upon a public interest orientation was one of the few traits shared by most checklists.

In these functionalist and trait-based perspectives, professional misconduct is a misnomer that runs counter to the very idea of professionalism. Accordingly, this literature does not directly deal with the issue, but if it could offer an explanation it would probably be in line with the "bad apple" hypothesis (Kisch-Gephart et al., 2010), whereby misconduct results from the behavior of rogue individuals acting against the standards and norms of their profession.

From the 1970s, an alternative and increasingly dominant perspective – conflict theory (Freidson, 1970; Johnson, 1972; Larson, 1977; MacDonald, 1995) – began to offer a different take on this issue. For these writers professionalism is a "peculiar type of occupational control rather than an expression of the inherent nature of particular occupations" (Johnson, 1972: 45). Crucially, it is a form of control that empowers producers *vis-à-vis* consumers by entrusting professionals with "occupational dominance" (Freidson, 1970) over the performance of their own work, including its means, ends and the terms and conditions under which it is performed (Freidson, 1970). These outcomes are the result of a conscious and systematic political project aimed at translating "a scarce set of cultural and technical resources into a secure and institutionalised system of social and financial rewards" (Larson, 1977: xvii).

Professional ethics to these writers are seen as rhetoric that legitimates the privileges of monopoly, self-regulation and higher levels of income. Not only do professions *not* have a special moral commitment, they engage in self-serving behaviours. Professional misconduct, in this sense, is consistent with a 'bad barrel' hypothesis (Kisch-Gephart et al, 2010) as it reflects the way that professions are designed as social systems, i.e. how they are structured to prioritize their own interests over the public good. As George Bernard Shaw put it, the professions are designed to act as conspiracies against the laity (Shaw, 2004).

Both the conflict and functional perspectives view misconduct (or, in the latter case, the lack of it) as an inherent and defining feature of professionalism. As such they provide an essentially static account of misconduct and give little attention to how change within and between professional occupations may contribute to its occurrence or form. Particularly important – and so far relatively ignored – are changes to the institutions of the professions –

such as training and qualification regimes (Freidson, 1994; 2001), ethical codes and disciplinary mechanisms (Brint, 1994; Reynolds, 2000; Greenwood, 2007; Dinovitzer et al., 2015), or forms of governance (Liparito and Miranti, 1998; Greenwood and Empson, 2003; Von Nordeflycht, 2014) – which, though designed to support professional standards and constrain the possibility of misconduct, are increasingly becoming undermined. In this context, in our opinion, a more unfolding, dynamic approach to professional misconduct is needed – *an ecological perspective* - in which misconduct is connected to shifting political and economic contexts that are disrupting the traditional institutional arrangements of the professions and eroding their ability to support and regulate appropriate professional behavior.

Theoretically, the key idea and our starting point is provided by Abbott's notion of professional "ecologies" (1988; 2005) which, through its emphasis on professional competition, offers a dynamic view of changing relationships within and between professional occupations. According to this perspective, professions exist as parts of an interlinked system where they compete against each other to control specific tasks (Halpern, 1992). These tasks are organized as jurisdictions over which professions advance more or less exclusive claims. However, because jurisdictions confer material advantages, the claiming and retention of jurisdictional boundaries is inevitably a contested process in which professions advance competing claims in front of key audiences such as the state, the public and the employing organization (e.g., Albrecht and Levy, 1982; Begun, 1987; Goode, 1960; Goode, 1969; Halpern, 1992; Kronus, 1976).

In later work Abbott (2005; for a similar if less developed argument, see Burrage, et al., 1990) portrays the systems of professions as part of a broader "linked ecology" with adjacent institutions such as the state and the universities, reflecting the fact that the professionalization projects of specific occupations are constrained, supported and generally affected by the moves of social actors adjacent to them and with whom they regularly interact (Muzio et al., 2013; Suddaby and Viale, 2011; Suddaby and Muzio, 2015). As Abbott (2005: 247) observes, "[n]ot only does a jurisdictional tactic like licensing have to succeed in the system of professions, it also has to succeed in the ecology of the state, for quite other reasons".

Abbott's focus on professional ecologies emphasizes the particular importance of "boundaries" that delineate and regulate professional jurisdictions by separating rival interests and the claims of different stakeholders. Based on his work, we identify different types of boundaries which are typically in play within professional ecologies: "jurisdictional" (boundaries between different occupational domains); "geo-political" (between different national realms); and "ecological" (between stakeholders such as practitioners, clients and employers). Importantly, professional ecologies and their boundaries are inherently unstable because of endogenous struggles within the system of the professions itself and exogenous developments in adjacent fields. The redrawing of existing boundaries allows groups to colonise new jurisdictions, exploit new opportunities, avoid regulatory constraints, and diminish existing obligations. Professional ecologies, in this sense, are in constant evolution, especially "on the fringes" where different sectional claims and interests are more likely to come into conflict. Indeed, Abbott contrasts relatively stable professional heartlands with the chaotic and disrupted lives along the frontiers. In his words, "boundaries are zones of action because they are zones of conflict" (Abbott, 1995: 857).

In this context, professional misconduct arises from the re-drawing of jurisdictional, geo-political and ecological boundaries within and between professional ecologies. In particular, changing boundaries may undermine existing oversight regimes, fuel conflicts of interest, create regulatory blind-spots, and generate opportunities for unorthodox, illegitimate and even illegal forms of behaviour. Regulatory, demographic and technological change, in other words can undermine existing professional and regulatory institutions, and disrupt established jurisdictions and their associated organizational forms and work practices (Brock et al., 1999; Leicht and Fennell, 2008). In this context, professional misconduct is consistent with a new 'bad cellar' hypothesis, as it arises from the relationships and boundaries between different stakeholders (barrels) in a broader ecological system (cellar). In the rest of this chapter we elaborate how the three sets of boundaries here identified can contribute to professional misconduct.

Changing Professional Boundaries and Misconduct

Jurisdictional boundaries

Jurisdictional boundaries are one of the key elements of the "system of the professions" (Abbott, 1988). They identify different professional domains and assign them specific tasks, competences and obligations (Abbott, 1988; Freidson, 1984, 1994). By doing so, they create an order within the system of professions that, although dynamic and constantly changing, allows it to function in a rather effective way and to survive over time (Albrecht and Levy, 1982; Begun and Lippincott, 1987; Goode, 1960, 1969; Halpern, 1992; Kronus, 1976). Jurisdictional boundaries, however, may also create opportunities for professional misconduct. We see two main ways by which this can happen.

First, professional misconduct can be the consequence of professionals and professional service firms crossing over different professional jurisdictions. For example, conflicts of interests may arise when audit firms offer their clients non-audit services. When this happens, as highlighted by Levitt (2000), firms may use the audit "as a springboard to more lucrative consulting services" by providing only a cursory audit in the hope that doing so will enhance their relationships with a client. Or, firms may compromise the exercise of professional scepticism when evaluating financial statements in favour of primarily commercial interests. According to the U.S. Securities and Exchange Commission, audit firms that offer both audit and consultancy services may eventually "impair investor confidence in auditor independence and lead to declining confidence in public capital markets" (SEC, 2000). Similarly, a conflict of interests may arise when law firms provide consulting in addition to legal services (Rosen, 2002), or when securities analysts, who are supposed to produce independent assessments of a company's stock, succumb to the pressures exerted by their employer to issue "more favourable" recommendations (Barber et al., 2007; Dugar and Nathan, 1995; Hayward and Boeker, 1998; Lin and McNichols, 1998; Michaely and Womack, 1999; O'Brien et al., 2005).

The idea that professional misconduct can be the consequence of crossing jurisdictional boundaries is well established (Sikka and Willmott, 1995). Much less attention, however, has been paid to a second way by which jurisdictional boundaries may lead to professional misconduct. Reliance upon (rather than the crossing of) jurisdictional boundaries creates the risk of misconduct arising from "institutional ascription" (Gabbioneta et al., 2013; Gabbioneta et al., 2014).

Gabbioneta et al. (2013) emphasize that most instances of corporate corruption involve *several* professional firms. Accounting, law, consultancy, investment firms and rating agencies are often implicated at the same time, confirming Palmer's (2012: 36) suggestion that "most wrongful courses of action require at least the tacit cooperation of others and thus are at least nominally collective". For this reason, attention should be given to the *network* of gatekeepers rather than to dyadic relationships such as those between auditors and clients. It is in this context that Gabbioneta et al. (2013) introduce the idea of institutional ascription. They propose that several conditions - the jurisdictional division of labour among professionals, the over-specialization of professional work (Leicht and Fennel, 1997), and the increasing volumes of activity with which professionals and professional service firms have to cope (Braun, 2000) - may push professionals to uncritically and unduly rely on the work performed by other professionals and/or professional service firms. It is this passive acceptance of the work of others that opens up the way for misconduct.

The most obvious example of this pattern of behaviour is the heavy reliance upon the reports of auditors. In the Parmalat case, professional reliance was clearly evident, first in the relationships between two accounting firms, and later in the relationships between accounting firms, analysts and rating agencies. Gabbioneta et al. (2014) show how Deloitte's "unconditional opinion" on the company's group accounts relied on Grant Thornton's audit of several of Parmalat's subsidiaries, including Bonlat, the group's "garbage can". Similarly, Arnold and Sikka (2001: 483) point out how, in the case of the Bank of Credit and Commerce International (BCCI), the "appointment of two auditors limited the scope of each auditor authority and facilitated BCCI's financial manipulation".

Once audit reports are available they are often uncritically accepted by other professions - even those that are supposed and claim to exercise independent scrutiny and judgement - because "a green light from an auditor means that a company's accounting practices have passed muster" (*New York Times*, 13 April, 2008; in Sikka, 2009). Credit rating agencies, for example, often base their ratings on financial statements that they assume have been appropriately checked. The Public Prosecutor in the Parmalat case was especially critical of rating agencies because they "did not develop a true analysis of the company's financial statements", even though doing so would have shown that these statements "were abundantly false" (Public Prosecutor, Parma). Similarly, the U.S. Senate Committee investigating the role of rating agencies in the Enron case decried their behaviour because they "did not perform a thorough analysis of Enron's public filings; did not pay appropriate attention to allegations of financial fraud; and repeatedly took company officials at their word, without asking probing, specific questions - despite indications that the company had misled the rating agencies in the past" (Senate Governmental Affairs Committee 2002: 108).

The chain of reliance on other professionals in the above stories also implicates securities analysts, who formulated their investment recommendations using financial data that they presumed, had been diligently audited *and* had been appropriately examined by the credit rating agencies. This reliance occurred despite the proclamation of analysts that they "exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities" (CFA, 2013). As reported in the *New York Times* (2001), one analyst "persisted in recommending the (Enron) stock" because he did not "think accountants and auditors would have allowed total shenanigans". Or, as another securities analyst candidly admitted, "we actually do something similar to an act of faith…if we know that those who have more information than we do have already expressed a positive opinion, to same extent we raise our hands…and consider the financial situation as given…we do not question… [issues] on which rating agencies have already given their opinion" (Gabbioneta et al., 2014).

Coming full circle, audit firms frequently rely on the work of law firms. When asked why Arthur Andersen did not report on Enron's suspicious accounting practices, Nancy Temple – in-house attorney for Arthur Andersen – answered that it was "because Vincent & Elkins had said there was no problem and that no further action would be necessary". Marco Verde - one of the auditors working for Parmalat - testified that he had agreed with the company on the value of a certain transaction because the law firm assisting the company had not raised any concerns about it (Court of Milan, 2008).

Institutional ascription can arise from several motivations and perceptions. Observers may misunderstand the basis of others' jurisdictions and attribute a process of diligence and detailed scrutiny that those professions would not claim. Or, it could arise from professional failure – as when an auditor fails to detect a wrongdoing within a client's organization. Or, it could stem from the inappropriate actions of a professional (as in the Parmalat case). Whatever the initial cause, however, the central thrust of the institutional ascription thesis is that any weakness diffuses and infects a professional network, and has an amplifying effect – as more and more professions sign off, the less likely that wrongdoing will be inspected and exposed.

Paradoxically, therefore, the existence of jurisdictional boundaries may either decrease or increase the possibility of professional misconduct. It may decrease it by preventing the emergence of conflicts of interests that would arise from professional service firms crossing jurisdictional boundaries. Yet, boundaries may increase the risk of professional misconduct, because of the processes of mutual ascriptions of professional diligence that take place among professionals. Both possibilities – boundary crossing, and boundary respect – it is worth noting increase not only the risk of professional misconduct but also the chances that corruption by clients will occur and remain undetected.

Geo-political boundaries

Whilst not at the centre of Abbott's analysis (but see Krause, 1996; MacDonald, 1995; Burrage and Torstendahl, 1990), professional ecologies and their regulatory regimes have historically existed within national (or in some cases regional) contexts. Differences in qualification frameworks and codes of practices mean that expectation and definitions of professional conduct vary across geo-political boundaries. In a globalizing world, however, professional work is increasingly conducted across these boundaries, and as such geo-political boundaries are an increasingly significant risk factor in professional misconduct (see Faulconbridge and Muzio, 2012).

The crossing of geo-political jurisdictions is reflected in the rise of the large multinational professional service firm which is increasingly replacing the national partnership as the key organizational arrangement for elite professional activity (see Cooper et al., 1996; Faulconbridge and Muzio, 2008). The largest multinational law firm, Baker and McKenzie, has offices in excess of 40 countries and employs over 10,000 lawyers. The "Big Four" accountancy firms are some of the most globalized organizations in the world. PricewaterhouseCoopers, the largest, has offices in over 150 countries and almost 200,000 employees (Empson et al., 2015). The transnational scope of these organizations creates three new risks and opportunities for professional misconduct.

First, as they cross geo-political boundaries, professionals may face uncertainty over the nature and source of their obligations – Nagel's (2007) dilemma of double deontology. Historically, professionals derived their normative obligations from the specific geo-political jurisdictions in which they were based (Krause, 1996). However, as Etherington and Lee (2007: 96-97) sharply illustrate, in an era of frequent boundary crossing: "we might not be too surprised to find an Australian lawyer working in the Brussels office of a New York law firm on a contract for a Japanese client with a German counterpart, which is governed by English common law, but in which disputes are to be referred to the International Chamber of Commerce's International Court of Arbitration in Paris". The result is an ethical conundrum for professionals and clients caught between national jurisdictions and their respective deontological rules. Nicolson and Webb (1999) suggest that such situations of double (or perhaps multiple) deontology lead to systematic uncertainties and unintentional misconduct as professionals struggle to understand and reconcile the demands of competing jurisdictions.

A good example of double deontology relates to Swiss banks and their US clients (see Broom and Bandel, 2014). To prevent money laundering and tax evasion, in 2010 U.S. authorities demanded that Swiss banks with branches in the US to reveal details of accounts held in Switzerland by U.S. nationals. This immediately left Swiss professionals in a situation of double deontology. Complying with the disclosure request would violate Swiss privacy laws but not doing so would violate U.S. laws. The Swiss Secretariat released a statement in 2012 noting that "the implementation of these provisions is generating high costs and legal uncertainty worldwide" (quoted in Novack, 2012). Ultimately, a special agreement had to be reached that allowed Swiss privacy laws to be broken. This involved Swiss professionals gaining consent from clients to break Swiss laws. A related but slightly different example is provided by Smets, Morris and Greenwood (2012) who found that German and U.K. lawyers working in the same firm initially found it difficult to collaborate on cross-border transactions because differences in their respective deontological codes made certain actions illegal in one jurisdiction whilst legal in the other. Again workarounds were needed, or what Smets et al. (2012) refer to as "situated improvising". Both examples raise questions about the malleability of rules and standards and, as we demonstrate below, the potential to enable wrongdoing through forms of arbitrage.

A similar form of risk relates to the trend towards off-shoring (see Sako, 2015; Daly and Silver, 2006). In such scenarios, double deontology is again a problem because it is not typically evident which set of ethical standards should apply. Should it be those of the offshore jurisdiction in which the work is completed, or those of the jurisdiction of the professional service firm off-shoring the work? Or should it be those of the jurisdiction where the client is located? Such uncertainty led the U.K. Financial Reporting Council to question whether the offshore activities of accountancy firms are sufficiently managed to ensure adherence to ethical standards (Crump, 2013).

A second risk concerns more intentional misconduct. Off-shoring provides corporations with opportunities to escape the reach of national regulations and regulators – as illustrated by the case of off-shore financial centres. These are not a new phenomenon (see for example Roberts, 1994) and have significant financial implications – Sikka and Hampton (2005: 327) estimate that in 2001 they cost the U.S. Government $311 billion in tax revenues. Importantly for our purpose, off-shore centres could not operate without the support of professionals, especially accountants and lawyers and those holding new forms of expertise, such as asset and wealth managers (see Harrington, 2015; Wójcik, 2013). As Palan et al. (2010: 13) observe, it is no coincidence that accountants from the Big Four are found in nearly all offshore financial centres and that their client base in these jurisdictions is almost exclusively comprised of corporations seeking to minimize their tax liabilities. Indeed, following the collapse of WorldCom, a U.S. Senate Permanent Subcommittee on Investigations revealed that the Big Four accountancy firms had developed multiple tax "products" designed to exploit differences across national jurisdictions – and had done so without apparent regard for their broader professional and fiduciary obligations (Sikka and Hampton, 2005: 333). Similarly, in the U.K., KPMG developed a tax avoidance scheme which used Jersey as an offshore centre in order to reduce sales tax liability, a practice since deemed illegal throughout the E.U. (Sikka and Hampton, 2005: 337). In Australia, lawyers enabled the movement of the entire James Hardie company off-shore to the Netherlands in order to minimize potential liabilities arising from the company's asbestos based products (Le Mire, 2007). A national outcry forced the Australian Federal government to step in to top-up the compensation fund available to plaintiffs. In these situations the behaviour of professionals may not necessarily involve illegal actions, but their advice can be construed as a form of normative misconduct. As Urry (2014: 44) notes, "even George Osborne, the Conservative Chancellor of the Exchequer in the U.K., describes "aggressive tax avoidance" as "morally repugnant"".

The wider issue relates to the responsibility that professionals hold in the use and impact of their advice. In many instances, professional advice which is legally sound enables and supports wrongdoing by their clients, implicating professionals in the transgression of normative standards. After the demise of Lehman Brothers it became clear that the Repo 105 instrument used to remove liabilities from its balance sheet and the ultimate cause of the firm's collapse was adopted as a result of a legal opinion provided by the London office of Linklaters. This opinion stated that under English law Lehamn's treatment of Repo 105's instrument was legal. However, Lehman had previously been advised that under U.S. law such a use of a Repo 105 instrument would not permitted. Professionals at Lehman's had exploited their firm's ability to cross geo-political boundaries to seek a favourable professional opinion elsewhere, in order to circumvent its own national regulations. Moreover, lawyers at Linklaters failed to consider how technically sound legal advice might be exploited and have unintended implications – something perfectly feasible given Linklater's activities as a global law firm in New York City. As Kershaw and Moorhead (2013: 51) notes, the question arises: "Whether the lawyer giving the true sale opinion perceived, or ought to have perceived, that providing the opinion was likely to give rise to a real risk of accounting or securities breaches. Or, to echo Lord Nicholl's words set forth above in relation to dishonest assistance, if they were not so aware, had they deliberately closed their eyes and ears to this risk".

Similar questions exist with regards to the role of professional services firms in facilitating tax avoidance. Burger, Mayer and Bowal (2007: 49) note that clients are often "advised in "comfort or opinion letters" issued by law firms to the effect that the tax shelters are "perfectly legal"", despite the fact that by exploiting an off-shore jurisdiction the client is breaking laws in another country in which they operate. Geo-political boundary crossing, then, raises not only new deontological uncertainties but generates situations in which professionals can become implicated in corporate wrongdoing.

The third risk associated with the crossing of geo-political boundaries is the lobbying of national governments for regulatory changes that increase the possibility of misconduct. As Flood (2011:510) emphasizes: "the size and scope of global law firms has made them difficult to encompass within a single regulatory jurisdiction" and "put them beyond the reach of effective national regulation" (for an accounting example, see Greenwood & Suddaby, 2006). Moreover, their scale gives them the ability to pressure national governments for favourable regulatory treatment.

A clear example was the threat by the Big Four accountancy firms to relocate to Jersey if the British government failed to introduce "limited liability partnerships" (Mitchell et al., 2002). The Big Four engaged two law firms in London (Slaughter & May, and Simmons & Simmons) and one in Jersey (Mourant du Feu & Jeune) to introduce limited liability partnerships in Jersey. They then used the threat of relocation to successfully lobby for similar legal arrangements to be introduced in the U.K. The motivation for introducing this new organizational form was to limit liability in cases involving professional negligence. In effect, the ability to move across national boundaries was used to undermine the concept of joint and several liability that has traditionally been portrayed as a fundamental mechanism for reducing the risk of professional misconduct (Empson and Greenwood, 2003; Von Nordenflycht, 2014).

The size and significance of global professional services firms not only gives them leverage over national regulators, it gives them influence over the design of international regulatory arrangements. As Flood points out, "global capitalism has been predicated on the rule of law…*and among its chief architects* are the large international law firms" (2011: 511, emphasis added). In performing this role, firms are accomplishing two things. First, as Suddaby et al. (2007: 334 – see also, Arnold, 2005; Faulconbridge & Muzio, 2012) note, "the historical regulatory bargain between professional associations and nation states is being superseded by a new compact between conglomerate professional firms and transnational trade organizations". This new compact uses the growing size and the power of global professional service firms, in alliance with international organizations such as the WTO, to support deregulatory agendas and develop globally integrated markets for professional expertise. Five U.S. law firms, for example, formed the backbone of the legal division of the Council of Service Industries which lobbied hard for the de-regulation of professional services markets as part of the WTO's GATS agreement (Terry, 2001).

Second, the legitimacy and effectiveness of *national* regulatory frameworks are being constantly undermined. The global law firm, for example, has managed "to side line the inconvenience of conflict of interest rules while continuing to pay lip service to them" (Flood, 2011: 508-9). Caramanis (2002: 400) describes how in the 1990s the then "Big Five" accounting firms "co-ordinated or at least initiated" a series of reforms to the Greek audit profession, which made it easier for them to employ foreign accountants in Greece. This made the Greek accountancy profession "gravely concerned as these measures (the new qualification exams [especially]) could call into questions its [the Greek profession's] standing and reputation" (quoted in Caramanis, 2002: 400). Similarly, residency requirements in Canada that "protect(ed) consumers from malpractice by making disciplinary control more practicable and by facilitating the ability of injured parties to sue for negligence" were undermined by WTO free trade regimes (Arnold, 2005: 313).

Ecological boundaries: Clients, investors and employers

A series of "ecological" boundaries separate and regulate professional relationships with clients, employers, and increasingly, financial investors (Abbott, 1988; 2005; Burrage et al., 1992). These boundaries establish professional duties by specifying the rights and obligations of different parties - such as the duty to avoid conflicts of interests or to ensure client confidentiality (Dinovitzer et al., 2015). They are also designed to limit the possibility that professionals may be unduly influenced such that they fail to observe their own deontological obligations. Three boundaries are especially noteworthy: between professionals and their clients; between professionals and the organizations in which they work; and, third, those between professional firms and investors.

Boundaries between professionals and clients. It used to be thought that clients are less knowledgeable and organized than their professional advisors and therefore less able to define and ensure that their interests are appropriately addressed (Johnson, 1972). Yet, in the corporate world at least, clients are becoming increasingly sophisticated (Sturdy, 1997). Furthermore, they are increasingly taking a more short term and transactional approach to professional relationships, constantly reviewing their suppliers (Broschak, 2015). The outcome is client capture: "companies tend to select auditors who will provide a clean opinion as cheaply and quickly as possible. Similarly, accountants who discover irregularities may be better off asking management to make minor adjustments, rather than blowing the whistle on a mis-statement that could embroil their firm in costly litigation". In this context, auditors have become "dozy watchdogs" (*The Economist,* 2014: 25). As a result, boundaries originally designed to protect clients acquire a new significance in protecting professionals themselves (Heinz, 1982).

"Client capture" (Leicht and Fennel, 2001; Gunz and Gunz, 2008; Gabbioneta et al., 2014; Dinovitzer et al., 2014) refers to situations where advice is tailored to the commercial interests of clients and weakens the professional's fiduciary obligations to the broader public. In other words, the interests of clients are prioritized to the point where the "social trusteeship" (Brint, 1994) responsibilities of professionals are compromised. Although capture may occur over relatively mundane issues (Dinovitzer et al., 2014), it particularly matters where it affects the "gatekeeping" role of the professions – such as their commitment to the administration of justice or to the accuracy of financial statements.

The implications of client capture are starkly illustrated by the involvement of the professions in corporate wrongdoings such as those committed by Enron, WorldCom, Tyco and Parmalat. In each case, a professional firm was deflected from behaving "professionally" either by explicit pressure from the client, or by the implicit fear of losing the client. In the case of Enron, "[Arthur] Andersen team members routinely succumbed to demands for certification from Enron management" spectacularly failing in their obligations towards third parties, especially investors (Macey and Sale, 2003: 1179). In the legal profession, to give one example, Australian large law firm Clayton Utz was complicit in the strategy of its client British American Tobacco to destroy documentation so to minimize litigation risks (Cameron, 2002; Parker, 2004).

Rating agencies have been similarly criticized for their lack of independence. As Crotty (2009: 566) observes, "ratings agencies are paid by the investment banks whose products they rate. Their profits therefore depend on whether they keep these banks happy… If one agency gave realistic assessments of the high risk associated with these securities while others did not, that firm would see its profit plummet. Thus, it made sense for investment banks to shop their securities around, looking for the agency that would give them the highest ratings and it made sense for agencies to provide excessively optimistic ratings". Such a view is echoed by Partnoy (2009: 432), who argues that "credit-rating agencies…sell not information, but keys that unlocked the financial markets" and that, as a consequence, issuers have strong incentives to look for the agency that would give them the highest possible rating.

A growing literature seeks to identify the circumstances that increase the likelihood of client capture – or at least the risk of its occurrence. For Sharma (1997), who uses the term client control, it is most likely to occur in situations where clients have alternative providers, where professionals make significant investments in a particular client relationship, and where there is a high degree of dependency upon a particular client. Macey and Sale (2003) refer to the size of the client, the dependency of the firm upon revenues from a particular client, and the weakening of collective accountability implied by the limited liability partnership format. Klimentchenko (2009) and Sikka (2009), referring to the relationship between auditing and consulting, stress the impact of "cross selling'" and how this can compromise fiduciary services.

Several factors are supposed to reduce the risk of client capture. Since the Sarbanes-Oxley reforms of 2002, the extent of consulting that can be provided to an audit client has been constrained. Similarly, many countries worldwide have introduced mandatory audit rotation every three to five years. But the evidence to date is that these factors are, at best, only partially effective in reducing the risk of client capture (e.g., Ribstein, 2003; Myers et al., 2003; Cullinan, 2004; DeFond and Francis, 2005: Abbott et al., 2004; Blouin et al., 2007).

Boundaries between professionals and employers. A particularly important ecological boundary, and, again, one that is changing and that has potential significance for the possibility of misconduct, is that between the individual and the employing organization. The relationship between professionals and bureaucratic organizations has long been a concern in the literature and was, initially, considered to be an area of tension because of the (assumed) inherent conflict between professional and bureaucratic contexts. It was supposed that professionals would find it difficult to sustain their professional commitment (e.g. Goode, 1957). However, "this line of reasoning has not been supported by empirical research. Professionals have actually adapted well to work in large organizations" (Suddaby & Viale, 2011: 423). Moreover, as noted above, professionals have developed a particular governance form – the "professional partnership" – which is intended to underpin and reinforce professional values.

However, as members of professions have moved from being primarily self-employed or employed in modest sized firms, to become employees of increasingly large firms the boundary between the professional as a member of a profession and as an organizational employee has assumed high significance (Larson, 1977; Macdonald, 1995; Ackroyd and Muzio, 2007). It has long been recognized that organizational size can undermine – at least to some extent - the traditional autonomy and discretion provided by collegial professionalism and can raise the risk of ethical challenges (Greenwood and Hinings, 1993; Cooper et al., 1996; Brock et al., 1999).

The reason why this particular boundary has worrying consequences is twofold. Larger firms can unwittingly distance their professionals from the cultural and normative influence of the broader professional community. Thus for example, large English law firms have largely opted out from national vocational training processes and in conjunction with commercial providers like BPP University developed their own in-house training programmes (Malhotra et al., 2006; Faulconbridge and Muzio, 2012). Through these programmes, trainees are socialised into the organization's systems, practices and values. This distancing process is further facilitated by the development of increasingly sophisticated identity management techniques designed to control and align individual subjectivities with organizational priorities (Anderson Gough et al., 1999; 2000; Cooper and Robson, 2006; Covaleski et al., 1998; Grey, 1998). Thus, through "the use of a bundle of increasingly sophisticated HR practices such as selective recruitment, in-house training, performance appraisal and mentoring these firms mould their recruits" to fit in with *their* values and priorities (Flood, 2011: 510).

The second way by which size and organizational status might compromise professional norms is that professionals within a large and prestigious firm are more susceptible to the gentle and often implicit expectations to do things in a particular way. A firm's prestige provides a form of "structural assurance" that its way of doing things is appropriate (Grey, 2003; Wilson et al., 2008; Smets et al., 2012). Structural assurance, in other words, "is especially apposite in professional settings because it lowers professional concerns that organizational practices and expectations are appropriate, even though they may run counter to institutionalized norms of conduct" (Smets et al., 2012: 897). Crucially this tends to facilitate misconduct as professionals in prestigious firms assume that their objectives are "safe and fair" (Wilson et al., 2008: 989). Importantly, structural assurance applies not only to employees but to other stakeholders, such as other organizations in broader networks of expertise and to regulators, who are likely to exercise less scrutiny to large firms (Grey, 2003; Smets et al., 2012).

Boundaries with investors. Finally, a recent and still developing boundary that may represent an increasingly important source of ethical tensions and dilemmas resides between professionals and outside investors. Traditionally, professionals have been organized as sole practitioners or as part of "partnerships", which merge ownership with managerial control (Greenwood et al., 1990; Maister, 1993; Greenwood and Empson, 2003; Empson and Chapman, 2006; Van Nordenflycht, 2014). As such, partners are jointly and severally liable for each other's liabilities, a pattern of responsibility intended to ensure the quality and integrity of professional work. Joint liability, in other words, at least in theory, should motivate professionals to monitor each other and therefore safeguard the interests of clients and the broader public.

A distinctive feature of the partnership format – at least until recently – has been the prohibition of external investors. There was to be no internal "representatives" (i.e., proponents) of the commercial "logic" (Pache & Santos, 2010). Instead, the professional logic was to be ubiquitous and thus nurtured and protected. Yet over the last few decades (Greenwood and Empson, 2003; Faulconbridge and Muzio, 2009; Van Nordenflycht, 2014) an increasing number of professional service firms, especially management consultants, and investment banks (Van Nordenflycht, 2014), have restructured themselves as publicly listed corporations – moving away from, and potentially undermining the motivation and value of peer control. This shift has been proposed as a major reason why, for example, investment banks became more commercially oriented (Santoro & Strauss, 2013).

Some occupations, notably management consulting, adopted the professional partnership form because it gave them symbolic legitimacy. It made them appear professional because that was the format associated with the established professions – especially law and accounting for whom the partnership format was mandatory (McKenna, 2006). Recently, however, some jurisdictions - such as New South Wales in Australia, and England and Wales - have allowed external investment in and ownership of law firms. Two Australian law firms have listed on the stock exchange and expanded through high profile acquisitions in the U.K. (Dowell, 2012; Gannage-Stewart, 2014; Van Nordenflycht, 2014). The U.K. law firm Gateley was floated on the

London Stock Exchange on 8th June 2015 (Manning, 2015) soon to be followed by the larger firm Irwin Mitchell (*The Lawyer*, 2015).

The move to allow external shareholders is significant because they represent another key stakeholder within professional ecologies and, as such, provide another set of relationships and tensions that have to be managed by professional firms and their professional associations. As indicated by the quote below, which is taken from the prospectus of Slater & Gordon, for a publicly listed law firm securing a return on investments potentially clashes with fiduciary obligations towards other stakeholders:

> *"Lawyers have a primary duty to the courts and a secondary duty to their clients. These duties – including the attendant responsibilities such as client confidentiality and the rules relating to legal professional privilege – are paramount given the nature of the company's business as an incorporated legal practice. There could be circumstances in which the lawyers of Slater & Gordon are required to act in accordance with these duties and contrary to other corporate responsibilities and against the interests of Shareholders and the short-term profitability of the company" (Slater & Gordon, 2007).*

The fear, hinted in the quote and articulated elsewhere is that the duty to investors to maximize returns on their investment may compromise standards (Parker, 2004; Markle, 2014; Rayne, 2014). Firms may come under pressure to maximize billing from existing clients through aggressive cross-selling, or to compromise quality in order to boost their profitability. In effect, the breaching of this boundary may reinforce the client capture dynamics described above. It is, however, too early to know how these changes in the ownership boundaries will play out, but not all observers are pessimistic. Some have argued that outside investors could *reduce* the incidence of misconduct by imposing higher regulatory standards and tightening internal controls (Parker, 2004; Fortney and Gordon, Parker et al., 2008; 2010). Nevertheless, the growing role of investors as an important stakeholder in professional ecologies and the conflicts of interests that this additional complexity may generate represents an important new source of tensions and, potentially, of misconduct.

Conclusions and Future Research Agenda

Our chapter supports the view that professional misconduct arises from the transformation of professional institutions rather than being inherent in the nature of the professions themselves. Our analysis places particular emphasis on changing relational patterns within broader professional ecologies. At the heart of our argument is the importance of boundaries with professional ecologies, as these demark distinct remits, roles and responsibilities and regulate the competing claims of different stakeholders. We have identified jurisdictional, geo-political and deontological boundaries, reviewed changes to them that are destabilizing professional ecologies, and linked these shifts in, and pressures upon boundaries to professional misconduct.

We have proposed that, in some cases, boundaries may simply be too weak. Clients and employers may too easily override the deontological obligations and fiduciary duties of individual professionals. Similarly, within multi-disciplinary firms, boundaries between different professional groups may be too thin and porous to provide an effective barrier against conflicts of interests and opportunistic behaviour. In this most obvious of scenarios, boundaries simply fail in their objective to separate distinct remits, interests and stakeholders. However, in some situations the opposite problem arises: boundaries may be too strong. Boundaries can provide barriers that deprive professionals of the full picture and cloud their professional judgment. They can create blind spots and lead to processes of collective myopia. In other situations, boundaries create uncertainties or dilemmas where existing regulatory and normative orders are weakened if not suspended. In a globalized professional services market, the gaze and reach of national regulators are increasingly compromised. The result is a liminal place characterised by ambiguity and increased opportunities for questionable experimentation and entrepreneurial behaviours. Indeed our analysis suggests how professional firms may actively exploit the gaps and inconsistencies between national boundaries on behalf of themselves and their clients. Thus on the basis of our conceptual framework, we suggest a 'bad cellar' hypothesis that ties misconduct to the contested and shifting boundaries between different actors in broader ecological systems. Whilst the 'bad apple' and 'bad barrel' hypotheses emphasized the role of rogue individuals and flawed organizational designs, we invite researchers to broaden their focus to consider how misconduct may arise at the next level of analysis, i.e. on the boundaries between actors within linked ecologies.

Future Research Agenda

Our conceptual framework calls for a programme of empirical work to measure, elaborate and confirm (or modify) the arguments here developed. This is particularly true with regards to the relationship between boundaries and professional misconduct. For instance, to what extent are recent regulatory changes and developments with professional ecologies reducing the scope for professional misconduct? Obvious examples include legislation introduced in the wake of Enron and Parmalat, such as the Sarbanes-Oxley Act in the U.S., which sought to re-regulate the relationship between professionals and their advisors and reinforce jurisdictional boundaries by re-asserting the separation of auditing from consulting. On the other hand, legislation such as the Legal Services Act (2007) in England and Wales introduces new stakeholders (i.e., investors) within professional ecologies and potentially creates new sources of tensions that have to be managed. These may lead to increased opportunities for misconduct or help to bring in more comprehensive ethical infrastructures which help to manage such risks. In this context, it is very important to ask, how are recent regulatory reforms affecting professional ecologies? What is their impact on professional misconduct? How can new regulatory risks be appropriately managed? Related to this there needs to be a further debate on where professional regulation is best located. Historically professional occupations have admitted and regulated individual practitioners. However, following the rise of the large professional services firms, the emphasis has somewhat shifted towards entity regulation (Flood, 2011). Perhaps, on the basis of the analysis here developed, professional regulation should also take a more ecological view and focus on the boundaries between different actors and jurisdictions

Connected to this point, we need to better understand what factors are likely to weaken and compromise existing boundaries. For instance, is capture more likely to occur within stable long-term relationships, where there may be a high degree of proximity between clients and their advisors, or in transactional relationships, where professionals are under pressure to retain increasingly mobile clients? Is the presence of outside investors going to exercise new pressures towards misconduct or will they bring enhanced regulatory regimes which may reduce these risks?

We also need more research on the relationship between national regulatory frameworks and the new transnational regimes which are emerging, around agreements such as GATS, the E.U. and NAFTA. Whilst professional practice is increasingly global and requires a global oversight, it has historically been regulated at the national level. Although inevitable, the re-scaling of regulation from the national to the transnational level may undermine existing arrangements and leave behind a series of "black-holes" where professional practice can escape proper oversight (Faulconbridge and Muzio, 2012). As such, more research needs to be focused on the relationship between established national and developing transnational regimes and its likely impact on the potential for professional misconduct. Which regulatory powers and competences are best left at the national level and which at the transnational level? What is required to ensure an adequate dialogue and coordination between different regulatory levels? What is the best way to regulate global professional services firms?

Finally, more research is required in other than Anglo-Saxon contexts. There are significant national variations not only in how professional ecologies are structured (Burrage and Torstendhal, 1990; Faulconbridge and Muzio, 2007) but also in corporate wrongdoing patterns. Yet these differences have not been adequately explored. We need to understand how professional ecologies in continental societies, which are more closely structured around the state and characterised by stronger jurisdictional boundaries and tighter levels of regulation (Paterson et al., 2003), shape professional patterns of misconduct. Coffee (2006), for example, makes a distinction between continental models where cases of corruption often involve strong block-holders (like Tanzi at Parmalat) transferring resources from the company to themselves, and Anglo-Saxon contexts where in fragmented shareholding is associated with wrongdoing by managers who engage in earnings manipulations in order to inflate the value of their variable remuneration. Given these differences in contexts and the form of wrongdoing with which they are most associated, what is their link with professional misconduct? There is much we still need to know.

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