Organizational legitimacy, conflict, and hypocrisy: An alternative view of the role of internal auditing

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A B S T R A C T

This article provides a commentary on Everett and Tremblay’s (2014) analysis of ethics and internal audit by further exploring the role of the internal audit function within Nils Brunsson’s model of organized hypocrisy (Brunsson, 1986, 1993, 2002). Specifically, we extend Everett and Tremblay’s discussion of internal auditors as ‘moral’ actors and propose that the counter-coupling of an organization’s primary outputs–talk, decision and action–provides internal auditors with the necessary tools to carry out conflicting ethical roles within the organization.

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1. Introduction

Everett and Tremblay (2014) present a very thoughtful analysis of ethics and the internal audit function in business organizations. Through their use of in-depth interviews, an interpretive archival examination of an internal auditing exemplar’s autobiography and selected Institute of Internal Auditors (IIA) association’s documents, Everett and Tremblay explore the manner in which internal auditors are “asked by their professional association to embrace a moral will that is ambiguous, if not conflicted”. Deontic, teleic, and aretaic ethical principles provide the theoretical groundwork the authors use to dissect carefully the ethical stance of the internal auditing field, ultimately concluding that it is currently compromised.

Building on Boyce’s (2014) critical examination of Everett and Tremblay’s work and Lehman’s (2014) discussion of the “phronemos” and the current state of accounting education, we comment on the conflicted role of the internal auditing function within organizations’ quests for legitimacy. We believe that Everett and Tremblay’s explication of the ambiguous and conflicting roles of internal auditors, especially in light of their professional association’s efforts to expand internal...
auditing’s jurisdiction to broader issues of corporate governance and risk management, opens a space to reflect critically on the field of internal auditing from multiple theoretical perspectives. As we studied Everett and Tremblay (2014) we immediately connected their work to Nils Brunsson’s model of organized hypocrisy (Brunsson, 1986, 1993, 2002). The purpose of our paper is to provide a commentary on Everett and Tremblay (2014) that connects their work with the theoretical work in organized hypocrisy.

The model of organized hypocrisy challenges traditional, rational models of organizational decision making. Brunsson argues that an organization’s three outputs—talk, decision, and action—are not coupled, even loosely, such that talk leads to decisions that lead to actions in a rational, consistent progression. He also argues that these three outputs are not de-coupled. Rather, Brunsson explains that under the model of organized hypocrisy talk, decision, and action are counter-coupled. Talk and decision are utilized to compensate for action, not predict it. This counter-coupling “makes it easier to maintain the legitimacy of organizations, even when they are subjected to conflicting [stakeholder] demands” (Brunsson, 2007, p. 116).

Thus, for example, a mining company can talk about its commitment to protecting the environment in its sustainability report and increase its invasive techniques for strip mining in pristine wildlife areas.

Three specific insights forwarded by Everett and Tremblay (2014), taken together, convinced us that their paper can be related to Brunsson’s model of organized hypocrisy. First, the authors locate the internal auditing field within its expressed role as a ‘moral’ market actor. They employ work by Fourcade and Healy (2007) to argue that “markets are ‘actively moralized’ by their participants, and this is done via definitions of good and bad, legitimate and illegitimate”. Similarly, Brunsson’s work on organizational hypocrisy is grounded in businesses’ need for societal legitimacy and in the moral dilemmas that management confronts when trying to satisfy conflicting stakeholder demands (Brunsson, 2002).

Second, Everett and Tremblay explain that internal auditors work within a field of weak autonomy. Internal auditors’ position within business organizations makes them accountable to agents (i.e., management) or those closely associated with agents (i.e., audit committee members), and this structure undermines internal auditors’ cultural and moral authority. In essence, an organization’s internal audit function is, as Everett and Tremblay state, “deeply immersed in organizational politics.” According to Brunsson, hypocrisy flourishes in a political organization (Brunsson, 2002). Thus, the internal audit function can be examined effectively from Brunsson’s analysis of hypocrisy in politicized organizations.

Third, Everett and Tremblay use Gramling et al. (2004) and others to argue that internal auditors, as ‘pillars’ of corporate governance, promote a professional sense of morality that provides them with choices regarding how best to exert their moral will. The authors remind us that virtue ethicists examine thoughts and actions, and that a “virtuous person is one who thinks, and more importantly, acts in a virtuous way.” Brunsson explores the ways in which organizational hypocrisy can be used to help us understand the counter-coupling of talk and decisions, and actions among organizational members as they attempt to manage conflicting stakeholder demands, and more broadly, their organizations’ societal legitimacy. Internal auditors play a strategic role in the maintenance of organizational morality and legitimacy. Organizational hypocrisy can provide internal auditors with “moral cover” and also provide them with counter-coupled tools of talk, decisions, and actions that help them play out their conflicting roles as arbiter of organizational justice and internal management consultant.

In the remainder of our discussion we briefly explain Brunsson’s theory of organizational and organized hypocrisy and use this theory to comment on the role of internal auditing within business organizations. We believe that Brunsson’s work can further our collective understanding of internal auditing as an organizational response to the need for societal legitimacy and for balancing conflicting stakeholder demands. In the process, we hope to provide some additional insight into the precarious moral position of internal auditors.

2. Organizational legitimacy, stakeholder conflict, and organized hypocrisy

Organizations are dependent upon their environment for legitimacy and external support (Suchman, 1995). While organizations exercise some control over organizational values and norms, often by choosing the environment in which they operate, there are a multitude of ideologies to which they must cater. For instance, business organizations are expected to generate high profits, meet analyst expectations, satisfy regulators, and create jobs while simultaneously protecting the interests of shareholders, creditors, the natural environment, and other affected parties. Moreover, stakeholders are increasingly demanding transparency with regards to an organization’s structures and processes. Maintaining societal legitimacy thus requires an organization to develop and execute strategies that assess and balance the conflicting demands of legitimate stakeholders (Mitchell et al., 1997). Brunsson’s model of organized hypocrisy presents a two-pronged strategy for gaining and maintaining external support: (1) reflecting inconsistencies and (2) organizational action. In sum, conflicting ideologies can be reflected by how an organization structures and presents itself in the natural environment as well as by how it acts.

The use of hypocrisy to satisfy conflicting interests, norms and values among various stakeholder groups can most notably be observed within political organizations, which are generally characterized by conflict and structured to embrace multiple ideologies among members (Brunsson, 2002). Brunsson notes that “one way of reflecting inconsistencies is to create and maintain a conflictual structure” (Brunsson, 1986, p. 168), whereby organizations form separate organizational functions and departments meant to exploit goals that are incompatible with the core goals of the organization. Subgroups are designed to assist organizations in the procurement of external support and signal ethical intentions to the rest of the world. Members who consider themselves agents of the environmental constituency that they represent, rather than agents
of the organization, are recruited for these subgroups and charged with the task of criticizing organizational processes and proposing alternatives, whether or not such alternative actions are expected to be implemented (Brunsson, 1986).

Traditionally, organizational theory has relied on the assumption that organizational action is a direct product of the ideas and decisions of organization members and their leaders. While the assumption that ideas lead to action may be practical when theorizing about individuals, the nature of action within organizations is arguably more complex. Although organizations are comprised of individual actors, coordinating action within an organization also requires communication between multiple groups of individuals, each playing a different role in the coordination process (Brunsson, 1993). This customary organizational structure creates practical difficulties for the traditional assumption that ideas are directly related to action.

For one thing, Brunsson notes that “ideas not only have to be thought up by the constituency, they also need to be talked about” (Brunsson, 1993, p. 489). Executives are generally thought to make decisions based on the collective ideas of their constituency, which then leads to a desirable action or outcome. However, these ideas often vary considerably between members and may not be easily converted to action. In other words, “what can be talked about cannot always be translated into action, and what can be done cannot always be talked about” (Brunsson, 1993, p. 490). Consequently, executives are often forced to make decisions that may not satisfy all members of their constituency and ultimately, may not even be feasible in terms of action. The result is that individual actors carry out a decided course of action that is inconsistent with the decisions communicated to the constituency. Essentially, organizations have been found to “talk in one way, decide in another and act in a third” (Brunsson, 2002, p. xiii) – utilizing hypocrisy in a counter-coupled way to satisfy multiple factions within a constituency.

In the political organization, hypocrisy is further facilitated by the mutual exclusiveness of the three components of organizational process: (1) talk, (2) decision and (3) action. Brunsson (2002, p. 28) notes that while “action takes place in the here and now, … talk and decisions are often associated with the future.” Thus by talking and deciding about actions that are to take place in the future, today’s actions are distanced from today’s ideas and support for executives and actors is preserved (Brunsson, 1993).

3. Internal auditing within the theory of organizational hypocrisy

The leaders of large business organizations often view the internal audit function as a tool for helping to manage internal and external stakeholder demands (Güner, 2008). Historically, internal auditors were characterized as enforcers of employee compliance with rules of internal control and applicable regulations. In addition, they were charged with insuring that a company’s assets were safeguarded (Güner, 2008). During this period the internal audit function, operating as a sub-group of an organization, could reflect values of control, compliance, and stewardship and in essence ignore or de-emphasize core organizational goals of increased profitability and shareholder wealth. This type of organizational hypocrisy is still prevalent in some organizations. This sub-group conflict was evidenced by Everett and Tremblay (2014) through some of the interview quotes they reported and discussed. Interviewees who were part of management made statements such as “Internal audit has a pseudo-policing role … I’m not happy with them coming in because they have no added value to my work as a manager” and “Internal auditors have no inherent interest in profitability.” While the internal audit function served its role as a “necessary evil”, core organizational goals were not expected to be compromised. One internal auditor interviewee expressed this difference in sub-group values as follows: “As an internal auditor I feel like no one wants to hear the truth”.

The internal audit function seems to be evolving (Güner, 2008; Spekle et al., 2007). Over time, professional associations such as the Institute of Internal Auditors (IIA) began to encourage organizations to utilize the internal audit function more strategically in a consultative, partnership role with management. In the IIA 2011 publication, Insight: Delivering Value to Stakeholders, Miller and Smith (2011) report on research performed by the IIA Research Foundation that investigated the “elements of the new internal audit Value Proposition” (p. 1), which included assurance, insight, and objectivity. The authors posited that by bringing these three key attributes to their work, internal auditors are able to improve an organization’s governance, risk management, and internal control processes. Miller and Smith (2011) concluded:

The [internal] auditor’s objective assessment is critical but insufficient. Beyond objectivity, auditors need to approach understanding issues and potential remediation activities from a business perspective. For example, textbook recommendations that do not address root cause, implementation cost, or the realities of competing business priorities quickly undermine an internal audit department’s efforts to add value and provide insight. (p. 4)

Currently, the internal audit function is often positioned as a sub-group that provides services to a variety of different stakeholders in an organization and as an integral part of a company’s risk management and corporate governance structure. In other words, internal auditing is said to have evolved “from control to consultancy” (Güner, 2008, p. 23). The internal audit function can now largely be regarded as serving two purposes within an organization: (1) ensuring compliance with current laws and regulations, particularly regarding internal controls and financial reporting and (2) consulting with management to accomplish objectives, managing risk and strengthening corporate governance. With regards to the first objective, internal audit can still be viewed as a monitoring or policing activity within the organization, often regarded “as a necessary component of control but deemed subservient to the achievement of major corporate objectives” (Spira and Page, 2003, p. 653). However, based on efforts to professionalize internal audit, internal auditors have been arguably successful in establishing an apparent value-added, consulting role within their organization. Spira and Page argue that a “broader
approach to internal control has offered internal audit the opportunity to claim expertise in the crucial area of risk management” (Spira and Page, 2003, p. 654).

Whether viewed as a control function or a consultant, there is clearly a considerable amount of conflict between the goals of the internal audit function (e.g. control strength and accuracy and reliability of financial information) and organizational goals (e.g. profitability and maximization of shareholder wealth). Similar to the external audit function, internal audit is described by the IIA as “an independent, objective assurance and consulting activity.” Yet, as they are considered to be part of the organization’s control environment, the internal audit function does not meet the definition of independence by AICPA standards. According to SAS 65, “The Auditor’s Consideration of the Internal Audit Function in an Audit of Financial Statements” (AICPA, 1990), internal auditors need only be independent and objective of the specific activity being audited. Thus, as internal auditors assess risk and criticize the decisions and processes of an organization, they are met with conflicting ideas regarding how to proceed. On one hand, they are interested in meeting the increasing demand of external stakeholders to comply with accounting standards, adhere to sound ethical principles and demonstrate appropriate risk management procedures. Güner advocates, “Successful stakeholder management requires internal auditors to recognize stakeholders’ expectations and perceptions and to provide the timely and accurate information they need” (Güner, 2008, p. 25). On the other hand, they are under pressure from managers to add value to the organization by recommending methods to achieve a favorable financial picture for the company. Should proposed alternatives to act be made with the intent of improving accuracy and compliance or with helping the organization meet business goals?

Everett and Tremblay (2014) introduce and effectively discuss these changes in the organization’s and other stakeholders’ expectations of internal auditor performance. They state that the internal auditors’ new, broader, more central responsibilities place them “more deeply immersed in organizational politics.” We believe that this new set of responsibilities results in the internal audit function becoming more implicated in the organization of hypocrisy. As Brunsson might say, hypocrisy provides a solution for the internal audit function and the organization to utilize to handle the tensions and conflicts it faces within and external to the organization. The solution of hypocrisy is beneficial to the organization as it can now talk of internal auditors’ commitment to governance and stewardship, make decisions to elevate the status of the sub-group by having it report to its audit committee, yet act on the profit-oriented suggestions they provide. This use of hypocrisy can be seen in one of the quotes included by Everett and Tremblay which was made by an internal audit director:

As we audit, we give management and employees a chance to fix what needs to be fixed and the report that goes to management is one of compromise where electroshocks have been removed. It’s like a Christmas wish list where we would say I want this, I need that, I require this, I would like that and what goes up to the audit committee consists of Merry Christmas and Happy New Year.

The solution of hypocrisy is not necessarily the most immoral. We think of hypocrisy as inherently wrong although we make exceptions under many circumstances. The quote above may be explained as a “light” touch that represents a choice less devastating to the parties involved than would result from a “heavier” declaration. The internal audit function, faced with conflicting demands from more powerful organizational actors, may consider a hypocrisy solution as one that is required by the organization in order to continue its societal legitimacy.

4. Conclusions

We believe that Brunsson’s model of organized hypocrisy complements the work of Everett and Tremblay (2014). In their paper, they state that

One need ask as well what kind of person it takes to successfully carry out a career that sometimes requires that person to take on a policing role, which can lead him or her to have a pariah-like status in the organization, and at the same time an enabling role, which demands loyalty and trust.

Everett and Tremblay provide an excellent ethical analysis of whether and how a person can act morally in the role of internal auditor as it is currently defined. Brunsson’s model of organized hypocrisy helps us understand the ways in which the need for organizational legitimacy and the conflicting demands of stakeholders shape the role of the internal audit function. Further, it suggests that organizational hypocrisy may isolate sub-groups in an organization so they are better able to cope with the moral aspects of their particular role. However, the internal auditing profession’s focus on internal auditing as both a compliance monitor and a strategic consultant stretch the level of organized hypocrisy society is willing to excuse.

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