

**Social Structure and the Dynamics of Interfirm Ties:
The Audit Services Market, 1986 to 2002**

Douglas Grbic
Department of Sociology
University of Illinois

Final Defense
Thursday, April 12, 2007
336 Lincoln Hall
9:00am

Shin-Kap Han (Chair), Department of Sociology, University of Illinois
Ruth V. Aguilera Department of Business Administration, University of Illinois
Michael Biggs, Department of Sociology, University of Oxford
Tim F. Liao, Department of Sociology, University of Illinois

Abstract

This study investigates the dynamics of interfirm ties in the context of the audit services market. I examine how a firm's relational context, or 'local status crowding,' i.e., the extent to which a firm's rivals are tied to the same auditor, affects the dissolution of auditor ties. I then ask how the breaking and making of auditor ties shape the structure of the audit services market. This study utilizes data on approximately 90 thousand client firm-auditor pairs from 1986 to 2002.

Results show that the likelihood of switching increases at a higher range of crowding, where rivals begin to grate on each other. This association demonstrates how relational context shapes who is tied to whom, and at the macro level suggests a 'sorting out' of client firms among the big auditors. This sorting out process highlights a particular market dynamic – the consolidation of auditors into even bigger but relatively equal-sized corporate giants (from Big 8 to Big 4).

These findings are consistent with two sociological observations. First, the dissolution and formation of market relations are affected by larger social structures of those relations. Second, market actors are not simply passive social entities, but rather their actions actively shape the social structure within which they are embedded. This study therefore contributes to our sociological understanding of market structure as a dynamic network process. The analytical approach taken here can be applied to similar markets for business services, and the findings speak the nature of contemporary corporate bigness and its attendant social problems.