



The ‘situated functionality’ of accounting in private equity practices: A social ‘site’ analysis

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ABSTRACT

This paper contributes to the recent ‘practice turn’ in management accounting literature in two ways: (1) by investigating the meshing and consequently the ‘situated functionality’ of accounting in various private equity (PE) practices, and (2) by experimenting with the application of Schatzki’s ‘site’ ontology. By identifying and describing the role and nature of accounting and associated calculative practices in different parts of the PE value chain, we note that the ‘situated functionality’ of accounting is ‘prefigured’ by its ‘dispersed’ nature. A particular contribution of experimenting with Schatzki’s ‘site’ ontology has been to identify theoretical concerns in relation to the meaning and role of the concept ‘general understandings’ and to clarify the definitional issues surrounding this concept. We also identify the close relationship between ‘general understandings’ and ‘teleoaffective structure’ and note their mutually constitutive nature.

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1. Introduction

Baxter and Chua (2008, p. 225) argue that “research which focuses on how accounting engages/re-engages with various fields may help us to better understand . . . accounting practices” (See also: Ahrens, 2010, p. 35; Miller, 1998). Similarly, Jørgensen and Messner (2010, p. 203) argue that an increased attention to how accounting intersects with other organizational practices would be worthwhile for accounting researchers. Our research examines the role of accounting in private equity in order to consider these intersections with other organizational practices in a complex financial services setting. Some of the practices performed in financial services firms are unique and at times arcane (Preda, 2007). Some such practices (for

example: asset management, high frequency trading, etc.) may not be found widely in firms in other sectors. Preda (2007, p. 507) emphasizes the “complexity and empirical richness of finance as a field of inquiry” while recently we have seen increasing interest in studying the role of accounting and accountants in the operations of financial services firms and financial markets (Lovell and MacKenzie, 2011; MacKenzie, 2009; Preda, 2009; Van der Stede, 2011; Vollmer et al., 2009).

Private equity (PE)¹ as an industry has become an increasingly significant component of global financial markets. The PE industry has expanded in scale and scope, recently reporting approximately USD 3.5 trillion in global

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¹ PE firms are specialist asset management firms whose business is to provide medium to long term finance, mostly to potentially high growth unquoted companies, in return for an equity stake (Please refer Sections 3 and 5 for further discussion).

assets.² At the Pan-European level, PE firms invested 46 billion Euros across over 4800 companies in the year 2011.³ While PE firms and their practices offer an interesting object of study, as the repeated calls in recent research suggest, they are poorly understood (Hoskisson et al., 2013, p. 25) or even worse, misunderstood (Fraser-Sampson, 2010, p. 1). Hoskisson et al. (2013, p. 25) argue that “existing research regarding PE firms themselves has been rather limited, hindering our understanding of PE” practices.

Given the under researched status of PE practices in the accounting literature and the current interest in studying the role of accounting and accountants in financial services firms and financial markets (Van der Stede, 2011; Vollmer et al., 2009), we believe that practice based field research in the PE sector could provide valuable insights into this relatively poorly understood but influential sector. Our aim in this paper is to provide a better understanding of practices within PE firms and to explore the ‘situated functionality’ of accounting (and associated calculative practices in their various forms) in the PE setting.

The relevance and usefulness of adopting practice theories in order to explain organizational and other social phenomena has been recognized by several authors across various disciplines (Chua and Mahama, 2012; Svetlova, 2009; Vaara and Whittington, 2012). Practice approaches open us to potential insights across the organizational disciplines and offer rich theoretical and methodological resources (Whittington, 2011, p. 184). Nicolini (2013, p. 15) argues that “Schatzki has developed one of the strongest and far-reaching versions of practice theories available to date”. While “Schatzki is a central interlocutor in current debates ... on practice theory” (Caldwell, 2012, p. 2), it is curious and surprising that his ontology is relatively neglected in studying and understanding accounting and other organizational practices.

Ahrens and Chapman (2007) argue that Schatzki’s ‘site’ ontology offers advantages in the study of management control practice because it is more accepting of structures of intentionality than actor network theory. Moreover, Jørgensen and Messner (2010) recognize that this theoretical approach is appreciative of the complexity of practices. We believe that Schatzki’s conceptual tools⁴ are not only helpful for appreciating complexities within individual practices but also particularly useful for identifying and making explicit the complex intertwining of various organizational and/or social practices. The practice organization framework (comprising of ‘practical understandings’, ‘rules’, ‘teleoaffective structures’, and ‘general understandings’) is critical to our understanding of the organization and orientation of ‘integrative practices’. Importantly, concepts such as ‘dispersed practices’, ‘pre-figuration’, and ‘constitution’ draw our attention to and help us in explicating the ways in which several different practices may interrelate, for example, by overlapping, cohering, and intertwining. So, there seems good potential

for us to gain valuable insights by adopting Schatzki’s ‘site’ ontology for studying accounting and other organizational phenomena. The potential relevance of his concepts “... warrants ... concerted experimentation with [them]” (Baxter and Chua, 2008, p. 213).⁵

As Malsch et al. (2011, p. 196) argue “various efforts and experiments are necessary to embed, implement and adopt ideas through interdisciplinary movements”. The translation of social theories into accounting research is a long and complex process (Gendron and Baker, 2005). Twenty years after Bourdieu’s ideas were first recognized in the accounting literature, researchers are still experimenting with his practice theoretical ideas (Baxter and Chua, 2008, cf. Malsch et al., 2011). Since very few papers have been published using Schatzki’s ‘site’ ontology, we believe more studies are needed to better appreciate the potential of Schatzki’s concepts in explaining accounting phenomena. Hence, we experiment with Schatzki’s (2002b) practice theoretical perspectives of social life to develop an understanding of various activities and practices constituting PE firms and to explore the ‘situated functionality’ of accounting within the PE setting. This is similar to that of Baxter and Chua’s (2008) paper where they experiment with Bourdieu’s practice theory in order to understand the work of a chief financial officer.

This paper makes two specific contributions to the recent ‘practice turn’ in the (management) accounting literature. In providing a theoretically informed account of the widespread dispersion and interrelation of accounting with other practices in the PE setting, we note that the ‘situated functionality’ of accounting is ‘prefigured’ by its ‘dispersed’ nature. We also highlight that the [‘practical understandings’ of] everyday accounting practices (Ahrens, 2010; Baxter and Chua, 2008) ‘constitute’ a major subset of client service practice[s] in the PE setting. These practices are important in generating a key success factor for PE firms. Our second contribution is an outcome of our ‘theoretical experimentation’ (Baxter and Chua, 2008) with Schatzki’s ‘site’ ontology and problematizing a particular aspect of his practice organization framework: ‘general understandings’. Through in-depth critical discussion and reflection, we have attempted to provide some clarity on the ‘general understandings’ concept.

This paper is organized as follows. In Section 2 of this paper we outline Schatzki’s particular theoretical perspective on practice: ‘site’ ontology. On the assumption that many readers are unfamiliar with PE, we give a brief introduction to the PE industry in Section 3. Section 4 presents the research design. In Section 5, we not only theorize the various practices of PE firms, but also simultaneously explore the form and extent to which accounting is implicated in the different practices of PE firms. In line with the objectives of the paper, we address two issues in the discussion (Section 6). Section 6.1 identifies the use and functionality of accounting in its different forms in various PE practices and Section 6.2 focuses on reflections from our experience with Schatzki’s ‘site’ ontology to achieve the main objective of the paper, which is to theorize how

² Source: The 2014 Preqin Global Private Equity Report (p. 14).

³ Source: EVCA Yearbook (2012).

⁴ Conceptual terms from Schatzki’s ‘site’ ontology are explained in Section 2 of the paper.

⁵ Baxter and Chua (2008) advocate this approach in relation to Bourdieu.

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