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# **Theorizing accounting and other [calculative] practices in Private Equity: Experimenting with Schatzki's 'site' ontology**

**Yeswanth Nama Venkateswwaralu**

Doctor of Philosophy

**ASTON UNIVERSITY**

June 2014

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ASTON UNIVERSITY

# Theorizing accounting and other [calculative] practices in Private Equity: Experimenting with Schatzki's 'site' ontology<sup>1</sup>

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## Thesis summary

This thesis contributes to social studies of finance and accounting (Vollmer, Mennicken, & Preda, 2009) and the practice theory literatures (Feldman & Orlikowski, 2011) by experimenting (Baxter & Chua, 2008) with concepts developed by Theodore Schatzki and demonstrating their relevance and usefulness in theorizing and explaining accounting and other organizational phenomena.

Influenced by Schatzki, I have undertaken a sociological investigation of the practices, arrangements, and nexuses forming (part of) the social 'site' of private equity (PE). I have examined and explained the organization of practices within the PE industry. More specifically, I have sought to throw light on the practice organizations animating various PE practices. I have problematized a particular aspect of Schatzki's practice organization framework: 'general understanding', which has so far been poorly understood and taken for granted in the accounting literature. I have tried to further explore the concept to clarify important definitional issues surrounding its empirical application. In investigating the forms of accounting and control practices in PE firms and how they link with other practices forming part of the 'site', I have sought to explain how the 'situated functionality' of accounting is 'prefigured' by its 'dispersed' nature. In doing so, this thesis addresses the recent calls for research on accounting and control practices within financial services firms.

This thesis contributes to the social studies of finance and accounting literature also by opening the blackbox of investment [e]valuation practices prevalent in the PE industry. I theorize the due diligence of PE funds as a complex of linked calculative practices and bring to fore the important aspects of 'practical intelligibility' of the investment professionals undertaking investment evaluation. I also identify and differentiate the 'causal' and 'prefigurational' relations between investment evaluation practices and the material entities 'constituting' those practices. Moreover, I demonstrate the role of practice memory in those practices.

Finally, the thesis also contributes to the practice theory literature by identifying and attempting to clarify and/or improve the poorly defined and/or underdeveloped concepts of Schatzki's 'site' ontology framework.

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<sup>1</sup> This title is inspired by Baxter and Chua (2008).

For my family

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## List of abbreviations

ANT	Actor-network theory
DG	Directors Group
GP	General partner
IM template	Investment management template
IRR	Internal rate of return
LP	Limited partner
PE	Private Equity
PPM	Private placement memorandum

# Introduction

## 1.1. Introduction

Silverman (2009) explains that theory is extremely important for understanding social phenomena as it provides a framework for critical understanding and a basis for organizing the unknown. “Theory should neither be a status symbol nor an optional extra in a research study” (Silverman, 2009, p 115).

In recent years the interest in organizational practice and the term practice theory has spread so rapidly in managerial and organizational studies that it has accumulated a vast number of studies under the banner ‘Practice-Based Studies’ (Gherardi, 2009). Feldman and Orlikowski (2011, p 1240) argue that practice theories with their focus on “dynamics, relations, and enactment” are well suited to study contemporary organizational phenomena which are “increasingly understood to be complex, dynamic, distributed, mobile, transient, and unprecedented”. They argue that practice theories help us theorize these “novel, indeterminate, and emergent [organizational] phenomena” (ibid).

As highlighted by Gherardi, practice seems to have become a buzz-word in organization studies, however, “the aggregate of voices under the label ‘practice-based studies’ is rather polyphonic” (ibid, p 116; See also: Schatzki, Knorr Cetina, & Von Savigny, 2001; Nicolini, 2013) . A similar view is expressed by Feldman and Orlikowski (2011, p 1241) who note that “as a theoretical paradigm, practice theory is still a relatively unsettled intellectual landscape with multiple sources, influences, and instances”. Although this practice turn is not uncontroversial, there are several promising opportunities for accounting and other disciplines (Whittington, 2011).

This thesis contributes to social studies of finance and accounting (Vollmer, Mennicken, & Preda, 2009) and practice theory literatures (Feldman & Orlikowski, 2011; Orlikowski, 2007, 2010b) by experimenting (Baxter & Chua, 2008)<sup>2</sup> with

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<sup>2</sup> Baxter and Chua (ibid) advocate this approach in relation to Bourdieu’s practice theoretical concepts. Chapter 2 provides details about the exact concepts with which the thesis undertakes the theoretical experimentations.

concepts developed by Theodore Schatzki and demonstrating their relevance and usefulness in theorizing and explaining organizational and other social phenomena. “Schatzki is a central interlocutor in current debates ... on practice theory” (Caldwell, 2012, p 2) and “...has developed one of the strongest and far-reaching versions of practice theories available to date” (Nicolini, 2012, p 15). Schatzki’s ‘site’ ontology (1996, 2002b, 2010b) was recently introduced to the accounting literature by Ahrens and Chapman (2007).

“Research always begins with some problem or set of issues, at the very least it starts from a foreshadowed problem” (Hammersley & Atkinson, 2007, p 21). Hammersley and Atkinson explain that the absence of detailed knowledge of a phenomenon or process may often represent a useful starting point for research. I respond to the directives of Hammersley and Atkinson, Silverman and others in my research by combining the insights of practice theory with an aspect of accounting practice that is poorly understood and under-researched. My doctoral research seeks to explore and analyse the forms of accounting and other [calculative] practices in PE and consider their intersections with different organizational practices within these firms. My research addresses Van der Stede’s (2011) call for more accounting research in financial services firms and joins the recent stream of studies focus on studying the role of accounting and accountants in the operations of financial services firms and financial markets (Lovell & MacKenzie, 2011; MacKenzie, 2009; Preda, 2009; Van der Stede, 2011; Vollmer, Mennicken, & Preda, 2009). Section 1.4 will give brief details of the objectives and/or the contributions of the subsequent chapters in this thesis.

Understanding the [management] accounting and control practices of PE firms can be considered a part of the ‘practice turn’ in social sciences in general (Schatzki, 2001; Whittington, 2011) and in [management] accounting and control in particular (Ahrens & Chapman, 2007; Chua, 2007). This helps us to explore and explain accounting as a situated craft or situated social practice, that is, in the activities that people in organizations engage in at certain times or in certain ways given specific contexts. “Such a focus on practices could help identify strategies that ‘work’ in particular circumstances and indeed what ‘working’, as a situated activity, means” (Chua, 2007, p 489). This study seeks also to contribute to the gap highlighted by Ahrens and

Chapman (2007) where they suggest that the prior interpretive studies have been successful in exploring the potential reach and roles of accounting practices socially but have not emphasized their strategic and commercial aspects. By adopting a practice theory approach and by engaging with the relevant literature in organization studies, information systems, sociology, and social theory, I also have made a tentative contribution to the practice theory literature focussing on ‘sociomaterial’ nature of practices (Chapter 5).

In the following two sections of this chapter, I will provide a brief overview of the context and the approach of this research.

## 1.2. Private Equity

Baxter and Chua (2010, p 80) argue that “...researchers [should] place a[n] emphasis on understanding the nature of context coupled to situated practices...”. In this section I give a brief introduction on the PE industry (or PE firms in general), the context within which I undertook my empirical research.

“PE funds are businesses that draw upon capital and debt in the international financial system to acquire stakes in companies that are intended to be sold for profit after **a number of years**” (Robertson, 2009, p 545; emphasis added).

A typical PE fund has some similarities to an ‘investment club’ in which the principal investors are institutional investors, high net worth individuals and PE fund managers themselves. PE funds invest capital in both unquoted companies and in public companies which are typically delisted as a part of the transaction (Gilligan & Wright, 2010). In line with the EVCA<sup>3</sup> and Klein, Chapman, and Mondelli (2013), we can view PE as an asset class, which includes both venture capital and buyout firms. Venture capital firms invest into young, entrepreneur-led, high potential companies that are often technology driven. Buyout firms, on the other hand, acquire the majority or all of an established business and then develop their products and/or services, professionalize (and internationalize) them (ibid). Moreover, the amount of individual investments made by buyout firms is bigger than that of venture capital firms.

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<sup>3</sup> EVCA: European private equity and venture capital association.

Although PE funds are confused many times with hedge funds, there are many differences between PE funds and hedge funds. However, one of the important differences is that “unlike hedge funds, which are mostly short-term traders, PE funds take ownership and management control of corporations” (Robertson, 2009, p 545). The investments made by PE funds are generally illiquid and held for a long period whereas the investments made by hedge funds typically have a much shorter time horizon and are often in quoted assets which are freely tradable (Gilligan & Wright, 2010). PE investors succeed only when the companies they own succeed. In contrast, hedge funds act as pools of capital that usually invest in stocks, bonds or commodities and aim to capitalise on short-term gains, using complicated trading strategies and derivative financial instruments. Hedge funds usually have holding periods of weeks or months, not years (CVC, 2011). This longer holding horizon of PE funds is also reflected in the EVCA’s definition of PE: “PE is the provision of equity capital by financial investors – over the medium or long term – to non-quoted companies with high growth potential” (EVCA, 2007, p 6). PE funds seek to buy companies and hold them for multi-year periods before selling them at higher valuations (Robertson, 2009).

### **1.2.1. The organization of private equity**

It is important to distinguish between a PE firm and a PE fund. As Yates and Hinchliffe (2010, p 8) explain “a private equity firm is an investment manager which raises pools of capital, typically in the form of private equity funds, to invest”. PE funds are usually formed as limited partnerships, with the PE firm being the general partner of such limited partnerships. Hence, the investors in PE funds are often referred to as ‘Limited partners’ (also known as LPs), and the PE firms themselves as ‘General Partners’ (also known as GPs). GPs carry unlimited liability for the liabilities of the fund whereas LPs limit their total liability to the amount of committed equity capital which they have invested.

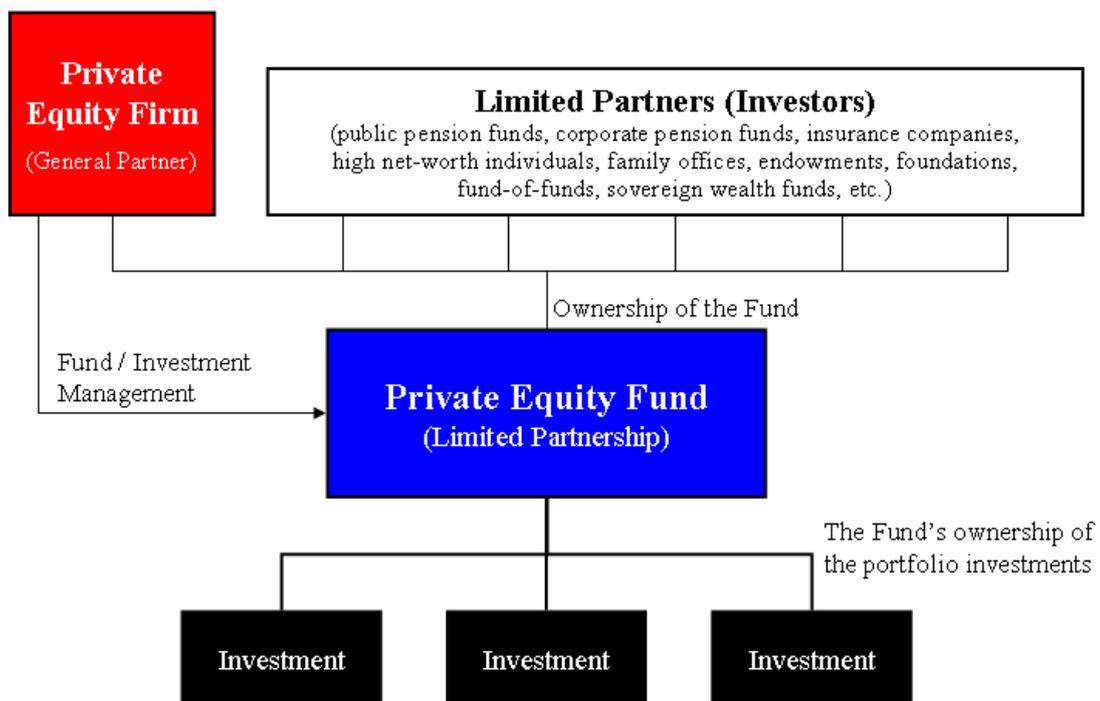
The limited partners can either be individuals or institutional investors and they vary significantly in terms of their knowledge of PE. Example of individual investors would be high net-worth individuals and examples of institutional investors include pension funds, sovereign wealth funds, insurance companies, PE asset management

companies, etc. Most sophisticated of all these are the PE asset managers who run the fund of (PE) funds (Fraser-Sampson, 2007) .

PE firms charge the LPs of their funds for the services they render. They charge at least two types of fees<sup>4</sup>:

- i) Management fees: The PE firms charge a fixed percentage (typically between 1.5 – 3%) of funds raised every year as management fees for managing the funds.
- ii) Performance fees: The PE firms also charge a share in the profits of the investments sold / realized (this is typically 20%, while reputed and successful firms may charge up to 30% of the capital gains of the investments). However, GPs are entitled to these performance fees normally only after achieving a minimum return (also known as hurdle rate, which may normally be around 6 – 8%). Performance fees are also referred to as ‘carried interest’ or ‘carry’.

**Figure 1: General structure of a PE fund**



Source: Wikipedia

<sup>4</sup> GPs may also charge monitoring and transaction fees along with the management and performance fees (Talmor and Vasvari, 2011).

Fund of (PE) funds are PE investment programs offered by specialist asset management companies. These investment programs almost exclusively invest in PE funds. Investing in a fund of funds program is often suggested as a way for new investors seeking to enter the PE industry as they may lack the relevant experience and specialist skills to invest directly in individual PE funds. Moreover, entry into many of the best funds are by invitation only (Fraser-Sampson, 2007). A few popular names in the fund of funds business include HarbourVest, Partners Group, and Capital Dynamics. As explained by Fraser-Sampson, fund of funds provide the advantages of skilled fund selection expertise, access, and scientific allocation of capital. Fund of funds may invest their money in 3 different ways:

- i) Primary fund investments: When a fund of (PE) funds invests in a new PE fund, it is called a primary fund investment.
- ii) Secondary fund investments: When a fund of (PE) funds buys either a portfolio of direct investments from an existing PE fund or a LPs position in these funds, it is called a secondary fund investment (Gilligan & Wright, 2010).
- iii) Co-investments: When a fund of (PE) funds makes simultaneous investment in a portfolio company alongside the funds managed by a GP, then it is called a co-investment (Beaton & Smith, 2011). As Beaton and Smith (2011, p 7) explain, “Co-investment opportunities usually arise when a GP seeks to structure and invest in a transaction where the equity amount required is more than can be prudently provided by the GP’s own fund”.

However, in the current market a few PE asset managers are involved in both direct investing business (in the sense that they start a PE fund as a GP and invite other LPs to invest along with them in the fund) and in the type of fund of funds business described earlier. Examples of such firms include Partners Group, HarbourVest and Adam Street Partners.

### **1.2.2. Private equity: Societal significance and impact**

PE as an industry has become an increasingly significant component of global financial markets. The PE industry has expanded in scale and scope recently

reporting USD 3 trillion in global assets<sup>5</sup>. At the Pan-European level, PE firms invested 46 billion Euros across over 4,800 companies in the year 2011<sup>6</sup>. In 2011, the top 25 PE Firms had approximately USD 205 billion of pension money under management. In the same period, the top 25 PE asset management firms running fund of funds had approximately USD 249 billion of pension money under management<sup>7</sup>. In fact, 45-50 % of assets under management of large PE firms such as Blackstone, KKR, and Apax Partners are from Pension funds. These numbers demonstrate the societal significance of PE firms. PE firms have owned and managed many household names and major employers such as Hilton Hotels, Alliance Boots, Toys R Us, Hertz Corporation, Nielsen, Cineworld, Coffee Day Resorts, etc. “PE also continues to be highly controversial— even playing a role in the 2012 presidential campaign between Barack Obama and former PE executive Mitt Romney—and scholars still disagree about its nature and effects” (Klein et al., 2013, p 40).

The business press is often skeptical if not negative about PE. For example, recently the industry has been criticized for avoiding [and/or evading] taxes<sup>8</sup>. The academic research evidence, however, typically shows PE in a positive light. Based on an extensive review of research assessing the employment effects in the UK and in the USA, Bacon et al (2013, p 11) suggest that buyouts “do not appear to systematically erode employment. They also argue that while the divestment of non-core or unprofitable business units following buyouts results in an immediate post-transaction employment decline in the portfolio companies, this does not always result in job destruction as divestments may involve sale of business units as ongoing concerns. Bacon et al’s (ibid) review also suggests that alongside divesting non-core or unprofitable assets, buyouts also focus on developing the core profitable businesses and tend to increase employment in them. Davis et al (2013) call the process of divesting non-core assets/businesses and simultaneously developing core assets/businesses ‘creative destruction’. On the basis of Chapman and Klein’s (2010) research that found significant employment increases in buyouts of the transaction value less than USD 500 million, Klein et al (2013, p 43) argue against “...the

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<sup>5</sup> Source: The New York Times 11/10/2012. The industry had USD 2.5 trillion of assets under management at the end of 2009 (Maslakovic, 2010, p 2).

<sup>6</sup> Source: EVCA Yearbook, 2012.

<sup>7</sup> Rankings based on the amount of pension money managed [Source: Financial Times 03/07/2012].

<sup>8</sup> Source: Financial Times 17<sup>th</sup> September 2013.

conventional wisdom that PE is an institutional agent of asset stripping and downsizing ...”.

In terms of performance, Kaplan and Schoar (2005) investigated 746 PE funds formed and liquidated between 1980–2001 and suggest that on average both buyout fund returns and venture capital fund returns net of management fees are slightly less than those of the S&P 500 (ibid, pp 1791-1792)<sup>9</sup>. However, the results also suggest that returns are better for larger and mature PE firms. Kaplan and Schoar note that, for funds in this subset of PE firms, both the mean and median performance is equal to or more than 150% of the S&P 500. This would raise the question: why limited partners invest in the PE asset class as a whole? A first simple reason could be the investors’ preference to have a diversified portfolio; another reason could be that the best performing funds are difficult to gain access to. Lerner, Schoar, and Wongsunwai (2007) suggest one other possible reason. They (ibid, p 760) argue that “the presence of unsophisticated or performance-insensitive LPs allows poorly performing GPs to raise new funds ... Unsophisticated LPs also contribute to the persistence of performance in PE, in particular at the lower end”. Lerner et al (ibid) document and examine the dramatic differences in the returns generated by institutional investors through their PE portfolios. Their results suggest that endowments realize a 21% higher internal rate of return (IRR) when compared to other institutional investors through their PE investments. Moreover, their results suggest that the funds in which endowments decided to reinvest generate much higher returns going forward than those in which endowments decided not to reinvest. Lerner et al (ibid, p 760) interpret this as being endowments ability to proactively use the private information they gain from being an inside investor and argue that other LPs seem less able to use information they obtain as an existing fund investor.

Researchers have also been interested in understanding the sources of PE returns. For example, recently Acharya et al (2013) investigated whether “...the returns to equity investments by large, mature PE houses [are] simply due to financial leverage and luck or market timing from investing in well-performing sectors, or do these returns represent the value created ... in the ... portfolio companies, over and above the value created by the quoted sector peers?” (ibid, p 369). Their results demonstrate

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<sup>9</sup> Acharya et al (2013, p 369 footnote 1) suggest that “it could simply be that PE funds keep the value they create through fees”.

that on an average about 34% of the average deal returns are from abnormal performance. Abnormal performance is “a measure of a deal’s enterprise-level outperformance relative to its quoted peers, removing the effects of financial leverage” (ibid, p 370). They also provide “evidence [that] there are combinations of value creation strategies and partner backgrounds that correlate with deal-level abnormal performance” (ibid, p 371). They suggest that while deal partners or professionals with a strong operational background generate significantly higher outperformance in “organic” deals, deal partners or professionals with a background in finance more successfully follow M&A-driven, “inorganic” strategies.

Klein et al (2013) provide a summary of the often-cited benefits and costs of PE which is reproduced here in Table 1.

**Table 1: Often-Cited Benefits and Costs of Private Equity Investment**





Source: Klein et al (2013, p 40)

Although, as stated earlier (and summarized in Table 1), academic research tends to show PE in a positive light on most issues, we should be skeptical in believing them as these results may well be biased in favor of PE. This is because most academic research on PE relies on data either provided directly by PE firms themselves or on databases that rely on PE firms for their data. Given the substantial amount of fees PE firms make on their assets under management, it would be surprising if they would disclose or report any information which might jeopardize their revenue and/or business models.

In the next section I will briefly introduce the approach adopted in this doctoral research. The intention is to situate the approach in the accounting literature as a precursor to a more detailed consideration of the philosophical and methodological implications of Schatzki's 'site' ontology to be discussed in Chapter 2.

### **1.3. A practice theory approach**

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 & Mahama, 2012; Svetlova, 2009; Vaara & Whittington, 2012). The emphasis on practice, that practice theoretic approaches offer, provide opportunities for management accounting researchers to characterize

and understand their engagement with accounting and control in the context in which it operates (Baxter & Chua, 2010). Chua and Mahama (2012) argue that “adopting practice-focused approach to research provides opportunities for the researcher to learn from these theories-in-practice and hence contribute to management accounting thought and literature” (ibid, p 5). Practice approaches respond well to the realities reported back from the field, they open us to insights from across all the organizational disciplines and they also offer rich theoretical and methodological resources (Whittington, 2011, p 184). Nicolini (2012, p 2) argues that “the appeal of what has been variably described as practice idiom, practice standpoint, practice lens, and a practice-based approach lies in its capacity to describe important features of the world we inhabit as something that is routinely made and re-made in practice using tools, discourse, and our bodies”.

As stated earlier in the introduction to this chapter, while there is no unified practice approach (Nicolini, 2012; Schatzki et al., 2001), Schatzki (2012b, pp 13-14) notes, there are some general commonalities among the diverse group of practice theorists:

- (1) Practices are viewed and/or theorized as organised constellation of different activities;
- (2) Features of social life and/or phenomena (such as organisations, science, power, reason, identity, learning, etc.) must be understood as forms of, or as rooted in practices; and
- (3) The basis of human activity consists of non-propositional bodily abilities (something that cannot be put into words). Schatzki gives the examples of such non-propositional items: Bourdieu’s ‘habitus’, Giddens’ ‘practical consciousness’, Dreyfus’ ‘skills’, etc.
- (4) Schatzki (forthcoming, p 3) suggests ‘flatness’ an additional feature which is common to practice theories. “A flat ontology holds that everything there is to phenomena of some general sort is laid out on one level of reality” (ibid). A related commonality is also noted by Feldman and Orlikowski (2011). They explain that practice theories reject the dualisms and recognize “the inherent relationship[s] between elements that have often been treated dichotomously” (ibid, p 1242).

In management accounting, Chua (2007) argues that although governmentality, actor-network, and accountability studies have made useful contributions, a more explicit 'practice turn' in accounting research is just emerging. Ahrens and Chapman (2007, p 3) argue that although "contemporary discussions of management control seek to address strategic concerns ... they do not tend to elaborate on the specific activities through which their exhortations might be taken up" and this according to them has resulted in an often unhelpful dynamic in discussions between academics and practitioners. In an attempt to address this issue, Ahrens and Chapman (2007) suggest a practice theory approach to management accounting which takes up many of the insights from the interpretive accounting tradition while at the same time introduces insights from the practice theory perspective provided by Schatzki. In the same article, they also adopt the term 'situated functionality' (Ahrens & Chapman, 2007, p 1). Accounting may be mobilized differently by different people in an organization in various departments for their own (situated) purposes. 'Situated functionality' seeks "to specifically articulate some of the ways in which accounting can function as a management tool for the ordering of organizational activities ..." (Ahrens, 2010, p 35). My study will follow a similar approach and take a practice based view (Schatzki, 2002a, 2003b, 2005b) in order to understand the accounting and control practices in PE firms. This theoretical approach will be very useful in highlighting the uses of, and arrangements around, management accounting and control systems.

#### **1.4. Outline of the thesis**

Following on from the discussion in this chapter, Chapter 2 will introduce readers to the philosophical underpinnings and the theoretical framework informing my doctoral research. Firstly it sets out the ways in which chapters 3-5 experiment with different theoretical concepts of Schatzki's 'site' ontology. The chapter also presents a discussion of Schatzki's 'site' ontology, his account of action, and a synchronized epistemology. In doing so, I also review Schatzki's critiques of Giddens, Bourdieu, and actor-network theorists with a view not only to help the readers to situate Schatzki against these popular alternative theorists but also to develop an understanding of the key themes that link practice theories. Broadly, this chapter will support a subjective epistemology, interpretive methodology, and the use of case study method to understand and appreciate complex social practices.

Chapter 3 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 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, I note that ‘situated functionality’ of accounting is ‘prefigured’ by its ‘dispersed’ nature. A particular contribution of experimenting with Schatzki’s 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. I also identify the close relationship between ‘general understandings’ and ‘teleoaffective structure’ and note their mutually constitutive nature.

Chapter 4 contributes to the social studies of finance and accounting (Vollmer et al., 2009) and the ‘sociology of valuation and evaluation’ (Lamont, 2012) literatures by investigating the investment evaluation practices prevalent in the PE industry. Drawing on the case material related to the due diligence of PE funds at a leading PE asset management firm, the chapter brings to fore the important aspects of ‘practical intelligibility’ of the investment professionals undertaking due diligence of PE funds. The chapter also identifies and differentiates the ‘causal’ and ‘prefigurational’ relations between evaluation practices and material entities forming part of the ‘site’. Moreover, I demonstrate the role of practice memory in the ‘site’. Finally, I comment on the relatively low key role of artefacts and objects in Schatzki’s ‘site’ ontology and suggest future research to further develop this aspect.

Chapter 5 emphasizes the importance of materiality to organizational and other social practices and takes an important first step in further recognizing and developing the role of material objects in Schatzki’s ‘site’ ontology. It provides a foundation for enhancing Schatzki’s constructs with concepts developed by other theorists by reviewing and comparing some key alternative theoretical foundations (agential realism, critical realism, and ANT) which have been suggested to facilitate sociomateriality studies. The chapter contributes to the practice theory literature by reviewing and comparing these literatures and providing suggestions for theory development.

Chapter 6 offers reflections on the relevance and usefulness of Schatzki's practice theory concepts. It also draws together the main findings of this doctoral research and summarizes the contributions of the thesis. Finally, the chapter offers some directions for future research which follow from the current work and offers some closing remarks.

## Philosophical underpinning and methodology

**Synopsis:** This chapter will introduce the readers to the philosophical underpinnings and the theoretical framework informing my doctoral research. The chapter presents a discussion of Schatzki's 'site' ontology, his account of action, and a synchronized epistemology. In doing so, I also review Schatzki's critique of Giddens, Bourdieu, and actor-network theorists with a view not only to help the readers to situate Schatzki against these popular alternative theorists but also to develop an understanding of some of the key themes that link practice theories. Broadly, this chapter will support a subjective epistemology, interpretive methodology, and the use of case study method to understand and appreciate complex social practices.

Social science research includes assumptions about the ontology, epistemology, and methodology (Chua, 1986, p 603; Denzin & Lincoln, 2005). In this chapter I will present and discuss the philosophical concepts and assumptions underlying this doctoral research. This chapter is organized as follows. First, I introduce the concept of ontology and provide an overview of how this thesis undertakes theoretical experimentation with a particular ontology: Schatzki's 'site' ontology. Next, I introduce the readers to the key aspects of Schatzki's 'site' ontology framework. In Section 2.3, I review Schatzki's concept of 'practical intelligibility' and his account of action. In Section 2.4, also review Schatzki's critique of Giddens, Bourdieu, and actor-network theorists with a view not only to help the readers to situate Schatzki against these popular alternative theorists but also to develop an understanding of some of the key themes that link practice theories. In Section 2.5, I review and discuss aspects of epistemology and methodology for Schatzki's 'site' ontology. Finally, I summarize the contribution of this chapter.

### 2.1. Ontology

Ontology constitutes the assumptions about the 'object' or phenomena of study (ibid). As Scapens and Yang (2008, p 17) explain, ontologies explicate both the elements that constitute the world and the nature of their existence. Ontologies play 3 roles in research (Schatzki, 2010a, p 125): (1) they provide "concepts with which investigators

conceptualize topics and subject matters and formulate descriptions, explanations and interpretations”; (2) they “suggest important topics and issues for study”; and (3) they inform empirical work by “suggesting connections among research findings”.

According to Schatzki (1986, p 3), there are three types of ontologies:

- (1) Ontologies composed of theories of action alone. Schatzki suggests that the accounts provided by Dilthey, Weber, and Schuetz contain examples of such ontologies.
- (2) Ontologies composed of theories of structure, systems, or institutions alone. Schatzki suggests that Parsons’ work is an example of this kind.
- (3) Ontologies composed of both theories of action and separate accounts of structure or systems. According to Schatzki, accounts by Marx, Levi-Strauss, and Habermas can be seen as examples of this kind of ontologies. As Schatzki (ibid, pp 3-4) explains, “such theorists claim that structures or systems are either composed of elements or governed by principles that are additional to or independent of the elements and principles of action”.

For this research, I adopt Schatzki’s (1996, 2002b, 2010b) ‘site’ ontology which is of the first type<sup>10</sup>. “Schatzki has developed one of the strongest and far-reaching versions of practice theories available to date” (Nicolini, 2012, p 15). 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 ANT. Moreover, Jørgensen and Messner (2010) recognize that Schatzki’s theoretical approach is appreciative of the complexity of practices. I believe that Schatzki’s conceptual tools<sup>11</sup> are not only helpful for appreciating complexities within individual practices but also particularly useful for identifying and making explicit the complex intertwining (Schatzki, 2002, p 109 and p 111) of various organizational and/or social practices. The practice organization framework

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<sup>10</sup> Schatzki (1986, p 4) is of the view that social reality “can be adequately conceptualized in terms of the phenomena constituting and the principles governing action”.

<sup>11</sup> Conceptual terms from Schatzki’s ‘site’ ontology are explained in Sections 2.1, 2.2 and 4.2 of this thesis.

(comprising of ‘practical understandings’, ‘rules’, ‘teleoaffective structures’, and ‘general understandings’) is critical to our understanding of the organization of ‘integrative’ practices. Importantly, concepts such as ‘dispersed’ practices, ‘prefiguration’, 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. Schatzki’s ‘site’ ontology framework with its sophisticated bricolage of concepts offers significant potential in our attempts to break down and understand complex social action.

The potential and relevance of his concepts ... justifies concerted [theoretical] experimentation with them (Baxter and Chua, 2008, p 213). Malsch et al (2011, p 196) also argue that “... experiments are necessary to embed, implement and adopt ideas through interdisciplinary movements”. This need for theoretical experimentation can be seen as an important part of the project through which social theories are translated into accounting research as part of a long and complex process (Gendron & 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 & Chua, 2008, cf. Malsch et al 2011).

Since very few papers have been published using Schatzki’s ‘site’ ontology, I believe more studies are needed to better appreciate the potential of Schatzki’s concepts in explaining accounting and other organizational phenomena phenomena. Hence, I undertake a theoretical experimentation with Schatzki’s (2002b) practice perspective of social life to develop an understanding of various activities and practices constituting PE firms and to explore the implication<sup>12</sup> 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 CFO.

In this thesis, I contribute to the social studies of finance and accounting (Vollmer et al., 2009) and practice theory literatures (Feldman & Orlikowski, 2011; Orlikowski, 2007, 2010b) by reviewing and experimenting with Schatzki’s (1986, 1996, 2002b, 2010a, 2010b) social theoretical concepts in the following ways:

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<sup>12</sup> Please refer to the footnote on page 92 on the use of the term implication.

- (1) The existing translation and implementation of Schatzki's concepts in accounting literature is limited to his practice organization framework (composing of 'practical understandings', 'rules', 'teleoaffective structures', and 'general understandings'). Of the two published studies which have adopted Schatzki's practice organization framework to explain accounting phenomena, Ahrens and Chapman (2007) completely neglect an integral concept of the practice organization framework: 'general understandings'. They fail to offer any justification for this omission in spite of its integral nature to Schatzki's practice organization framework. Jørgensen and Messner (2010) do recognise the concept of 'general understandings' and its role in the framework but their application is superficial and does not appear to recognize its problematic nature. As I note (see also: Caldwell, 2012, p 8), 'general understandings' is one of the most poorly defined, opaque and underdeveloped concepts in Schatzki's discussion of practice organization. My research in Chapter 3 engages with and contributes to this and other aspects of the practice organization framework through sensitive adoption of these concepts to theorize the meshing and intertwining of accounting with various other PE practices. In doing so, I identify the close relationship between 'general understandings' and 'teleoaffective structure' and note their mutually constitutive nature. I also draw on the concepts of 'dispersed' and 'integrative' practices to suggest that the 'situated functionality' of accounting is 'prefigured' by the 'dispersed' nature of accounting practices across various practices within and across social settings (Schatzki, 2002b, 2010a).
- (2) While the accounting literature has drawn on the practice organization framework of Schatzki, it has not so far engaged with other concepts and arguments which are more central to his 'site' ontology. An important argument of Schatzki is that 'practices' and 'material entities' (which he also refers to as 'arrangements' at times) form 'bundles' through various forms of relations and human coexistence always transpires as part of a nexus of these 'practice-arrangement bundles'. These concepts and arguments are reviewed and adopted in Chapter 4 to demonstrate the ways in which investment evaluation practices in PE relate to the various 'material entities' or 'arrangements' forming part of the social 'site' under investigation.

Sandberg and Tsoukas (2011) suggest that organization and management studies adopting a practice approach must try to grasp the logic of practice and propagate theory building by illuminating practical rationality and suggest Schatzki's framework as one possible way of achieving this. My research in Chapter 4 also adopts and experiments with Schatzki's concept of 'practical intelligibility' to uncover how things make sense to the investment professionals during investment evaluation.

By engaging with these concepts of Schatzki which have so far been unexplored in the accounting and organization studies literatures, the empirical research in Chapter 4 contributes methodologically by demonstrating the relevance and usefulness of Schatzki's concepts for theorizing accounting and organizational practices. One of the outcomes of the theoretical experimentation in Chapter 4 has been to identify that the role of objects in Schatzki's ontology is rather low key when compared to other theorists such as Knorr Cetina (1997, 2001). Consequently, I suggest that future research could be expanded to further recognize and develop the role of material entities in Schatzki's 'site' ontology by looking for a sensitive rapprochement of his constructs with [other] theorists of sociomateriality.

- (3) As a consequence of incorporating material entities explicitly as part of the theorizations in Chapter 4, we realize the relatively low key role of objects in Schatzki's ontology and I believe this is paradoxical given the general importance Schatzki assigns to material entities in the social 'site'. This may be due to his emphasis on reclaiming human agency and defending it from the post humanist attack. However, I believe defending human agency is one thing whereas recognizing the appropriate role of objects in social life is another. We need not assign a [relatively] low key to objects in order to defend and reclaim human agency. Knorr Cetina's work on object oriented sociology is provides an example of such work. Following my comments at the end of chapter 4 that further research should seek to develop the role of objects in Schatzki's ontology, in chapter 5, I make an effort to contribute to practice theory literature by seeking to establish a basis for a rapprochement of Schatzki's constructs with [other] theorists of sociomateriality. This is

achieved through a comparison of key theoretical frameworks which have been suggested to facilitate sociomateriality studies.

So far, in this section, I have introduced the concept of ontology and the ways in which I experiment with Schatzki's 'site' ontology concepts. In the next two sections, I will review key aspects of Schatzki's 'site' ontology and his account of action respectively. This review is deliberately selective focusing only on those aspects of his framework that are mobilized in this research.

## 2.2. Schatzki's 'site' ontology

'Site' ontologies maintain that social phenomena can only be analysed by examining the sites (settings) where human coexistence transpires. According to Schatzki (1988a, p 246), the setting or context is a very important phenomenon that plays a twofold role in the 'social on-going'. First, many actions are actions taken toward and in response to the people, events, and objects encountered in specific settings. Second, the actions and entities people encounter in settings help mould which particular intelligibility-determining factors determine what it makes sense to them to do – how they decide to act. Following Schatzki (2002b, p XI), "to theorize sociality through the concept of a social site is to hold that the character and transformation of social life are both intrinsically and decisively rooted in the site where it takes place". A few examples of the application of 'site' ontology frameworks<sup>13</sup> can be found in the following writings: Giddens (1984); Laclau and Mouffe (1985); Bourdieu (1977, 1990); and Collins and Kusch (1998).

According to Schatzki (2005b, p 471), "the site of the social is composed of nexuses of practices and material arrangements". He explains material arrangements as setups of entities (human beings, artefacts, other organisms, and things) and practices as "organized, open-ended, spatial-temporal" nexus of human activities (bodily doings and sayings) examples of which are educational practices, management practices, shop-floor practices, etc. He continues to explain that human coexistence "transpires

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<sup>13</sup> Social ontology refers to the study of the nature, composition, and basic structures of social life and social phenomena (Schatzki, 2005bp 465; cf. Bourdieu 1990, Giddens 1984). Traditionally, individualist and societist ontologies have been particularly prominent in the recognition and explanation of social properties. Recent decades have seen the emergence of new approaches to investigating social phenomena which Schatzki refers to as 'site' ontologies. Site ontologies, according to Schatzki, steer a path between individualism and societism.

as and amid an elaborate, constantly evolving nexus of arranged things and organized activities” (Schatzki, 2002b, p XI; cf. Latour 1987, Knorr Cetina 1997). Schatzki (2002b, pp 157-174; 2005b, p 474) describes aspects of the Nasdaq market, a day trading firm, and a university’s academic department as examples of ‘sites’.

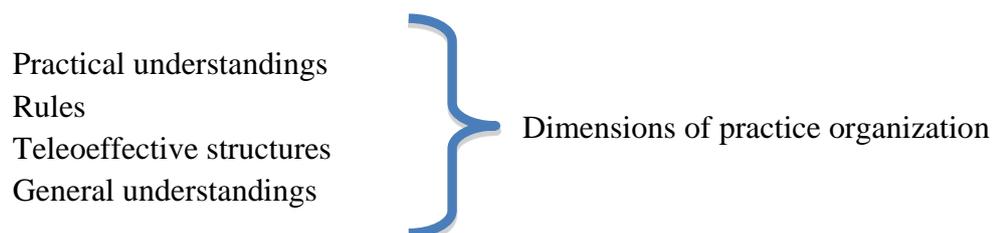
Schatzki explains what he means by each of the entities in the material arrangement. Briefly, people are human beings to whom “actions and mental conditions as well as self-consciousness, gender, and identity are ascribed”, artefacts are “products of human action”, living organisms are “life forms other than humans” and things are “non-living entities whose being is not the result of human activity” (Schatzki, 2002b, p 22). Schatzki’s account of the social is developed through and in confrontation with “theories of arrangements” and “practice theories” (Schatzki, 2002b, p XII). Schatzki names a few principal exponents of these two lines of thought:

**Table 2: Arrangement theorists and practice theorists**

Arrangement theorists	Practice theorists
<ul style="list-style-type: none"> <li>• Michael Foucault</li> <li>• Bruno Latour</li> <li>• Michel Callon</li> <li>• Laclau and Mouffe</li> <li>• Gilles Deluze and Felix Guattari</li> </ul>	<ul style="list-style-type: none"> <li>• Pierre Bourdieu</li> <li>• Charles Taylor</li> <li>• Hubert Dreyfus</li> <li>• Anthony Giddens</li> </ul>

As explained by Schatzki (2002b, 2010b), a set of actions that compose a practice are organized by and linked through (1) practical understandings, (2) rules, (3) teleoffective structure, and (4) general understandings. Together, these form the dimensions, or framework, of practice organization (Figure 2). Each of these terms / concepts is further discussed and illustrated to varying degrees by Schatzki.

**Figure 2: Schatzki’s practice organization framework (Schatzki, 2002b, 2010b)**



Practical understandings: Practical understandings refer to certain abilities related to actions of a practice: “Knowing how to X, knowing how to identify X-ings, and knowing how to prompt as well respond to X-ings” (Schatzki, 2002b, p 77). Practical understanding never governs action; instead it executes the actions that practical intelligibility singles out. “Practical intelligibility is what makes sense to a person to do” (Ibid, p 75). Schatzki (2002b, p 75) argues that ‘practical intelligibility’ is an individualist phenomenon and consists principally of the features possessed by, or that may be ascribed to, individuals such as a person’s goals, affectivity and the projects/tasks that s/he is pursuing. He further argues that the non-individualist phenomena determine ‘practical intelligibility’ by moulding the individualist phenomena. However, Schatzki argues that ‘practical intelligibility’ is not the same as normativity and it is also not the same as rationality.

The ‘practical understandings’ in Schatzki’s account resembles ‘habitus’ / ‘practical sense’ in Bourdieu’s account and ‘practical consciousness’ in Giddens’ account. However, the key distinction is that ‘habitus’ always (according to Bourdieu) and practical consciousness often (according to Giddens) determine what people do. According to Schatzki, ‘practical understandings’ almost never determine action. Rather, ‘practical understandings’ “executes the actions that ‘practical intelligibility’ singles out” (ibid, p 79).

Rules: Rules are “explicit formulations, principles, precepts, and instructions that enjoin, direct, or remonstrate people to perform specific actions” (ibid, p 79). Rules link the doings and sayings of a practice as people take into account and adhere to the same rules. Rules are interjected typically by those with the authority to enforce them, either to bring about new activities or regulate existing ones. They enjoy normative force and can influence the future course of activity. Rules are neither explicitizations nor articulations of understandings, nor are they tacit or implicit formulas or contents (ibid, p 80).

Teleoaffective structure: “A teleoaffective structure is a range of normativized and hierarchically ordered ends, projects, and tasks, to varying degrees allied with normativized emotions and even moods” (ibid, p 80). Participants of a practice typically carry out end-project-task combinations that are contained in the practice’s teleoaffective structure. “Teleoaffective structures are recurring and evolving effects

of what actors do together with what determines this. They themselves, however, do not govern activity. Activity is governed by practical intelligibility” (ibid, p 80).

“Which ends, projects, tasks, and emotions are obligatory or acceptable in a practice is open-ended...a definitive list cannot be drawn up of these items” (ibid, p 83). However, this does not imply that practically any end, project, or task can be part of any teleoaffective structure.

General understandings: “General understandings are the elements of practices ... that are tied to the site of which the practice is a part; they are thus common to several practices within the site” (Jørgensen & Messner, 2010, p 186). “Pervasive understandings of this sort are expressed in the manner in which people carry out projects and tasks”. They can also be expressed in doings and sayings as opposed to their manner of performance (Schatzki, 2002b, p 86) [Please see Section 3.4.2 of Chapter 3 for further discussion of the literature on this concept].

Schatzki categorizes practices in to two types: ‘Integrative’ practices and ‘dispersed’ practices. “Integrative practices are complex entities joining multiple actions, projects, ends and emotions” (ibid, p 88). They are “found in and constitute of particular domains of social life” (Schatzki, 1996, p 98). According to Schatzki (Schatzki, 1996, p 99; 2002b, p 88), ‘integrative’ practices are linked by (1) ‘practical understandings’, ‘rules’ and ‘teleoaffective structures’. Examples of ‘integrative’ practices could include: farming practices; business practices; voting practices; teaching practices; celebration practices; industrial practices; religious practices and banking practices (Schatzki, 1996, pp 98-99).

‘Dispersed’ practices on the other hand are much simpler and circulate through / dispersed among different sectors of social life in more or less the same shape (Schatzki, 2002b, p 88). ‘Dispersed’ practices weave through and are often colonized by the ‘integrative’ practices and hence are transformed in character (Schatzki, 2005b, p 481). Schatzki (1996, p 91; 2002b, p 88) explains that ‘dispersed’ practices are linked through practical understanding alone. They are typically rule free and they rarely possess teleoaffective structures (ibid). Schatzki gives describing, ordering, following rules, explaining and reporting as examples of ‘dispersed’ practices.

In order to demonstrate his theoretical concepts empirically Schatzki's describes Shakers medicinal herb practices and practices of Nasdaq traders in his 2002 book. In his 2005 paper published in 'Organization Studies', he describes the practices of a university department as practice-order bundles. Zundel (2008) draws on Schatzki's (2005) description of university department's practices to pictorially depict the constellation of practices. Figure 3 below depicting organizations as nexuses of practice-arrangement bundles is reproduced from Zundel's work.

**Figure 3: Organizations as nexuses of practice-arrangement bundles**

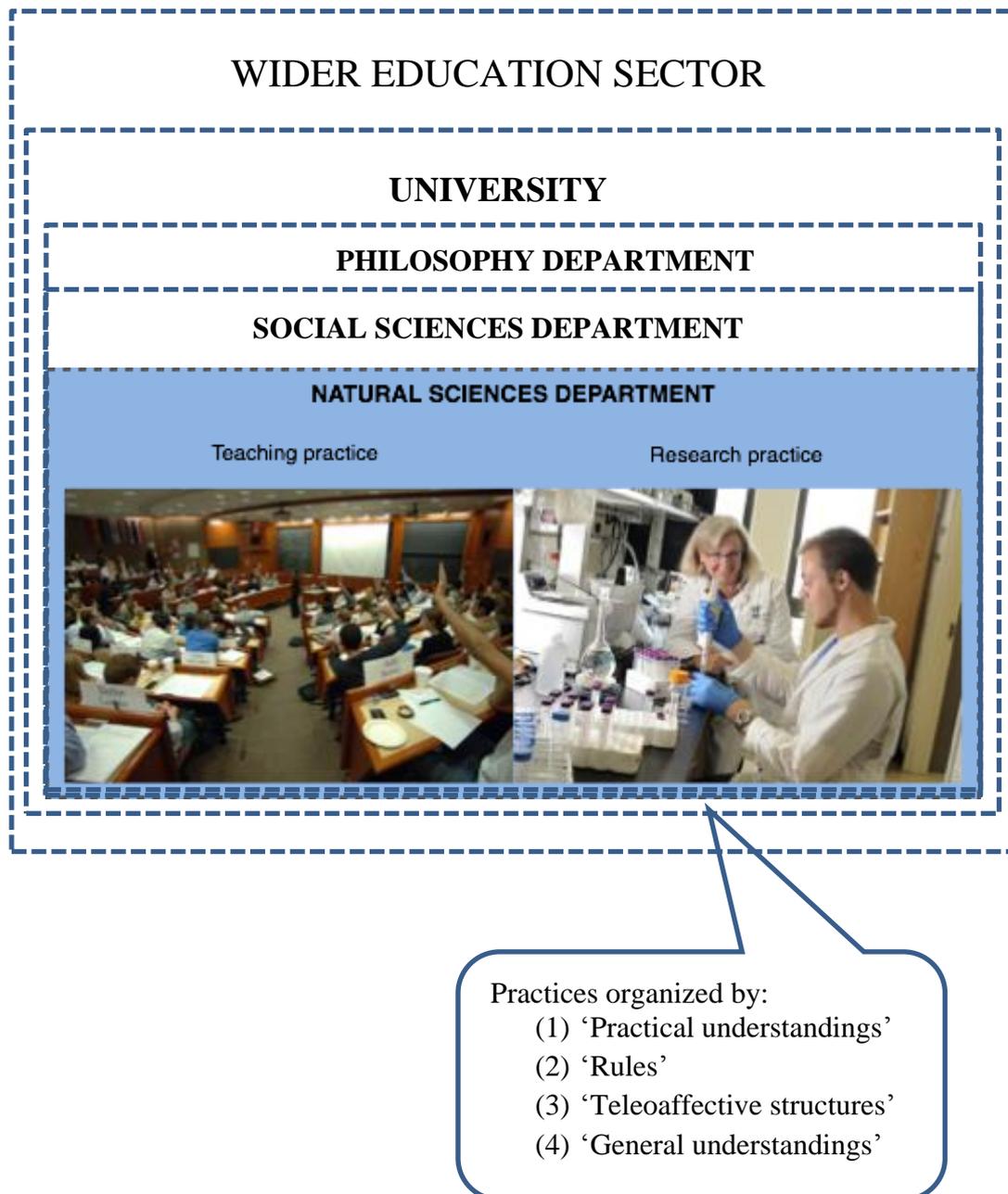


Source: Zundel (2008, p 145)

While the above picture tries to express the concept of the social 'site' in a simple manner, I do not believe that Zundel has done justice in authentically depicting the material arrangements or entities forming part of the 'site'. Material entities are shown as standing alongside the practices rather than being 'constitutive' of them. In the following I have adapted the above diagram of Zundel to more authentically depict the Schatzki's concept of 'practice-arrangement bundles'. In Figure 4 (unlike the above Figure 3 by Zundel) we see that the 'practices' 'constitute' 'material

entities' or arrangements. So, teaching is a practice-arrangement bundle, research is a practice-arrangement bundle. Each of the departments is a collection of such practice-arrangement bundles and the University is a nexus of practice-arrangement bundles forming part of the wider education sector.

**Figure 4: Adapted version of Zundel's representation of Organizations as nexuses of practice-arrangement bundles**



Having reviewed the nature and basic composition of social phenomena in this section, the next section will focus on Schatzki's specific account of action.

### 2.3. 'Practical intelligibility' and Schatzki's account of action

'Intelligibility' means making sense (Schatzki, 1996, p 111). Schatzki argues that intelligibility is the central phenomenon of both action and social reality (ibid, p 99). According to him, intelligibility has two basic dimensions (ibid): world intelligibility (how the world makes sense) and action intelligibility or 'practical intelligibility' (what it makes sense to someone to do). Schatzki maintains that both these dimensions of intelligibility are articulated through the practice organizations. Furthermore, "there are no things making sense and no making sense to do something that are not articulated on the background on practices" (ibid).

'Practical intelligibility' is a central component in Schatzki's account of action. 'Practical intelligibility' governs action by determining / signifying what an actor does (Schatzki, 1986, p 51; 1996, p 118). As Schatzki explains, what makes sense can vary depending on the situation.

It can mean, for example, what is called for, permitted, appropriate, prudent, efficacious, most important, most inflammatory, most flamboyant, craziest, and supposed to happen (ibid).

Schatzki further notes that while most of the time people behave rationally, 'practical intelligibility' is not the same as rationality and what makes sense to do might not always be the sensible thing to do (Schatzki, 1986, p 52). "...Intelligibility ...does not necessarily respect cannons of reasonableness, sanity, or prudence" (ibid, p 53).

Schatzki's notion of signifying hails from Heidegger who argues that what a person does is structured by *understanding* and *attunement* (Schatzki, 1986, p 55; 1996, p 122). Schatzki (1986, p 56; 1996, p 123) appropriates Heidegger's notion of *attunement* as *mattering*<sup>14</sup>. He argues that while understanding houses the teleological component of structuring of action, attunement is the locale of its affective component. Following Heidegger, Schatzki further argues every aspect of a person's existence is affected by how things matter. As he states:

How one acts, interacts, talks, perceives, reflects, fears, and desires, in short, the entire spectrum of ways of being, is beholden to and governed by how things matter (Schatzki, 1986, p 56).

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<sup>14</sup> "Things mattering is people's being in particular moods and emotions or having particular feelings, affects, and passion" (Schatzki, 1996, p 123).

According to Schatzki (ibid, p 57), mattering can mould action intelligibility in two ways: (1) It can do so by invalidating the teleological character of action; (2) It can help in determining what goals an actor pursues or signifying actions which make sense to perform in pursuit of some goals.

Schatzki (ibid, p 59) explains that “whereas mattering can mo[u]ld intelligibility either independently of or in relation to goals, *understanding* is the teleological side of action. [...] When *understanding* determines intelligibility what it makes sense to do is what it makes sense to do for the sake of some particular state of existence. When one acts for the sake of some state of existence, what it makes sense to do is determined by a range of factors beyond this state”. These include: “... current projects and tasks, normalcy, rules, paradigms, states of affairs, ideas (including concepts and thoughts), and setting” (ibid, pp 65-66). According to Schatzki, some combination of the above types of factors always determines what it makes sense to do. However, Schatzki carefully emphasizes that the above-mentioned phenomena do not exhaust the types of factors determining ‘practical intelligibility’ (ibid, p 66).

Schatzki engages in a detailed discussion on settings (in his doctoral thesis and in his 2002 book) as, according to him, settings not only help in signifying action intelligibility but also constitute the spatiality of moment-to-moment existence. In his doctoral dissertation, Schatzki construes ‘site’ or setting mainly in its physical / spatial sense. As he states:

A setting is a location in physical space, the actual physical scene where action transpires. [...] A setting is constituted by a determinate, spatially distributed, set of man-made and/or naturally occurring entities (Schatzki, 1986, p 77).

A setting is also a spatial enclosure. The permanent features of a given location define spaces in which occasional and mobile phenomena can occur and move about (ibid, p 78).

At this stage, he gave the following as examples of settings: a street corner, a park, a factory assembly room, a classroom, a subway platform, a study, a mountain top, etc. (ibid, p 77). However, later in his 2002 book Schatzki expanded the idea of ‘site’/setting. Here he defined ‘sites’ as “*where* things exist and events happen” and argued that ‘spatial sites’ are only one genre of ‘sites’ (Schatzki, 2002b, p 63; italics in original). In 2002, Schatzki distinguishes “three senses of ‘site’, of ‘where’

something is or happens” (ibid). “A site, is first, the location where something is or takes place” (ibid, p 64). At this stage he argues that location can be either spatial and/or temporal. “Second, where something is [...] is the wider scene in which it occupies a site in the first sense” (ibid). Again, this sense of ‘site’ has two versions: physical/spatial and nonspatial. Nonspatial version can be “...for instance, the extended and articulated phenomena or realms in which things exist or occur” (ibid). Finally, “where something is [...] is that extended and articulated phenomenon or realm of which it is intrinsically a part of. Something’s ‘site’ in this sense is that phenomenon or realm (if any) *as part of which it is or occurs*” (ibid, italics in original). After distinguishing the 3 senses of ‘site’, Schatzki delimits the concept. He finally claims:

A context is a site when at least some of the entities that occur in it are inherently components of it. That is to say, for something to be or to occur in a site context is for it to be or to occur as a constituent part of its context (ibid, p 65).

Regarding the first role of setting in everyday life (i.e. signifying action intelligibility), there are two sorts of occasions according to Schatzki on which the setting helps signify what makes sense to do.

The first sort occur when new situations of action arise now that something has occurred or been encountered in the setting (Schatzki, 1986, p 81; emphasis in original).

When new situations arise, Schatzki argues that what makes sense for a person to do “is a response to whatever is in the setting that initiates the new situation” (ibid). The second occasion on which the current setting helps signify what makes sense to do is “when a person intervenes in the setting and acts towards entities in it” (ibid, p 82). On such occasions action intelligibility is affected by the presence and spatial location of entities in the setting. As Schatzki argues:

The existence and spatial lay-out of things, people, and events channels, constrains, determines and elicits what people do (ibid, pp 78-79).

Regarding the second role of setting in everyday life, Schatzki argues that it is through encountering settings that actors familiarize themselves with normal practices and possible ways of acting and thinking (ibid, pp 83-84). Moreover, Schatzki argues

that, it is also through encountering settings that actors' acquire knowledge of the various factors that determine what makes sense for a person to do. This knowledge of intelligibility determining factors in turn can subsequently govern actors' behaviour. Finally, Schatzki argues that, it is by encountering settings that actors "are mo[u]lded (by persuasion, coercion, pedagogy, impressionistic encounters, etc.) so that certain of the [intelligibility determining] factors in particular subsequently" determine what makes sense to do (ibid, p 83).

Having reviewed Schatzki's ontology and his account of action in Sections 2.2 and 2.4, the next section will focus on positioning/situating Schatzki against some other key theorists who focus on action and/or actors and practices.

#### **2.4. Schatzki: the evangelical**

One of the most interesting and exciting portions of Schatzki's work, something I have found gripping, is his highly intellectual (and rather polemic) attack on several esteemed and high profile social theorists. He has engaged extensively in these critiques to locate his ideas by contrasting and comparing them with others. In this process that has extended over several years, Schatzki has taken issue with the ideas of Giddens, Bourdieu, Latour, Pickering and Habermas. These critiques have proven very useful to me in order to be convinced of the intellectual rigour of Schatzki's theoretical concepts.

In this section, I provide a brief [and selective] review of his critique on Giddens, Bourdieu, and actor-network theorists. I specifically focus on Schatzki's critique on these theorists as their ideas have been highly influential in various streams of literature including accounting, organization theory and information systems (amongst others) in providing researchers with alternative frameworks for understanding and theorizing social practices and life in general<sup>15</sup>. Hopefully, this review also helps the reader not only to position/situate Schatzki against these other authors but also to develop an understanding of the key themes that link practice theories. For a review of the accounting literature drawing on Giddens, Bourdieu, and ANT please refer to Englund, Gerdin, and Burns (2011), Malsch, Gendron, and Grazzini (2011), and Justesen & Mouritsen (2011) respectively.

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<sup>15</sup> Please refer Schatzki (1999) for a provocative critique of Pickering's work: *The Mangle of Practice*.

Before getting into Schatzki's critique of practice theoretical frameworks offered by Giddens and Bourdieu, it is important to note that unlike Schatzki, both Giddens and Bourdieu argue that structures are the 'medium and result' of practices<sup>16</sup>. According to these authors, 'habitus' and 'structure' as Bourdieu and Giddens discuss respectively, "at once organize ... social practices and govern ... their constituent performances" or actions (Schatzki, 1996, p 133). This is in contrast to Schatzki's account where he has four dimensions of practice organizations ('practical understandings', 'rules', 'teleoaffective structures', and 'general understandings') and has 'practical intelligibility' that focuses on explaining what makes sense to people to do. Bourdieu presents 'habitus' as the sole determinant of action. As per Giddens, however, "rules and resources are not the only determinant[s] of human activity, they are the only constant ones" (Schatzki, 1997, p 292). For Giddens, what people do can also depend on reasons and wants (ibid).

#### **2.4.1. Critique of Giddens**

As noted earlier, for Giddens, the structure [sets of rules and resources] not only organizes practices but also simultaneously governs individual actions (ibid, p 290).

(1) Schatzki (1997, p 291) argues that Giddens "is not clear about why he views rules as procedures of action" while in other instances he explains rules as (1) codes of signification and modes of typification, and (2) norms (rights and obligations) (Schatzki, 1990, p 284).

(2) Schatzki suggests that "anchoring action in practical understanding ...raises serious problems for Bourdieu and Giddens" (ibid, 295). Following Wittgenstein, Schatzki argues that knowing how to act cannot be laid out in words and this problematizes any account that seeks to make explicit either the content or principles of practical understanding (ibid, 296). Schatzki goes further in his critique to suggest that:

"the unformulability of practical understanding hollows out Giddens's system... As in Giddens, the rules (and resources) embedded in practical consciousness are the central constitutional component of a vast range of social phenomena ..." (ibid, p 300).

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<sup>16</sup> Of course, Giddens and Bourdieu offer diverging accounts of structure in terms of its theorizing.

(3) Schatzki (1996, p 145) problematizes Giddens notion of ‘resources’ as he believes that the notion presents interpretive difficulties. Giddens seems to have defined resources both functionally and non-functionally and Schatzki specifically takes issue with the Giddens’s non-functional definition of resources as “*capacities that generate commands* over objects or persons” (Schatzki, 1990, p 284; italics added). Schatzki (ibid) notes that this formulation is backwards and is not compatible with the functional specification of resources. Schatzki’s argument is that the “medium through which a capacity is exercised cannot itself be a capability, at the least, it must be the exercise of that capability” (Schatzki, 1996, p 145). In explaining his point, Schatzki gives land (property) as an example of a resource and explains that “neither land nor its possession is a capacity ... Rather, possession of land is *itself* a command over material entities. And what this command yields is capacities to perform certain actions, to induce others to perform certain actions, and thus to secure certain states of affairs” (Schatzki, 1990, p 284; italics in original). Hence, according to Schatzki, resources are commands over material entities and what the commands yield are the capabilities.

(4) Schatzki also argues that drawing on resources is not different from drawing on rules (Schatzki, 1996, p 155). As he elsewhere explains:

while the governing power of rules is ... a primitive, irreducible phenomenon, the governing power of resources depends on that of rules and other entities. For ... the possession of command over objects or persons depends intrinsically on other phenomena, for instance, behavioural norms, the threat of physical violence, and emotional ties between people. It is not merely the case, as Giddens writes, that resources are mobilized only in conjunction with codes and norms ... Rather, a resource is nothing apart from codes, norms, and sanctions among other phenomena (Schatzki, 1990, p 291).

Hence, according to Schatzki, the governing power of resources actually relies on rules, and resources by themselves do/cannot govern action.

(5) A major criticism focuses on ‘rules’. Rules according to Giddens are not explicit formulations. In fact, a formulation is an *interpretation* of a rule (Giddens, 1984, p 23; Schatzki, 1996, p 156). “Rules are present in practices only in the practical consciousness through which actors participate in practices”. They are “formulas and typified schemes invoked in the case of day to day activities” (Schatzki, 1996, p 156).

Giddens characterizes ‘practical consciousness’, the understanding of rules, as a “generalized capacity to respond to and influence an indeterminate range of social circumstances” (Giddens, 1984, p 21; Schatzki, 1996, p 156). However, ‘practical consciousness’ is something which cannot be formulated in words, symbols, diagrams, or pictures (Schatzki, 1996, p 157). This fact problematizes Giddens’s claim that ‘practical consciousness’ is grasping rules or formulas. Drawing on Wittgenstein, Schatzki argues that there can be many *interpretations* of ‘rules’ and “no one of these interpretations is truer or more accurate than the others. Hence, ... it is impossible to *state* (accurately interpret) them” (Schatzki, 1990, p 291). This makes Schatzki question Giddens for believing “that people, in using a concept, follow an unformulated rule? Wittgenstein did not believe that such rules exist. For him, understanding a concept is simply being able to go on speaking and acting in ways intelligible to others” (ibid, pp 291-292). Hence, Schatzki argues that continuity and paternity of on-going action must not be explained as the application of rules.

“Social science is impossible to the extent, which for Giddens is great, that it rests upon the identification of the unformulated rules governing human behaviour ... We should abandon instead the ideas that knowledge of unformulated rules governs action, that unformulated rules organize the pattering and continuity of practices, and that social structures consist consequently of rules of this sort” (ibid, 292).

On the basis of the arguments laid out above (points 3 to 5), Schatzki further states that the “possibilities opened up by resources cannot arise, even in part, from rules” (ibid).

(6) Schatzki provides a detailed critique of Giddens’s idea that structure delimits the fields of possible action. Here, I have outlined only some of the key points of his critique<sup>17</sup>:

- Giddens identifies three sources of constraint: Physical features of the body and material environment, power, and structure. Schatzki questions if the second source of constraint, power, is any different from structure as Giddens “systematically relates power to domination and treats the latter as a dimension of structure (asymmetric resources)” (ibid, p 160).

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<sup>17</sup> I have decided not to discuss the details of the comments here due to the rather specific and technical nature of the arguments. Interested readers are requested to refer to pages 160-167 in Schatzki’s 1996 book.

- According to Schatzki, Giddens fails to note the existence of different types of possible actions: logically and physically possible actions. Schatzki (ibid, p 162) moreover argues that the range of general possibilities that practices establish for their actors are not always well defined or rather indeterminate and this makes it difficult or impossible to adequately survey and (re)present these fields.
- Furthermore, Schatzki argues that Giddens provides a fractured account of how the constraints actually delimit the fields of possibility (ibid).

#### **2.4.2. Critique of Bourdieu**

Like Schatzki, Bourdieu also makes the analysis of action the starting point and building block of a general social theory and analyses action in terms of intelligibility (Schatzki, 1986, p 99). However, unlike Bourdieu who claims to provide an account of the generation of action, Schatzki offers an account of ‘practical intelligibility’ (ibid, p 108). Schatzki criticizes Bourdieu for misunderstanding his own theory (Schatzki, 1987, p 120). He argues that:

Although he [Bourdieu] thinks that he offers a theory of the generation of practice, he in fact provides an account of practical intelligibility, which governs action in a non-causal manner (ibid)

Bourdieu assigns two very different functions to ‘habitus’: production of action and the specification of intelligibility (ibid, p 121). According to Schatzki, this is a mistake as he argues that “the production of action is a matter of bodily mechanisms”, while the “determination of intelligibility is a separate affair” (ibid). Accordingly, in his account, Schatzki’s (1986, p 115) “assigns the production of action, but not the determination of intelligibility, to bodily mechanisms”.

“Bourdieu shares the idea that experiencing social phenomena implants something in people that determines their later behaviour. For him, this something is what he calls ‘habitus’, sets of mental dispositions and bodily schemas” (ibid, p 109).

Schatzki notes that there are the following two differences between his account of intelligibility and that of Bourdieu:

- (i) In Schatzki’s account, what makes sense to do is determined, as noted earlier, by factors such as “for the sake of, rules, paradigms, customs, events in the

settings, mattering, and so on” (Schatzki, 1987, p 123). On the other hand, in Bourdieu’s account what makes sense to do is determined by “definitions and functions constructed out of families of equivalent oppositions” (ibid).

(ii) Schatzki assigns ‘for the sake of’ and ‘goals’ a dominant role in determination of intelligibility as he argues that “what makes sense to people to do is usually what it makes sense to them to do for the sake of some state of existence or other” (ibid). While, Schatzki argues that Bourdieu’s theory “cannot accord goals and for the sake of a real, independent, role in the determination of intelligibility” as Bourdieu makes ‘habitus’ “the exclusive principle of action<sup>18</sup>” (ibid).

The main criticisms of Schatzki against Bourdieu are as follows:

(1) Schatzki believes and argues that while Bourdieu assigns two roles to ‘habitus’: specification of intelligibility and generation of action, Bourdieu “really gives an account of intelligibility and has nothing to say about generation” as he always describes the operations of ‘habitus’ as that which structures intelligibility (Schatzki, 1986, pp 121-122, 126-127; 1987, p 123, 126). Schatzki also argues that it does not make sense to claim that the mechanism that structures intelligibility also causally brings about an appropriate and congruent action (ibid).

(2) Schatzki (1986, 1987, 1997) notes the fact that Bourdieu’s account does not and cannot incorporate ‘mattering’ (i.e., moods, emotions, drives, and effects). Schatzki believes that Bourdieu cannot incorporate the above phenomena “because it seems unlikely that the phenomena of mood and emotion can be explained via mechanisms operating over fundamental oppositions” since “mattering does not lend itself to scrutiny in terms of rules, schemes, and combinatorial mechanisms” (Schatzki, 1986, p 128; 1987, pp 126-127).

(3) Schatzki argues that Bourdieu assigns no general content to the notion of ‘habitus’ and regards ‘habitus’ as “simply whatever it is that plays the functional role of mediating between objective structures and action” (Schatzki, 1986, p 135; 1987, pp

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<sup>18</sup> Schatzki (ibid) notes Bourdieu’s argument that ‘rules’, as per Bourdieu, “can only orient practice, not determine it”.

129-130). Consequently, Schatzki argues that “Bourdieu has no specific general theory of practice, only a powerful, suggestive picture” (ibid).

(4) Schatzki, furthermore, criticizes Bourdieu’s use of the fundamental oppositions in providing for the underlying structure of ‘practical intelligibility’. As according to Schatzki (Schatzki, 1986, p 135; 1987, p 130), “intelligibility ... has no underlying structure ... and actors need not be thematically aware of either the content of or the factors determining what it makes sense to them to do”. Rather, “the fundamental oppositions are something with which an *observer* [such as Bourdieu] ... can illuminatingly analyse ...practices...” (Schatzki, 1986, p 136; 1987, p 130; italics in original).

(5) Schatzki also criticizes Bourdieu’s account for not allowing conscious thinking to produce action as according to Bourdieu “only subconscious processes, together with bodily dispositions, achieve this” (Schatzki, 1986, p 142; 1987, p 133) and “‘habitus’ generates other putative activity-determining phenomena such as thoughts and motivations (including ends, projects, and plans) (Schatzki, 1997, p 289).

(6) Schatzki (1997) also is critical of Bourdieu’s argument that with regard to the governing of action, ‘habitus’ observes the logic of maximizing the actor’s economic, social, and symbolic capital. Schatzki argues that such a formulation “lashe[s] the action to one overall sort of end” (ibid, p 288).

(7) Schatzki finds the practice organization in Bourdieu’s account to be problematic for it is based also on the system of oppositions that structures the selection of action and Bourdieu insists that “it is not with practices but with the objective conditions established by them that dispositions are homologously structured” (ibid, p 289).

(8) One sort / kind of objective condition or structure which Bourdieu ties the nature of on-going existence to are the statistical distributions and regularities understood by science, e.g., price and income curves, probabilities of access to higher education, and frequency of holidays, etc. Schatzki, however, argues that this kind of objective structure or condition cannot perform the job Bourdieu wants it to do (Schatzki, 1986, p 138). Schatzki’s point is that people who grow up in similar objective conditions “do not act similarly because they have ‘interiorized’ the structure ... as the structure of their dispositions” (ibid, p 139), rather because people’s actions are in response to

or influenced by these conditions and “it is logically wiser to postulate that ‘habitus’ is structured homologously with the action manifolds it produces” (Schatzki, 1997, p 290). Schatzki’s reason for why the structure ‘habitus’ or people’s dispositions cannot be homologous to the structure of material conditions is because

the structure of objective regularities “consist of conjunctions of the values assumed by different socioeconomic variables together with whatever mathematically or linguistically describable relations characterize either the regularities or the sets of conjuncts. These conjunctions and relations are clearly not homologous with the opposition-based structure of habitus’s definitions of the situation[s]” people face (ibid, p 289).

### **2.4.3. Critique of actor-network theorists**

(1) The foremost concern which expressed over the actor-network theorists is regarding their “insist[ence] on ascribing a paradigmatically human type of do-ing, intentional agency, to a wider variety of nonhuman entities than is customarily the practice” (Schatzki, 2002b, p 198). As Preda (2000, p 291) argues, “...there is no conceptual ground for claiming that artificial agents [-more generally, artefacts -] act in the same way human actors act”. Schatzki ridicules, for instance, Callon’s (1986, pp 219-220) ascription of intentionality to scallops and poses the following question in an effort to vindicate the “integrity and unique richness of human agency” (Schatzki, 2002b, p 192):

“To which nonhuman entities is intentionality correctly ascribed? Today we know that animals boast varying degrees of intentionality and that machines might soon qualify as intentional beings. But scallops?” (ibid, p 199).

Schatzki’s (ibid) argument is that actor-network theorists “simply extend a way of talking that is paradigmatically applied to human beings to creatures immensely different from the paradigm case” and they do this “without offering arguments germane to particular cases”. Schatzki believes that actor-network theorists do not really mean to grant intentionality to things, rather their reason for extending the language is to emphasize/recognize the intermingling of humans and nonhumans and the contribution of the later type of entities to the networks of which humans are part (ibid). Schatzki argues that if the purpose of ‘symmetric metalanguage’ proposed by ANT is to recognize the contribution of nonhuman entities to the network of human existence and sociality, then:

“the vocabulary of doing is sufficient. There is no need to add to this common vocabulary further terms that apply paradigmatically to humans. Doing this is likely ... to undercut the goal of sorting out the contributions of different entities using a vocabulary that connotes human ways of being obfuscates the overwhelming likelihood that entities act in categorically different ways ...and getting these contributions right requires differential application of terms” (ibid, p 200).

He concludes his argument by stating that:

“Certain distinctions among entities must be respected, and not every word used for humans should be applied to nonhumans indiscriminately (or at all)” (ibid)

And that:

“Modesty precludes definitively adjudicating whether humans alone possess the self-conscious, intentional, deliberative, and planning agency they display. At the same time, we must not overlook that, as far as we know today, humans alone, and not all of them possess it fully” (ibid, p 202).

(2) Similar to some other post humanist approaches (for e.g., Deleuze & Guattari, 1987), actor-network theorists treat entities as networks or heterogeneous compositions to which both unity and doing is ascribed. In such a view, “a human being, for instance, is a network of neurons, muscles, memories, skills, preferences, and hormones taken as a unit” (Schatzki, op. cit, p 205). Schatzki notes that for Latour and Callon, “an ascription of agency ... is an instantaneous apprehension of multiplicity” (ibid). According to Schatzki, such a view threatens “human agency with instability, disunity, and fragmentation into the doings of other agents” (ibid, p 204). He argues that “by considering different congeries<sup>19</sup> of action ... agency can be seated in any component of a network, as well as in the network as a whole” (ibid, p 205). Furthermore, each network component is in itself a network of other entities.

The above theses of ANT imply that the agency of an entity is dependent not only on the elements composing it [compositional network], but also “on the wider network(s) in which agents are embedded” [embedding network] (ibid, p 206). Schatzki argues that:

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<sup>19</sup> Congeries: A disorderly collection. This is something like Latour and the ANT adoption of the term ‘bricolage’.

“when compositional and embedding arrangements are treated as, respectively, the causal material composition of agents and the causal conditions of agency, they are relatively uncontroversial (or at least nonexotic)” (ibid, p 207)

However, Schatzki believes that, actor-network theorists “write ... as if their concepts of constitutive and embedding multiplicities constituted deep truths that subvert human agency” (ibid). Schatzki further argues that, in their effort to level human and nonhumans, the actor-network theorists neglect to sort out significant differences between the two types of networks mentioned earlier. Schatzki notes two important points in this regard:

(a) “The location of agency that networks effect depends on the type of arrangement involved. Qua<sup>20</sup> effect of compositional networks, agency is attributed to networks themselves as units; qua effect of embedding arrangements, it is ascribed to components thereof” (ibid, p 208).

(b) While it makes sense to say that an agent is both a compositional arrangement and an effect thereof, Schatzki argues that, it does not make sense to claim that an actor is its embedding arrangements. He believes that “embedding networks, unlike compositional ones, do not generate (bring out) the agency of the entities they embed” (ibid, p 209).

Schatzki finally argues: the further thesis of ANT, “that networks determine the character of agency, overextends its insights<sup>21</sup>.

To summarize, Schatzki’s ontology offers several advantages as against the frameworks of Bourdieu, Giddens and actor-network theorists. This is because in designing his ontology and account of action, Schatzki seeks to draw on the positive aspects of these theorists and attempts to avoid what he believes to be the pitfalls of alternative approaches. For example:

- Schatzki believes that the same thing which produces action can/should at the same time specify intelligibility. So unlike Bourdieu, he uses ‘practical intelligibility’ to specify what makes sense for an actor to do and ‘practical understandings’ which execute the actions which ‘practical intelligibility’

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<sup>20</sup> Read: as being [an].

<sup>21</sup> Please refer ibid, pp 209-210 for a discussion on this point.

signifies. This concept of ‘practical intelligibility’ is used to theorize the empirics in Chapter 4 as it is important to understand how things makes sense to practitioners (Sandberg & Tsoukas, 2011).

- Unlike Bourdieu, Schatzki incorporates ‘mattering’<sup>22</sup> (i.e., moods, emotions, drives and effects) in influencing ‘practical intelligibility’. Moreover, unlike Bourdieu who, according to Schatzki, seems to suggest that action has one overall end which is to maximise capital, Schatzki allows for a range of normative ends for practices.
- Schatzki assigns agency to objects and other non-human entities but shies away from granting intentionality to them. However in contrast to ANT, he reserves intentional type agency only to humans (Schatzki, 2002b) which Ahrens and Chapman (2007) are sympathetic to.
- Moreover, while other theorists such as Giddens and Bourdieu place a greater emphasis on structure, Schatzki deliberately eschews such a dominant role for structure (Schatzki, 1990). This reflects his effort to reclaim human agency (Caldwell, 2012)

Due to such careful formulation of ontology and account of action, Schatzki’s framework seems to offer an interesting and insightful set of concepts to theorize and understand accounting and other organizational phenomena. Having discussed Schatzki’s ontology and his account of action, and clarifying his position as against other popular social theorists, in the next section, I will address the epistemological and methodological consequences of Schatzki’s ontology.

## **2.5. Epistemology and methodology**

Epistemology constitutes assumptions about how to acquire knowledge about the world studied (Ryan, Scapens, & Theobald, 2002). While some scholars argue that “the issue of ontology lies prior to and governs subsequent epistemological and methodological assumptions” (Chua, 1986, p 604), others argue that “neither ontology nor epistemology is systematically more fundamental” (Schatzki, 1991b, pp 649-650). As Schatzki argues, “just as any ontology presupposes an epistemology, so too every epistemology presupposes an ontology” (ibid). Lowe and De Loo (2013) argue that

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<sup>22</sup> Chapter 3 discusses the aspect of ‘mattering’ in relation to elements of Schatzki’s practice organization framework.

the complex relationship between ontology, epistemology, and methodology has not been considered sufficiently in the interpretive accounting literature, which has led to some serious confusion in the literature. The epistemological and methodological<sup>23</sup> implications of Schatzki's 'site' ontology for social science have not been systematically discussed by the existing research drawing on Schatzki's 'site' ontology for its empirical work (Ahrens, 2010; Ferry, 2011; Jørgensen & Messner, 2010; Laguecir, Kern, & Arjaliès, 2011; Zakaria, 2011). Although Zundel (2008) seems to have given some thought to this aspect in his doctoral dissertation, he cites Schatzki's postscript (1996) and coda (2002) to argue that Schatzki has treated the epistemological and methodological aspects rudimentarily. While Schatzki acknowledged in his 1996 and 2002 books that he did not address the epistemological consequences that hold for his ontology, some of those consequences of his ontology can be discovered by studying the remarks which he makes in his other contributions. Schatzki's has discussed and explicitly developed and the following aspects in his doctoral dissertation:

- How to access social reality?
- Conceptual apparatus appropriate for realistic social science<sup>24</sup>
- Describing, explaining and interpreting social phenomena

In line with Lowe and De Loo (2013), I believe that the above aspects are highly relevant to making a judgement on the appropriateness and robustness of Schatzki's foundational theoretical precepts. Hence I will review and discuss them in this section of the chapter. The epistemological presuppositions of Schatzki's 'site' ontology lie in the nature of phenomenological description.

According to Schatzki, social sciences aim for comprehending social reality (Schatzki, 1986, p 292). As he further explains, comprehending social reality involves the following two aspects: "(1) identifying the elements, interrelations, and overarching social formations that are significant for the course and character of social affairs, and (2) grasping what they mean and why they are as they are and have the effects they do" (ibid, p 291). Schatzki suggests that comprehending socio-

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<sup>23</sup> Schatzki (1986, p 3) views 'methodology' as features of inquiry and knowledge.

<sup>24</sup> Please see the Schatzki's conceptualization of realistic social science in the following paragraphs.

historical reality constitutes exploring and climbing above its complexity. “One explores ... reality by understanding ‘practical intelligibility’. One climbs above this reality by providing overviews of it: analyses that, by abbreviating, condensing, and simplifying a complex object, provide ‘surveyability’ over it” (ibid). Another consequence which Schatzki’s (1986, p 288) ontology holds on studying social reality is that, “even complex phenomena ... are to be understood and explained by reference to nothing beyond elements of and interrelations between” ‘constitutive’ entities.

Schatzki (ibid, p 294) argues that social science can and should be realistic. He explains that, “social science can be realistic only under the condition that the character of social formations is for the most part independent of their being investigated” (ibid). A further condition which needs to be met for a social science to be realistic is “if it speaks of actually existing entities alone; thus only if it eschews concepts implying that there is more to socio-historical reality than interrelated everyday lives” (ibid). According to Schatzki:

“social reality is made up of everyday lives and interrelations between them which exist and co-persist regardless of whether anyone apprehends, describes or thinks about them. So it is articulated into social formations before anybody sets out to investigate them. Thus because such formations are objects studied by [the] social sciences, these disciplines do not construct, create, or constitute their subject matter. Rather they discover, identify, depict, interpret, and explain already existing phenomena” (ibid, p 295).

Hence, Schatzki claims that social science can be realistic. In a similar line, Faulkner and Runde (2012, p 62) argue that researchers investigating “social phenomena are in a different position from that of natural scientists as they are able to exploit their own participation in the social world as a source of information about whatever it is they are studying, its meaning and so on... But that should not be taken to imply that they are constituting ... the objects of their investigations”.

The above arguments, however, may not seem to be true in the domain of my investigation (i.e. financial markets / financial services phenomena). The following developments are worth noting in this regard:

1. Research in social studies of finance (Bernstein, 1992, 2007; MacKenzie, 2006; Svetlova, 2009) has demonstrated how financial market participants

adopt and adapt the innovative financial theories (for e.g., Modern portfolio theory, capital asset pricing model, option pricing theory, theories of corporate finance, etc.) developed by academics. These theories can be regarded as the artefacts of academic research, which are part of the ‘site’ under investigation. Hence, some of the entities constituting the financial markets phenomena, the social ‘site’ under investigation, are manifested [sometimes partly] as a result of the academic research conducted by social scientists.

2. The above discussion has very close links to the thesis of ‘performance’ or ‘performativity’ developed by Michel Callon (1998), a significant contribution to the economic sociology literature. According to Callon (*ibid*, p 2), “economics [theory] in the broad sense of the term, performs, shapes and formats the economy [practical activity], rather than observing how it functions”. Donald MacKenzie (2006) has further elaborated the ‘performativity’ thesis of Callon. He offered a classification of different levels/types of ‘performativity’ of economics. The most basic level of ‘performativity’ is what he calls ‘generic performativity’. This is when “an aspect of economics (a procedure, a model, a theory, a data set, or whatever) is used in economic practice” (*ibid*, p 35).

The next level of ‘performativity’ is called ‘effective performativity’. This is to describe a situation where the incorporation of an aspect of economics makes a difference to the economic processes that incorporate the aspect of economics (*ibid*). In the same article, MacKenzie has empirically demonstrated the ‘effective performativity’ of Black-Scholes model. Here we see that the relations between entities constituting the ‘site’ are also constituted, at least partly, by the results of the academic investigations.

The next level in MacKenzie’s classification of ‘performativity’ is ‘Barnesian performativity’. This is to describe a situation where “the practical use of an aspect of economics makes economic processes more like their depiction by economics” (*ibid*, p 31). The final level/type of ‘performativity’ as per MacKenzie’s classification is ‘counter performativity’. This is used to describe a situation where the “practical use of an aspect of economics makes economic processes less like their depiction by economics” (*ibid*).

While MacKenzie provided this classification, he is cognizant that “one can be reasonably sure that the generic and effective performativity of economics are widespread, [but] matters are not so clear in respect to ‘Barnesian performativity’ and ‘counter performativity’” (ibid, p 51). Although MacKenzie did provide some empirical evidence of Barnesian and counter performativity in the case of Black-Scholes options pricing model, he clearly notes that the empirical investigations of Barnesian and counter performativity may be difficult.

Keeping this argument aside, the discussion in point (1) above is congruent to ‘generic performativity’ if not ‘effective performativity’, although in certain cases there is empirical evidence for the later (e.g., in the case of Black-Scholes options pricing model). Hence, in cases of ‘effective performativity’ we can argue that the interrelations between entities constituting the ‘site’ are also constituted, at least partly, by the results of the academic investigations.

3. The argument that the researcher and the object of study affect each other mutually and continually in the research process (Alvesson & Sköldbberg, 2009) is of course well known.

In light of the above arguments, social scientific investigations of financial phenomena may not seem realistic (as per Schatzki’s first criteria for realistic social science mentioned above), because the character of social entities and the interrelations between them is not completely independent of their being investigated. However, I would still argue that my social investigations of the PE practices in this research is realistic as ‘for the most part’ the entities constituting the ‘site’[s] investigated and interrelations between them exist and persist independent of my investigations. While, I agree with Alvesson and Sköldbberg’s argument (point 3 above) that the researcher and the object of study affect each other in the research process, I strongly believe that the effect of my field interactions on the interrelations between the entities ‘constituting’ the ‘site’ is almost negligible considering the size, scope and complexity of the practices they are part of and the duration of the fieldwork. Moreover, my investigations or field interactions definitely did not ‘constitute’ any entities of my investigation. Hence, I agree with Schatzki and

Faulkner and Runde that almost all of the entities in the social ‘site’[s] under investigation in this research exist and persist regardless of my investigations of them.

### **2.5.1. “Understanding as the Mode of Access to Socio-historical Reality”<sup>25</sup>**

Further building on his ideas of social reality, Schatzki (1986, p 297) notes that:

A mode of access is whereby a person can apprehend something that exists independently of the person and the avenue of access. [...] thus the mode of access to socio-historical reality is that whereby a social scientist explores this reality and uncovers its contents.

Providing overviews of social phenomena is based on both (ibid, p 298):

- (1) exploration of the particular aspects and sectors under consideration; and
- (2) Researcher’s experience with entities and the phenomena in general.

However, Schatzki argues that giving overviews “is not merely or always a matter of moving inductively from the details of the social reality to overviews of them”. Rather, he argues that exploring social reality “can be, usually is, and would often be blind if it were not guided by existing overviews and by speculative considerations” (ibid). I completely agree with this remark which puts realistic interpretation as mere approximation since the researchers can never avoid or overcome such speculations. We can only ever access the world through our senses and they are fallible.

A researcher can explore social reality [and/or phenomena] “by encountering, uncovering, and learning about elements of and interrelations between everyday lives” (ibid). Thus a researcher may explore social reality [and/or phenomena] in several ways in which [s]he can encounter, uncover, and learn about the ‘constitutive’ elements and their interrelations. Observing practices, participating in them, researching<sup>26</sup> about them, are some possible ways of exploring and uncovering intelligibility determining factors and the other contents of social reality [and/or phenomena]. Schatzki argues that even in those situations where researchers after researching, observing, or participating do not completely or perfectly understand intelligibility, the above activities still provide access to social reality. In such cases, the investigators still have a purchase on the reality to the existent that they have

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<sup>25</sup> This sub-title is adopted from (Schatzki, 1986, p 297).

<sup>26</sup> By research, Schatzki (ibid, p 302) means “both textual research [document work] and various information gathering techniques such as the use of questionnaires and statistical methods”.

uncovered the factors determining the actors' behaviour by inferring the interrelations and formations characterizing actors' lives (ibid, p 303). Having conducted field research myself, I believe that inferences are most often partial and are not 'hard' facts. In his 2002 book for example, Schatzki has provided very good accounts of practices performed by Shakers (Schatzki, 2002b, pp 25-38) and Nasdaq traders (ibid, pp157-174) by relying almost exclusively on secondary data and third party description to illustrate his conceptualisations of practice theory at the level of the empirical 'site'. This is contrary to the common belief that practice based research has to be undertaken mainly by ethnographic inquiries.

Schatzki's summarizes the state of affairs as follows:

Understanding is the mode of access to social reality. For (a) understanding practical intelligibility is grasping what it makes sense to others to do and why, (b) grasping why requires apprehending intelligibility-determining factors, and (c) grasping these factors makes it possible to uncover the other phenomena (beyond the interpersonal mo[u]lding of practical intelligibility) constitutive of social reality in-itself (ibid, pp 298-299).

Although Schatzki argues that the contents of social reality are determined by 'practical intelligibility', he does not relativize this reality to the natives' point of view. He argues that people are not "aware of all the factors determining what makes sense to them to do, let alone all of the interrelations between, and all the social formations embracing, their lives" (ibid, p 303). So he explains that even though 'practical intelligibility' governs their actions, the contents of such intelligibilities are not relative to or imprisoned within natives viewpoints (ibid).

Schatzki even takes issue with Schuetz who claims that researchers must describe social reality in such a way that:

...an act performed within the life-world by an individual actor in the way indicated by the [description] would be understandable for the actor himself as well as for his fellow men in terms of common-sense interpretations of everyday life (Schuetz, 1953, p 34).

Schatzki argues that because the natives are not aware of all the factors determining what makes sense to them to do, researchers' descriptions of those aspects of the natives "lives escaping their point of view might not at all make sense to them in

terms of their own common-sense way of thinking” (Schatzki, 1986, p 309). This is because there is more to social reality than the natives’ point of view.

### **2.5.2. Can an investigator correctly grasp intelligibility?**

The fundamental argument of relativists (for e.g., Gadamer, 1975; Winch, 2003) is that since (a) understanding is both constituted and made possible by preunderstandings that are acquired from the historical and social context of the researchers, and (b) researchers cannot shake off his or her conditioning, it is impossible for researchers to correctly apprehend the intelligibility at work in socio-historical contexts different from their own (Schatzki, 1986, pp 310-313; see also: 1995 and 2003a). However, Schatzki is in disagreement with relativists on the issue of grasping intelligibility.

Schatzki (1986, p 312) claims that the above relativist argument “does not demonstrate that it is impossible to understand intelligibility correctly, but at the best suggests that understanding is difficult and may never attain perfection”. Schatzki (ibid, p 313) notes that “although cultures, societies, [and] communities ... vary greatly in the particular factors determining what it makes sense to their members to do”, there is [normally/usually] tremendous or “considerable overlap between an investigator’s pre-understanding and the factors governing all other people’s behaviour”. Hence, Schatzki argues that to the extent there is such an overlap pre-understanding automatically makes understanding possible (ibid). Furthermore, Schatzki argues that even in circumstances where there is no such overlap, pre-understandings of the researchers do not proscribe correct understanding. Schatzki argues that “the familiarity component of pre-understanding serves as the ground on which an investigator can recognize but also learn about previously unfamiliar factors determining what it makes sense to his/her subjects to do” (ibid, 314). As Schatzki argues

Far from imprisoning understanding within a framework, familiarity is that on the basis of which understanding can assimilate unknown, novel, and strange factors (ibid).

Schatzki’s also disagrees with another relativist argument that ‘practical intelligibility’ is always determined by a totality of factors which are denumerable (pp 316-320).

Overall, my observation suggests that in an attempt to make social investigations scientific or objective, he expands the notion of ‘objectivity’ (Schatzki, 1995). Schatzki prefers to expand the notion of objectivity rather than accepting subjectivity. However, it is important to remember that personal interpretations are necessarily involved in the crafting of research stories (Lowe & De Loo, 2013) and “interpretive research is ...inevitably theory-laden, provisional, subjective and open to revision” (Armstrong, 2008, p 873). Moreover, in the act of interpreting and depicting there is no guarantee of convergence among researchers and always the possibility of misunderstanding or misinterpreting. Hence, rather than working on expanded notion of objectivity, I prefer to embrace subjectivity in recognition of the human frailty to accurately/correctly and completely comprehend and describe what we experience. Consequently, I subscribe to a subjective epistemology (Denzin & Lincoln, 2005) where the researcher/knower and the respondents co-create understandings. I believe this view is [reasonably] compatible with Schatzki’s ideas. Adopting a subjective epistemology does not invalidate Schatzki’s ontology as Schatzki himself aims to extend the notion of objectivity to include aspects which are regarded subjective by other authors (Schatzki, 1995)<sup>27</sup>.

### **2.5.3. Interpretation and explanation**

According to Schatzki (1986), interpretations give something its meaning. According to him, interpretations “provide answers to questions such as: What is really going on here? What is this all about? What does this amount to?”. Drawing on Wittgenstein, Schatzki (1991a, p 312) argues that the goal of interpretive inquiry is to make “at first strange, unfamiliar, or puzzling actions and practices understandable” or intelligible [in other words, make them seem natural] (See also: Ryan et al., 2002; Schatzki, 1983). This involves “understanding both why the actions occur and what people are doing in performing them” (Schatzki, 1983, p 130). Before turning to the ‘why’ question, I would like to note some further remarks of Schatzki with regards to interpretations. As mentioned earlier, Schatzki’s view is that researchers interpretations of social phenomena often diverge and even contradict natives own understanding of the phenomena. Hence, Schatzki is against the claim that the natives’ point of view is the sole object of interpretive social science. He argues that

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<sup>27</sup> There is more philosophical and methodological discussion about this and other points in chapter 5 (please refer to table 9).

natives' point of view is only one of aspect of social reality and hence only one possible object of interpretation. This is in line with Boland and Pondy's (1983) argument that the researcher must step out of the actor's frame of reference.

Explaining action is central to social science research (Schatzki, 2005a). According to Schatzki (1986, p 371), explanations answer the question: Why is a social phenomenon the way it is? The two kinds of explanations that fit with Schatzki's conception of the nature of social reality are: 'intelligibility explanations' and 'causal explanations' (ibid, p 378). "Intelligibility explanations explain why a particular action or set of actions occurs by laying out the intelligibility governing it/them. Causal explanations describe the actions and chains of action leading up to phenomena" (ibid).

An obvious question to ask then would be: Can 'Practical intelligibility' be articulated in words completely? Schatzki's response to this question is that "language is ...unable to articulate fully the understandings and intelligibilities that permeate human life (Schatzki, 1996, p 13). Such conceptual understandings are not fully formulable in words and they cannot be disengaged from the practices that sustain them (ibid, p 93). This reiterates my belief that most accounts crafted by social scientists are often partial and are not 'hard' facts.

One of the Schatzki's two criteria for a social inquiry to be realistic (see also: Latour, 2005) is that "the concepts it employs ... [should] not imply that there is more to social reality than interrelated everyday lives" (ibid, p 321). In crafting this doctoral research, I will refer mainly to the expressions from Schatzki's ontology (most of which are explained earlier in Sections 2.1 and 2.2). These expressions do not refer to anything but elements of interrelations between entities 'constituting' the social 'site'. As Schatzki explains, "the virtue of these concepts is that they telescope the complexity of socio-historical reality ... into immediately graspable and surveyable form, thus enabling the investigator to climb above this reality and to provide simplified, concise, and economical representations (overviews) of it" (ibid, p 323).

## **2.6. Case study method**

"Methodological assumptions indicate the research methods deemed appropriate for the gathering of valid evidence" (Chua, 1986, p 604).

In line with the philosophical and methodological underpinnings of this doctoral research and to most effectively accomplish the purpose of this research which is to explore the forms of accounting and other [calculative] practices in the PE setting, I adopt a case study method. Case based approach (Scapens, 2004) is best suited for studying accounting and other [calculative] practices as the role of accounting and other [calculative] practices cannot be understood in isolation and case study approach allows for a more comprehensive and in-depth examination of the empirical target over a considerable period of time (Lukka, 2005; Otley & Berry, 1994). Furthermore, as argued by Cooper and Morgan (2008), case study approach is very useful for the study of actual practices and the details of significant activities.

The case study method has a long tradition and history in (management) accounting (Scapens, 1990, 2006). Since the early-mid 1980s there has been a huge number of studies which has examined accounting within its organizational and social contexts (Ahrens & Chapman, 2006b; Ahrens & Dent, 1998; Cooper & Morgan, 2008; Hopwood, 1983; Lowe & De Loo, 2013; Scapens, 1990). Boland and Pondy (1983) provide the following guidelines for researchers studying accounting in its organizational/social contexts:

**Table 3: Boland and Pondy's (1983) guidelines for researchers studying accounting in its organizational/social contexts**





Source: Boland and Pondy (1983, p.226), emphasis added (See also: Lowe, 1997, p 16)

In my research I have adopted a similar approach in studying aspects related to accounting and other [calculative] practices in the context of PE. I have undertaken two case studies within the PE industry (Chapters 3 and 4). The first case (Chapter 3) looks at the PE industry as a whole. The purpose of the first case study is to (1) investigate the meshing and consequently the ‘situated functionality’ of accounting in various PE practices. The second case (Chapter 4) focuses on the investment evaluation and due diligence practices of one particular firm - a large global PE asset management firm.

### **2.6.1. Aspects of the research process**

Consistent with an open interpretive approach, I commenced the field work without an explicit theoretic framework (Bryman, 1992). I first heard of Schatzki and got curious about his practice theoretical approach during the EDEN Doctoral Seminar on Case based research in Management Accounting (4<sup>th</sup> - 8<sup>th</sup> April 2011). Upon returning from Brussels, I started reading (in the second half of April 2011) the few papers in accounting literature that have adopted Schatzki’s practice theoretical approach to understand and theorize management accounting and control practices. During this period, I also read the two papers written by Schatzki in the *Organization Studies* journal in which he outlines and explains his complex and highly intellectualized ontology in a rather simplified and concise form. Having read these journal articles, I found Schatzki’s approach interesting and felt comfortable with the idea of reading more writings of Schatzki. So I ordered Schatzki’s 2002 book on Amazon on the 10<sup>th</sup> of May 2011. I started with his 2002 book as the very few empirical studies published in accounting literature had adopted ideas mainly from Schatzki’s 2002 book and I wanted to get to grips with those concepts.

My efforts to secure access to the field commenced almost simultaneously. My first interview was on the 10<sup>th</sup> of May 2011. The initial set of interviews were across

several PE firms and this was done as an effort to (1) develop an understanding of the various practices constituting the industry; (2) explore and understand issues related to accounting and control as relevant in the industry; and (3) secure further access in one of the firms to conduct an in-depth study. Having chosen to adopt such an approach, the interviews were unstructured and open ended. Moreover, the interviews were conducted over an extended period of time and the time gap between the interviews allowed me the flexibility, privilege, and luxury to reflect and think about the interviews theoretically and view aspects of Schatzki's ontology empirically<sup>28</sup>, thereby simultaneously and constantly creating a data-theory link. The aspects of research design (data collection and analysis) for the specific cases studied in the thesis are discussed in Sections 3.2 and 4.4.

### **2.6.2. Choice of the setting and cases:**

“A setting is a named context in which phenomena occur that might be studied from any number of angles” (Hammersley & Atkinson, 2007, p 32). As indicated earlier, the setting for this research is the PE industry. Given the empirical significance of the phenomena, it is surprising how little we know about the PE industry<sup>29</sup> (Hoskisson, Shi, Yi, & Jin, 2013, p 25). This PE setting is ‘intrinsic’ (Silverman, 2009, p 139) because there is a clear lack of knowledge about accounting and other [calculative] practices in the PE setting (Van der Stede, 2011). This lack of knowledge may be due to the fact that the research access to PE firms like any other alternative investment asset management firms is hard. The difficulty of research access into alternative investment management firms has been acknowledged by eminent scholars such as Hardie and MacKenzie (2007; see also King, 2008). The PE sector is a discrete one, partly through legal necessity (the non-solicitation requirement) and partly through choice.

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<sup>28</sup> In retrospect, I found this to be very important as Schatzki (1986, p 10) acknowledges, the phenomenological character of his account of action lies in the fact that “experience of one’s own life provides a test for it: it passes the test to the extent that ...its depiction of life makes sense and is familiar to people on the basis of their experience”.

<sup>29</sup> Section 3.1 picks further up this justification at an industry level by demonstrating the empirical significance of the phenomena and by citing recent comments by scholars noting the limited knowledge we have of PE practices in general. Section 4.1 notes the importance of studying investment evaluation and due diligence practices in particular drawing on MacKenzie, Hardie, Clunie, Preda, & Pardo-Guerra (2012), Beckert (2009), and Beunza & Stark (2005).

As it is often the case and only sometimes explicitly acknowledged, the choice of the 'site' where to conduct the fieldwork and develop the case study is driven by many variables, some of which serendipitous (as, for instance, the access granted, see Hirsch & Gellner, 2001) and some other pragmatic (Hammersley & Atkinson, 2007; Marshall & Rossman, 1999). In order to explain the pragmatic aspects, Hammersley and Atkinson talk about ethnographers who normally study only one or small number of settings, and sometimes these are ones that are geographically close to where they are based. They say that this is forced by the cost of using more remote sites and the limited resources available.

For this doctoral research, serendipity and practicality surely played a role. Taking into consideration: (1) the fact that I did not have any prior contacts in the PE industry; (2) the constraints with regard to time and money as a doctoral researcher, and also (3) the discrete nature of the industry, I was strategic in terms of gaining research access. Having failed to get access through cold calling and emails, I attended the 'Private Equity Findings Symposium' (2<sup>nd</sup> June 2011) organized by the London Business School where I met a number of practitioners from the PE sector. I took the opportunity to introduce myself to a number of individuals and discuss my research. I also asked them if I could request an appointment for a brief conversation (interview) regarding my research. Some of the symposium participants agreed to this and I sent them emails requesting a meeting. Once I obtained an appointment with one person in a firm, I endeavoured to use the snowball approach to recruit more participants to my study. This allowed me to develop my first case study (Chapter 3).

Luckily enough, one of the PE professionals I interviewed during the cross sectional study, a Managing Director of a large global PE equity asset management firm, turned out to be an Aston Business School alumni and he introduced me to two further people in his organization. These people in turn introduced me to further people in the same organization and I had the opportunity to develop my second case study (Chapter 4) for the PhD within this firm. Further details of the individual cases are provided in the respective chapters.

Having made explicit the pragmatic aspects of the research access, I have to acknowledge and admit that the resulting choices proved to be very interesting and insightful and they had no negative impact on the research. For the first case study, I

chose to interview several PE firms based in UK<sup>30</sup> (mainly, London) in order to explore the various forms of accounting and control as relevant in the industry. London is the financial capital of UK and UK PE market is the most developed outside the USA. PE funds based in the UK accounted for 13% of global investments and 5% of funds raised. Also, the UK PE industry has invested over £150 billion in around 30,000 firms worldwide (Maslakovic, 2010). The second case study was within a large global PE asset management firm. In this case, I explored the investment evaluation practices that form an important part of the control mechanisms. My initial intention was to secure access within a large PE firm, as it would be ideal to study control systems. This is because there is evidence from prior research that size is an explanatory variable for the emergence of formal management control systems (Davila, 2005). Moreover, the company provided me with reasonable access in terms of interviews and also some limited access to observe the practices and internal documents of the firm which are regarded confidential.

## **2.7. Chapter Summary**

In this chapter, I have sought to review and discuss key aspects of Schatzki's 'site' ontology and his theory of action. Schatzki's account of action has not been explicitly discussed to this level of detail in the existing literature. To review the key aspects of his ontology and theory of action most effectively, and to develop an in-depth understanding of his complex theoretical ideas, I felt it necessary to go to the extent of reading Schatzki's Ph.D. and follow the evolution of those ideas. In doing so, I also review Schatzki's critique on Giddens, Bourdieu, and Actor network theorists not only with a view to help the readers situate Schatzki against these popular alternative theorists but also to develop an understanding of the key themes that link practice theories. Another important contribution of this chapter has been to systematically discuss the epistemological and methodological aspects presupposing Schatzki's ontology. These aspects have been carefully traced in his writings and discussed along with other relevant methodological literature as applicable for conducting this doctoral research. I have also discussed the aspects of the research process and research method leading to the empirical research in the two subsequent chapters of this thesis. The theoretical concepts reviewed in Sections 2.2 and 2.4 form the basis of theorizing the empirical material of PE practices in Chapters 3 and 4. In Chapter 3,

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<sup>30</sup> Just one of the firms interviewed is based in Barcelona.

the 'site' is reflected at the industry level whereas in Chapter 4, site is redefined to be at the level of individual firm.

## **‘Situated functionality’ in private equity: A social ‘site’ analysis of the meshing of accounting and other practices**

**Synopsis:** This chapter 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 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, I note that ‘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. I also identify the close relationship between ‘general understandings’ and ‘teleoaffective structure’ and note their mutually constitutive nature.

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### **3.1. 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). Jørgensen and Messner (2010, p 203) make a similar argument that an increased attention to how accounting intersects with other organizational practices would be worthwhile for accounting researchers. My research in this chapter is designed to examine the role of accounting in PE 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 of these practices may not be found widely in firms in other sectors (for example: asset management, high frequency trading, etc.). Preda (ibid, 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 & MacKenzie, 2011; MacKenzie, 2009; Preda, 2009; Van der Stede, 2011; Vollmer et al., 2009).

PE 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 assets as of 30<sup>th</sup> June 2013<sup>31</sup>. At the Pan-European level, PE firms invested 46 billion Euros across over 4,800 companies in the year 2011<sup>32</sup>. 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. (op. cit. 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 the financial services firms and financial markets (Van der Stede, 2011; Vollmer et al., 2009), I believe that practice based field research in the PE sector could provide valuable insights into this relatively poorly understood but influential sector. My aim in this chapter 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.

Several recent contributions across a number of accounting journals have reflected a re-evaluation of more than two decades of the literature (Englund et al., 2011; Justesen & Mouritsen, 2011; Malsch et al., 2011). These papers seek to recognize and critically evaluate the influence of ideas and concepts from several key social theories that have been deployed in attempts to understand accounting as social and organizational practice. These theories have provided valuable, if differing, understandings of accounting practice in the context in which it operates. Chua (2007) argues that a more explicit ‘practice turn’ in accounting research is just

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<sup>31</sup> Source: Source: The 2014 Preqin Global Private Equity Report (p 14).

<sup>32</sup> Source: EVCA Yearbook, 2012.

emerging. The contemporary practice turn in social theory and in accounting assigns ontological significance to practices (Baxter & Chua, 2008; Feldman & Orlikowski, 2011)<sup>33</sup>. A part of this turn to practice theory is reflected in studies by Ahrens and Chapman (2007) and Jørgensen and Messner (2010). These studies have adopted Schatzki's 'site' ontology to understand and theorize the role of management accounting and control systems and are premised on the notion that social life is 'brought into being' through activities and practices (Feldman & Orlikowski, 2011, p 1241).

As noted earlier in Chapter 2, as there seems to be good potential for us to gain valuable insights by adopting Schatzki's 'site' ontology for accounting research, this chapter experiments with some of Schatzki's (2002b) theoretical concepts<sup>34</sup> to develop an understanding of 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 CFO.

This chapter 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, I note that the 'situated functionality' of accounting is 'prefigured' by its 'dispersed' nature. I also highlight that the ['practical understandings' of] 'banal', 'taken for granted', 'everyday' accounting practices (Ahrens, 2010; Baxter & 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. My second contribution is an outcome of the 'theoretical experimentation' (Baxter & Chua, 2008)

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<sup>33</sup> In the organization theory and media studies literatures, practice theorists have been classified into two waves or generations (Orlikowski, 2010a; Postill, 2010). Postill (2010, p 25) argues that while the first generation theorists (e.g. Bourdieu, Foucault, Giddens, de Certeau) laid the foundations of what we now regard as practice theory, the second generation theorists (Ortner, Schatzki, Knorr Cetina and von Savigny) are currently testing those foundations and building new extensions to the theoretical edifice. Extensive reviews of accounting literature based on the first generation practice theorists are offered by Malsch et al (2011), Justesen and Mouritsen (2011), and Englund et al (2011) [See also Baxter and Chua (2003)]. In management accounting research, the second generation of practice theory is associated particularly with Schatzki (Ahrens & Chapman, 2007; Jørgensen & Messner, 2010).

<sup>34</sup> The concepts which I adopt for this chapter include the practice organization framework, 'dispersed' and 'integrative' practices, 'prefiguration' and 'constitution'. Most of these terms are explained in Section 2 of Chapter 2. 'Prefiguration' is explained in Section 3.1.

with Schatzki's 'site' ontology and problematizing a particular aspect of his practice organization framework: 'general understandings'. Through in-depth critical discussion and reflection, I have attempted to provide some clarity on the 'general understandings' concept.

This chapter is organized as follows. Section 3.2 presents the research design. In Section 3.3, I 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 chapter, I address two issues in the discussion (Section 3.4). Section 3.4.1 identifies the use and functionality of accounting in its different forms in various PE practices and Section 3.4.2 focuses on reflections from my experience with Schatzki's 'site' ontology to achieve the main objective of the chapter which is to theorize how accounting and other organizational practices are bound together in the PE setting. Finally, I outline concluding remarks in Section 3.5.

### **3.2. Research design**

For this research, I combine Schatzki's 'site' ontology [discussed in Chapter 2] with naturalistic data collection methods (Denzin & Lincoln, 2008).

According to Schatzki (2005b), a pivotal task in understanding a setting is to identify the actions that compose it. The next important task is to identify the practice-arrangement bundles<sup>35</sup> of which the identified actions are a part. Also contained in this second task is discovering the extent to which these practice bundles cohere or compete. The third important task is identifying other nets of practice-arrangement bundles to which the net composing the setting studied is closely tied. "To grasp the ties among these nets is to study, among other things, commonalities and orchestrations in their actions, teleological orders, and rules; chains of action, including harmonious, competitive, and conflictual interactions; material connections among nets; and the desires, beliefs, and other attitudes that participants in one net have toward the other nets" (Schatzki, 2005b, p 476).

Schatzki (2005b) explains that the earlier mentioned tasks of understanding social phenomena requires interacting with organizational participants (e.g. asking

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<sup>35</sup> Figures 3 and 4 pictorially illustrate practice-arrangement bundles.

questions), observing what they do, and attempting to learn their practices. The names participants use for their activities and social theoretical considerations are important clues for identifying practices and bundles (Schatzki, 2005b, p 476). However, it is important to note that Schatzki (2002b, pp 157-175; 25-38) himself has demonstrated his practice theoretical framework by providing illustrations of the Nasdaq and the Shaker's New Lebanon medicinal herb industry relying almost exclusively on secondary data and third party description for his illustrations.

Data collection: In order to ensure theoretical consistency and appropriate research design, I followed 2 of the 3 suggestions by Schatzki to gather empirical materials (i.e., interviews and observations). The third suggestion which is to learn from the practices of the professionals being observed requires much more open ethnographic level of access. On this point, it is important to note that the research access to PE funds like any other alternative investment asset management firms is extremely difficult and not easy to achieve. The difficulty of research access into alternative investment management firms has been acknowledged by experienced field researchers such as Hardie and MacKenzie (2007; see also King, 2008). The PE sector tends to be quite secretive, partly through legal necessity (the non-solicitation requirement) and partly through choice. This does not mean that I did not attempt to learn from practices. I have tried to achieve as intimate an understanding of the complex set of [e]valuation practices with the level of access I have been offered. But similar to Jorgensen and Messner (2010, p 189), I certainly cannot claim to have learnt to perform the natives' practices as they do it.

While the theory influenced / guided the data collection, I was fairly open in the interviews so that I do not miss out on other important aspects from the field (Walsham, 1995, 2006). The data collection was influenced by theory only to the extent that the focus on practices and activities could be maintained. Hence, the theory guided the data collection only partially.

To gain insights on the activities and practices within the PE industry confidential interviews were conducted with a number of professionals in various capacities (ranging from partners, directors, and senior practitioners to vice presidents and associates) from both leading and big PE houses and a few smaller firms. 23 formal interviews were conducted overall. The average length of the interviews was about 1

hour. The interviews were recorded digitally and subsequently transcribed. A list of interviews conducted with anonymised details of the interviewees is provided in Appendix 1 and Appendix 4. The interviews were supplemented with several observations of investment management and portfolio servicing practices within a large PE asset management firm. Please refer to Appendix 2 for details of the observations conducted.

To supplement the primary data gathered, I also analysed a number of public talks by PE practitioners in business schools (please refer Appendix 3 for details). Furthermore, I draw useful insights from published material gathered at the academic and practitioner conferences<sup>36</sup>. Hence my description of the PE business and industry has been constructed from a variety of perspectives. However, I acknowledge that this account is not comprehensive. As De Loo and Lowe (2012, p 3) argue, piling many testimonies cannot guarantee completeness and researcher(s) can never guarantee the completeness of an interpretive research story. Hence, my account of PE business landscape is partial and is limited to my interactions, field data collected, and literature review.

Data analysis: Keeping in mind the purpose of the research, the empirical material gathered on the practices within PE industry was analysed using concepts drawn from ‘site’ ontology (thereby creating a data-theory link). In order to organize the research process and facilitate navigation across the voluminous data, I classified the data as per the value chain of the PE firms. According to Gilligan and Wright (2010), the value chain in PE includes the following four ‘manifold of activities’: fund raising, sourcing and making investments, managing investments, and realizing capital gains. My research suggests the addition of client service, as an important practice, to the value chain, which is not reflected in the existing literature (Please see Figure 5)<sup>37</sup>. Then I coded the data based on the four dimensions of practice organization: ‘practical understandings’, ‘rules’, ‘teleoaffective structures’ and ‘general understandings’ (Schatzki, 2002, 2010).

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<sup>36</sup> I also attended the following academic and practitioner conferences: PE findings symposiums (2-3 June 2011; 28-29 May 2012; 3-4 June 2013) organized by the London Business School; EVCA’s mid market forum (18-19 Oct 2011 Budapest).

<sup>37</sup> The PE value chain is explained and discussed in detail in the next section.

### 3.3. The meshing of private equity practices and accounting

In this section, while I describe various practices within the PE industry, I also simultaneously identify the meshing of accounting practices within them. I theorize (Ahrens & Chapman, 2006a; see also Chua & Mahama, 2012) data gathered using Schatzki's (1996, 2002, 2010) 'site' ontology which is outlined in Chapter 2 the thesis. My purpose is to use Schatzki's practice theory framework to make sense of the empirical material gathered and draw relationships between the various interview accounts, observations and other material.

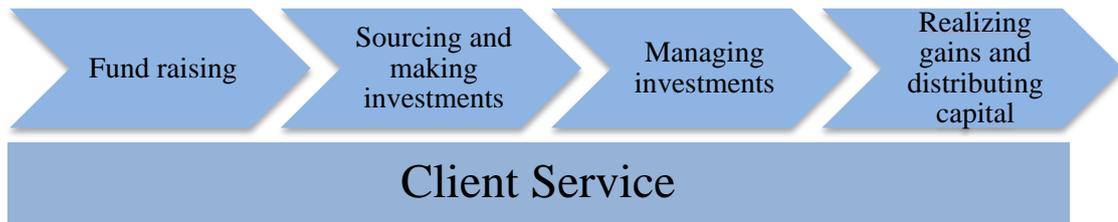
The 'site' of the overall PE business landscape is a confederation of nets of practice-order bundles (Schatzki, 2002). In this industry confederation, each PE firm constitutes a net of practice-order bundles, and each of its branch offices also consists of related bundle of practices and material arrangements. Each office contains material arrangements that include: rooms (for video conferences<sup>38</sup>, meetings, and working), technological arrays, employees, and potted plants (ibid, p 169).

Amid the above mentioned arrangements, PE firms carry on many practices and implement a wide variety of interrelated projects and tasks. These are reflected in a way in the value chain of PE firms. Gilligan and Wright (2010) suggest that a PE business principally includes the following four manifold of activities: Fund raising, sourcing and making investments, managing investments, and realizing capital gains. Based on my observation of the PE firms in my study I have added a fifth practice to the value chain consisting of client service activities (Please see Figure 5). These practices are interwoven: actions performed in different practices form chains; different practices' actions are performed at the same places amid the same arrangements; and the practices share an overall end or goal and are interconnected (Schatzki, 2002b, pp 169-170).

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<sup>38</sup> The office of a typical private equity firm has a conference room which can accommodate around 15 – 20 people. It is equipped with good video conferencing facility, whiteboard and markers for use during meetings and discussions, a large table and a few chairs along with some water and cookies. In one of the offices visited, 'tombstones' (brief details of various investments made in the portfolio) were displayed on the wall of the conference room. Also, there were all the awards on display at the conference room.

**Figure 5: Private equity value chain**



There are several overall ends or goals pursued by PE firms and their partners and other employees. The foremost, perhaps most visible and overarching end is to generate superior, ‘top quartile’ returns to their investors / LPs. This goal is reflected by the following quote:

the strategy of the firm is to ... provide superior return to our investors in the private equity asset class – ED/L/2

This is not, however, the only end. Another end which immediately follows the aforementioned is to ‘not lose money’. The director of a large PE firm quoted one of Warren Buffet’s best known rules for investors:

First rule is don’t lose money and the second rule don’t ignore the first rule

The end of making money and not losing money may sound common to any business, but the peculiarity or specific expectations about returns in the PE business is that investors usually expect a return of 500 basis points over the stock markets when they invest in PE. This is very well reflected in the following remark:

If you think that stock market is going to compound at 7%, historically, what people would say is I want 500 basis points above that for LBOs give or take – D/L/9

So, most PE firms are striving to generate returns over and above what the stock / public markets generate. The pressure to generate good return is high for PE firms because they charge at least two levels of fees to the investors (management fees and performance fees) and sometimes even more (for example, deal fees and monitoring fees).

In private equity there is another factor which you have to make up for is we have to pay back the fees and we have hurdle rates at 8% and the fees compound at 8% – D/L/9

Investors seek a premium over market because they are locking their money in for up to 12 years<sup>39</sup> (Fraser-Sampson, 2007, p 12) when they commit to invest in a PE fund. As Fraser-Sampson (ibid, p 15) states, “any private equity fund [investment program] is likely to last longer than the average marriage”.

Having said that, each practice within the PE has its own goals/ends and other ‘practice organizations’ (i.e., ‘rules’, ‘practical understandings’, etc.).

### **3.3.1. Fund Raising**

As Fraser-Sampson (2010, p 23) stated: “fund raising is chronologically at the beginning ... and forms an obvious prerequisite to any form of investment activity. You cannot invest money unless you have it in the first place”. Fund raising is an important aspect for any PE firm. As the Executive Director of a very large PE fund stated:

fund raising and investor communications is critical for us obviously ... you know the firm doesn't exist if it doesn't raise funds ... PE firms will essentially be a private firm and not a private equity firm if we do not have external funding – ED/L/2

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<sup>39</sup> Although, the PE partnership can be of 10-12 years, as it will become clear later on in the paper, the investors effectively lock in their money only for 3-8 years, which is the holding period of each portfolio company. This is because, as explained in Section 3.3.1, when PE firms fund raise, they secure commitments from LPs and the LPs actually invest their cash when the PE firms issue drawdown notices when they are about to find a suitable investment opportunity, and LPs get their cash back when PE firms sell the portfolio companies (Section 3.3.4).

This already suggests the extent to which the fund raising practice is related to and forms a net with other PE practices. It has a direct link with investment practices. Fund raising practices ‘prefigure’ (Schatzki, 1988b, 2010a) investment practices. According to Schatzki (2010a, p 140), ‘prefiguration’ can be understood as a qualification of possible paths of action on such registers as easy and hard, obvious and obscure, tiresome and invigorating ... and so on”. As mentioned earlier, without raising funds, PE firms will not be able to pursue the ‘teleology’ of earning superior returns by investing. The fund raising practices are also related, in many cases, to the distribution of capital [to be noted in Section 5.4]. The ‘teleologies’ (Schatzki, 1996, 2002b, 2010b) of the fund raising practice are to secure commitments from potential investors to invest in the upcoming funds, to secure commitments from specific potential investors, to raise the targeted funds within the targeted time frame, etc. Prior to the recent financial crisis, the successful GPs were very selective about selecting LPs for their successor funds (Fraser-Sampson, 2007, p xviii). This selection was based on the strategy of the firms and the funds. Successful funds and firms have very clear and specific idea about who should be their LPs. The following quote by the founder and managing partner of a medium sized PE firm reflects some of the selection and thought processes that are involved before LPs are invited to invest in a fund.

We actually thought long and hard about that and we made a number of changes when we raised the third fund ... our ideal investor is a long term oriented institution which has long term liabilities, needs long term assets, people who like predictable outcomes ... so we basically try to select investors who like visibility, predictability, and who can be with us time and again. So we have a very high percentage of sovereign wealth funds, insurance companies and pension funds – P/M/7

However, in the recent past, many new and first time funds/firms and even some established firms found fund raising to be very challenging because of market conditions. As the Partner of the small healthcare fund based in Barcelona remarked:

In the last 6 months we had around 80 meetings with potential investors. We had some tough times because of the crisis – P/S/1

While it is normal for the sales/marketing professionals of PE firms to generate leads and contact potential investors, the asset managers/investment professionals also play a key role in fund raising. As the Managing Director of a large global PE asset management firm stated:

...the sales team can arrange a meeting, but the people who you are giving the money to is the investment management team ... All the investment professionals are involved in the client acquisition process at some stage and constantly doing that – MD/L/4

According to Schatzki (2010a, p 140), entities/actors ‘constitute’ practices in two ways: (1) by being essential to them; (2) by being pervasively involved in particular practices at particular times and places. In the above quote, we can see that investment professionals as well as marketing professionals are essential to and pervasively involved in the fund raising practices. Furthermore, the investment management and fund raising practices are interwoven. This is because some of the actors performing the fund raising practices are investment professionals (who try to convince potential clients about their investment capabilities and the potential returns and benefits of investing in their funds); and more essentially, as noted earlier, “fund raising forms an obvious prerequisite to any form of investment activity. You cannot invest money unless you have it in the first place” (Fraser-Sampson, 2010, p 23). In this sense, fund raising practices are essential to investment management practices. This together with the pervasive involvement of key actors produces the constitutive intertwining of fund raising and investment management practices.

The examples of doings and sayings performed in order to raise funds are: making detailed presentations to potential investors (LPs) where the GPs explain the opportunity, the timing of the fund, the amount of money intended to raise, scope and structure of the fund, the type of investments targeted, who are the general partners of the fund, highlight their credentials and the credentials of the other members of the team, exhibit the success of their prior funds and so on. GPs tend to give careful thought and plan all the above aspects well in advance since they have to communicate all this clearly to their potential investors. Although most fund raising efforts include the above mentioned activities, the specifics may vary for a new firm

with little or no track record when compared to a firm with an established track record of raising its successor funds. As the Executive Director of a large PE fund stated:

... there is a difference between an existing PE firm raising a new fund [and] a new PE firm raising a new fund. Obviously if it's a new firm raising a new fund ... you need to spend time with your investors on what your deal flow looks like and where it's coming from and why you think ... whereas [with a] firm like ours ... the investors know the natural deal flow anyway from our existing funds and the focus of our investors is really on what we have done historically than exactly on which deals we expect to be having going into the new fund – ED/L/2

So, a new firm with no prior track record needs to explain to potential investors the source of the deal-flow<sup>40</sup> and the quality of the expected projects. It will often give specific examples to their potential investors of companies it would like to invest if it had cash immediately, etc. In essence, they aim to gain the confidence and trust of their LPs. On the other hand, firms with an established track record trying to raise their successor funds focus their marketing efforts on highlighting past performance. They do not necessarily explain their deal-flow at the time of fund raising. The 'practical understandings' within fund raising practices reflect the above compilation of activity. PE fund raising practices are also linked through understandings of: market conditions and the economic climate for fund raising; clients' investment requirements and preferences; understandings about how to conduct meetings with potential investors, what and how to present to the investors in the investment pitch or how to explain the strategy and scope of the forthcoming fund, among others. These understandings consist, primarily, of knowing how to carry out such actions. They also consist of both knowing how to recognize these actions as performed by competing PE firms and knowing how to prompt and respond to them (Schatzki, 2002b, p 164).

Some PE firms use placement agents or intermediaries to connect them with the potential investors. The placement agents offer support to PE firms in several ways including the preparation of due diligence materials, private placement memorandum,

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<sup>40</sup> Refers to the flow of the investment opportunities to the GPs.

sales presentations, providing references to support the GPs track records, finding potential investors, arranging the ‘roadshow’<sup>41</sup>, and advising the partners on how to present the investment opportunity effectively during the marketing meetings, etc. As noted by Gilligan and Wright (2010, p 59), some of the large accounting firms also operate fund placement businesses that assist PE firms in PE fund raising. By interacting with the potential investors [and placement agents] as part of their fund raising efforts, the PE industry forms a complex net which meshes and interweaves with other practice-arrangement bundles [such as placement agents, pension funds, sovereign wealth funds, insurance companies, other asset management companies, banks, etc.] in the financial market place.

When a PE firm is fund raising, it is basically trying to secure commitments from LPs. Once they have secured the initial commitment, they later on receive cash inflows from their LPs depending on investment requirements – either for paying management fees or making investments. When a fund needs investment funds or cash for other purposes, the GPs carry on the following activities:

Issuing drawdown notices (also known as capital calls), giving details of the bank account for the money to be paid in by the investors, giving brief details about the purposes for the money required for, and so on<sup>42</sup> (Fraser-Sampson, 2007, p 13)

Accountants generally perform the above activities. In this part of the value chain, the actors draw on accounting information regarding the performance and size of the previous funds (their IRRs, money multiples, pay outs, etc.). They also typically refer to information such as the track record of their past investments (year and amount of investment; year and amount for which they were sold, percentage of equity held, etc.). The fund raising materials also show the competitive landscape in terms of the transaction values, number of buyout /growth investments, number of PE firms, PE investment activity in general and in the target market, number of PE deals in the target market, etc. In the fund raising efforts, PE firms can be said to use accounting and associated calculative and representational information as a rhetoric to persuade existing and potential investors to commit to their forthcoming fund (Busco &

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<sup>41</sup> A ‘roadshow’ is a process whereby the PE firms sell the fund to potential investors.

<sup>42</sup> These activities are normally done by accountants.

Quattrone, 2012). Accounting and associated information helps composing and configuring the *invento* and *dispositio* of the fund raising documents (ibid). Accounting information is drawn upon heavily in the fund raising process.

### **3.3.2. Sourcing and making investments**

Deal sourcing: The next step in the value chain is to source attractive investment opportunities. As explained by Gilligan and Wright (2010), a significant amount of effort and resource is invested in prospecting for transactions and relationship management with people who help with the deal flow. The ‘teleologies’ (Schatzki, 1996, 2002b, 2010b) of the deal sourcing practice are to source investment opportunities:

- (a) which suit the strategy of the fund;
- (b) through proprietary sources (as they are normally cheaper than the ones in auctions); and
- (c) to which the PE firms can add value, and consequently generate good returns.

Given the large number of PE firms and limited buyout opportunities, there is intense competition in the industry to find attractive investment opportunities at low acquisition multiples (Maloney & Nemoto, 2011; see also: Hoskinsson et al., 2013). It is considered an advantage for a firm to have its own private network for sourcing deals. Having a proprietary deal flow is extremely important to find investments at reasonable / low prices. As the director of a large PE firm states:

There is a lot of competition, there is [sic] a 1,000 [PE] firms with I think are over a billion dollars today – D/L/9

Most PE firms are unwilling to pay high prices for acquisitions as it makes it more difficult to achieve the desired rate of returns. As the director of a large PE firm states:

The one thing that you don't want is to compete on price. But it is harder and harder to find proprietary deals – D/L/9

‘To not compete’ on price can be seen as an adage, a type of ‘rule’ (Schatzki, 2002) which informs the ‘intelligibility’ of the investment professionals. Most contemporary deals are done through investment banking networks and this is another

reason why the prices of the deals are increasing. Moreover PE firms are competing with strategic investors (who are normally willing to pay higher premiums for the deals) in addition to competing with other PE firms. So for the above mentioned reasons having a network from which to source deals is a very important aspect of obtaining good deals, deal flow and returns.

When searching for investment opportunities, PE firms are very specific in terms of their targets. Mostly the targeted investments are related to the strategy of the fund. This is reflected in this quote by the CEO of a mid-sized PE fund:

Some of it is ... [about] feel, I mean you are looking for a company that has a leading market position measured by relative market share in a niche that you can identify that has not exploited opportunities available to it generally ... which can be [further] exploited through the introduction of data driven professional management tools, the types of tools that you pick up at a top business school or a top consulting firm...we look for good business that we can turn into a great business that will grow and be attractive to someone who is willing to pay not just the higher price but a higher multiple for its earnings – CEO/M/10

Some of the elements mentioned in the above quote (for e.g., identifying a niche market and/or unexploited opportunity) reflect practical know-how or tacit knowledge and cannot be easily expounded further (H. M. Collins, 2001). When sourcing deals, another important aspect which PE firms consider is whether they are investing on their own or co-investing with other PE firms or limited partners (Beaton & Smith, 2011; Talmor & Vasvari, 2011). This has implications in terms of how much control they have over the investee company's operations, whether they have a seat in the board of the investee company or not etc.

Investment process and due diligence: The investment process in most PE firms and funds are considered and validated through investment committees. The senior investment professionals of the firm sit on this committee. The level of investment committee's involvement in each deal can vary depending upon the size of the firm and its organization's structure. For example, as the director of a large PE firm states:

Our funds are semi-autonomous...every investment decision comes through the central office ... each fund has an investment committee ...it's more like a capital commitments committee of a brokerage firm. We don't exhaustively look at the due diligence but we look at every deal to see if it makes sense and there has to be approval no matter what from the investment committee – D/L/9

On the other hand in some other firms, the investment committee may rigorously examine every investment deal. As the managing partner of a medium sized PE firm states:

The key control mechanism is obviously the investment committee which meets at least 3-4 times before any deal gets approved – P/M/7

In cases where the investment committee takes an active role in every deal, first the members of a deal team or the sourcing team normally approach the investment committee with a proposal of a potential investment opportunity. This might be in the form of a fairly detailed document called the 'opportunity memo' which explains all the important aspects of the opportunity. Then there are discussions about the opportunity. The discussions can be different for each deal as one interviewee indicates:

Depends very much on the deal, I mean, typically you cover the macro, the sector, the company positioning within its market, how this market is developing in the particular country, what are the prospects, is it a highly fragmented market or not, who owns the company, what kind of management does it have, what is its history... it's a wide array of things – P/M/7

After going through the presentation by the deal team and having rigorous discussions about the opportunity, the investment committee decides if they would commit further resources to proceed with due diligence.

Due diligence of potential investee companies is an important activity. The 'teleology' of the due diligence practice is to evaluate the various investment

opportunities in terms of their attractiveness and suitability to the existing portfolio and strategy (in terms of sector, size, time horizon, etc.) (Talmor & Vasvari, 2011). During the due diligence PE firms pay particular attention to the capability of the management team, evaluation of products / service offerings of the company, finding answers to questions such as: “how have sales progressed, are revenues growing or shrinking? Has growth been achieved organically or by acquisition? Are the assets and operations safe and efficient? What are the potential risks? Is the environment and the market sector a safe bet, or is an upswing already turning down? What kind of pension scheme is operating and is it in deficit?” (ibid, p 235).

During due diligence PE firms will evaluate all significant relationships, contacts and assets of the target company using a combination of legal, accounting, market, insurance, environmental and any other specialist advisers (Gilligan & Wright, 2010, p 119). In this process, the PE firms also aim to identify the potential areas of improvement (where they can add value) if they decided to buy the company and also develop a robust plan for achieving an improved value to sell the investment after a few years. Due diligence may also include or be supplemented by sensitivity analysis within which the impact of changing assumptions on the financial projections is evaluated in order to ensure that the financing structure is robust to all reasonable outcomes. This entails a substantial effort by the accounting professionals (within the firm) and the outputs of the analysis form a key part of the negotiation between the PE firms and the management and the potential investee companies (ibid, pp 119-120).

Different firms follow different procedures for due diligence. Some people follow a check list approach whereas others adopt a more interactive process. This may vary depending upon factors like the industry type of the target firm and the markets in which it operates. For example, when asked if his firm takes a checklist approach to due diligence or an interactive approach, the Partner of a mid-sized PE firm stated:

... there is a very clear list of things to be done ... you know ... we are quite flexible in applying the checklist because we face totally different situations, we are [in a] very diverse group of countries ... in transition economies. We are not in Western Europe, so you need to be flexible in that level and basically you know you make also a checklist but some things may be a lot more important than ... others

... depending upon whether you are in Poland or in Serbia which are as different as Uruguay and India. So you know you've got to be sensible. So we are not a kind of a US process checklist kind of firm. We leave that to the US guys – P/M/7

The above quote also reflects how the PE firms are sensitive to the different contexts or 'sites' (Schatzki, 2002b) when it comes to following the checklists or 'rules' (ibid). Another important aspect is the structuring of the transactions. The partner of a small healthcare fund addresses some of the intricacies involved in deal structuring:

... deal structure takes into account many many things ...you need to understand exactly the governance issues: I mean how many members of the board; the veto right; if we sell - can we force them to sell; if they [want to] get out are they penalized somehow – P/S/1

There are several other issues that are considered in making the investments, for example, the valuation of the target / investee company (valuations are typically based on earnings multiple, future cash flow, and the value of the underlying assets of the company), the financing structure, modelling the income statements, balance sheets, and cash flows, etc. (Gilligan & Wright, 2010; Talmor & Vasvari, 2011). Also as noted by Gilligan and Wright (2010, p 59), accountants provide due diligence and taxation advice on transactions. So as is again evident from this discussion, accounting knowledge and techniques play a very important role in this stage of the value chain. The actors in PE firm draw upon accounting information substantially to inform their decision making process at critical stages in the sourcing of investments, due diligence and in the investment process.

### **3.3.3. Managing investments**

While, making good investments and negotiating an attractive price during an investment are important aspects in the PE value chain, managing investments to add value and exiting investments at the most appropriate time are equally important aspects of achieving the 'teleology' in terms of desired rates of return (Demaria, 2010). The holding period of an investment by a PE firm varies but typically it is

between 3 to 8 years. However, some firms may sell their investments earlier if they find an attractive bid. Gilligan and Wright (2010) note that the average investment holding period of PE firms has been increasing overtime (See also: Hoskisson et al., 2013).

PE funds manage their investments either actively [hands on / interventionist style / an engaged approach] or passively [hands off / financial investor / arms-length approach] (Daniel O Klier, Martin K Welge, & Kathryn R Harrigan, 2009; Tahir M Nisar, 2005). The financial investor approach focuses on creating value through financial engineering<sup>43</sup> and improving a firm's governance model by introducing strong financial incentives. On the other hand, in the interventionist style, the investors actively engage in the strategy of the portfolio companies, involve in decisions such as the purchase of major capital items, acquisitions and disposals, appointment of directors and auditors, and changes in capital structure, etc.

Many firms adopt a view that active management is essential. As the CEO of a mid-size PE firm noted:

At the end of the day it [PE] is a laboured business and if you don't put in the time and effort and put in the hours, these companies are not gonna change... it's like raising kids – if you don't put in the time and effort they don't turn out well. Companies are the same thing – CEO/M/10

According to the director of a large PE firm, the most important thing in managing the companies is what the PE firms decide to do in the first three months or so. The Executive director of a large PE firm indicated:

For our new companies when we acquire we put in place a 100 day plan, as we call it ... essentially the jobs to be done in the first three months – ED/L/2

In the first 100 days or so, the PE firm partners and staff are develop increasingly detailed knowledge of the management and other characteristics of the acquired firm, start to implement the changes that they can make (identified in the due diligence

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<sup>43</sup> Financial engineering in this context refers to the process of creating an optimal capital structure for the target company to enhance the returns by incorporating leverage.

stage), evaluate the resources tied in various activities, and look for things that should be done strategically (for example, new markets, new products, etc.). As Maloney and Nemoto (2011, p 309) note, “post-deal plans are interlinked to the investment thesis” identified and developed in the due diligence phase. So that investment management practices are ‘prefigured’ (Schatzki, 1988b, 2010a) by the due diligence practices discussed earlier. There are several different strategies for adding value to portfolio companies under the two styles which I mentioned above. Here we look at some of the examples of how PE firms seek to add value to the portfolio companies and/or generate returns from them.

Reorganization: Changes and reorganizations in the management and/or operations teams, policies and procedures and incentive systems are some ways PE firms try to generate returns and add value. This is particularly the case when the PE firms find irrational policies / incentive systems in place or when they identify inefficiencies in the operations. The CEO of a mid-sized PE firm gives a very good example of how PE firms can add value by changing the incentive schemes in the portfolio company.

In many of our companies the sales force compensation schemes were irrational. Sales force compensation was tied more to tenure ... than to productivity. So we had a lot of sales people who were during the boom times covering their draws and generating enough commission revenues but once revenues deflated you had a sales force that draws much higher than could be justified than the amount of revenue that a sales person or sales group was producing. That’s a very tough thing to change in an organization. ... As a private equity owner we insisted on ... [a] restructured sales force [and] compensation so that people got compensated for productivity and not for tenure ... that is a very micro level thing to do that is very difficult and really requires owner intervention – CEO/M/10

In this case, the PE firm also provided the portfolio company with metrics to use such as the key performance indicators to measure the success of the sales force and even went to the extent of routing sales people so they don’t waste time.

Cost cutting: Cutting cost is a classic way for PE firms to add value to portfolio companies. Many PE firms dig into the income statements and go very deep into the operations to find cost saving opportunities. However cutting costs is not easy when companies have been used to working in certain ways and having certain facilities for so many years in the past. As the CEO of a mid-sized PE firm suggests that:

... cost reduction is difficult. ... In recession it became a lot easier when the CEOs started missing their numbers to get them to reduce costs whether it is magazine subscriptions, use of corporate credit cards, my favourite story is the one company which was spending 20 or 30,000 dollars a year having its lawns mowed by professional lawn mowing service and when we told them they couldn't do that anymore somehow the CEO was able to find a local farmer who came in with his tractor and they could get it done for 4,000 dollars – CEO/M/10

The above quote shows how deep the PE firms can get into the operational level of the portfolio companies, at times, to find cost saving opportunities.

Growing revenues: PE firms also spend a lot of time and effort on trying to improve the revenues of their portfolio companies. Revenue growth can be achieved in a number of ways. PE firms may introduce new contacts/customers to the portfolio companies from their existing network, they may adopt either organic or inorganic business expansion strategies. An interesting example is the buy and build strategy [aka Bolt-on growth strategy] (Maloney & Nemoto, 2011). In this strategy, additional investments are made by the PE firm to the investments that it has previously made. This is primarily through acquisitions. Some PE firms are more focussed on this aspect. As the VP of a mid-sized PE firm stated:

We do a lot of add on acquisitions...I think on an average we have done 3 add on acquisitions for platform companies. We have done now 95 add on acquisitions – VP/M/11

It is important to understand the terms 'platform' and 'add on'. As the CEO of a mid market PE firm explains:

A platform by definition is a company that is going to grow...through acquisitions...in general the platform is larger but that's not always the case, in general the platform has a better management team but that's not always the case, in general the platform goes for a higher multiple but that's not always the case ... the platform is a market leader - it generally has a higher RMS [relative market share] – CEO/M/10

So, it follows from the above quote that the acquisitions which are made for the platforms are referred to as 'add-ons'. So, the idea or logic of creating value through add-on acquisitions is to increase the RMS through acquisitions and the idea is that the increased RMS should be able to expand margins.

Recapitalization/refinancing: During the portfolio management process, there are also financing aspects (Talmor & Vasvari, 2011). If a debt in the business is maturing, the PE firm may think of refinancing if the interest rates are low and the company is performing well. Hence the availability of leverage for refinancing is a very important factor which influences rates of return in PE. This was a particular phenomenon pre-crisis (when debt interest rates were relatively low) where a lot of the returns came from recapitalizations. According to the director of a large PE firm during 2007-2008 90% of the high yield markets were recapitalizations. But now the situation has changed. As he stated:

Way back you weren't putting much equity in these deals at all, today you end up near somewhere near 50%...it has to drive down the rates of return – D/L/9

Hence, the investment management practice is further held together by such skills as how to understand and respond to circumstances in the financial markets, industry sectors, etc. But people are of the opinion that because of the increasing acquisition prices of the deals and the lower availability of debt at cheap rates, financial engineering itself will not provide the necessary returns going forward (Hoskisson et al., 2013). PE firms need to add value through other means, increasingly leading to an operational focus (ibid).

In either of the styles (hands-on or hands-off), active monitoring of financials and operations is a key activity. As indicated by the partner of a small Spanish fund:

We need to...be really really close to the company – to the heart of the company – meaning when I say heart – I say financials of the company because companies go down the drain in a second ... so you need to be really aware of what they are doing and have all the accounting in place. In fact we have board members of course in the companies and we participate in all the executive committees of the company and we follow them very closely – P/S/1

Each PE firm may have its strengths in terms of how they add value to their portfolio companies. Not all firms follow all possible strategies for adding value. They develop expertise in a few strategies based on the skill sets of their teams.

In the portfolio management process, the actors in the PE firms draw on accounting information on the portfolio companies to suggest operational or strategic changes, they draw on accounting information to monitor the performance of the portfolio companies, they have to draw on historical accounting numbers and future estimates in order to obtain refinance debt from lenders, even in the above example of reorganizing the sales force compensation and routing the sales force the PE firm had to draw on accounting information to make informed decisions. Many PE firms use data-driven professional management tools to identify the opportunities to add value and to monitor the progress of their strategies. As the above discussion evinces, accounting and other calculative practices are very deeply implicated even in the portfolio management practices of PE firms.

#### **3.3.4. Realising capital gains and distributing capital**

Realizing capital gains: The final step in the value chain is to sell individual portfolio companies once they have achieved improved performance and a consequent appreciation in value. This process is commonly called an *exit* in PE terminology. The exit phase is important in the PE value generation process (Talmor, Vasvari, & Nariman, 2011) and ‘conditions’ (Schatzki, 1988b) the investment performance (Demaria, 2010).

PE funds can exit from an investment in several ways. They can sell the firm to strategic investors, another PE firm, to the management of the company, or through an IPO among other alternatives such as breakups and liquidations (Talmor et al., 2011). A fund may sell its holding in a particular company either in one transaction or in tranches over time and as Fraser-Sampson (2007; p 14) notes, this is often the case where the exit is by flotation on a stock market. While some PE firms exhibit a preference to exit a company in one particular way (for example, a secondary sale or stock market floatation), other firms are very opportunistic and will go for the best price however this can be achieved. As Talmor et al (op. cit.) explain, given the current volatile economic and stock market conditions following the financial crisis, PE firms frequently seek to explore multiple exit options simultaneously [a dual or multi track strategy]. One of the firms I interviewed had a very specific exit strategy for all their portfolio companies as the following comment demonstrates:

When it comes to exiting you know you only have to apply what you have decided upfront... we ...made a conscious decision that the companies we build and the companies we bring to western standards of governance and financial management and so on...are going to be ideal targets for trade buyers and in fact 95% of our exits have been to trade. [...] we don't sell to other funds and we don't really bother with the stock exchange. It's not going to be a discovery process in the last 6 months – P/M/7

Another reaction from the CEO of a mid-sized PE firm on the timing of the exit follows:

We go through an exercise...we look at all our investments for ...what is the return on equity on the current value of equity as opposed to the cost and so the return for the next one, two or three years that we can project on the current value has to be adequate for us to continue to hold the company rather than sell it... if we see that the projected return on equity starts to decline then we start to think about exit because our job is finished ... As soon as multiples for that asset go up and ... the projected return on the embedded value goes down ... you ... sell it – CEO/M/10

These accounts indicate that decisions and actions on both the management of and the sale of investments are closely interrelated. This indicates the symbiotic nature of the investment management and exit practices of PE firms. Judgements about the performance of individual portfolio companies are made at frequent intervals supported by financial analysis and market analysis. Actors engaged in both investment management and exit practices draw upon [accountants and] accounting numbers and concepts in their efforts to support these key decisions. There are several considerations such as current market price (as far as it may be known), forecasted earnings, availability of other opportunities which provide higher return, the skill-sets of the incumbent management team and so on (Talmor & Vasvari, 2011).

Distributing capital: “Whenever a fund exits an investment by either sale or stock market flotation then they will have cash available to return to investors” (Fraser-Sampson, 2007, p 13). In order to distribute/return capital back to investors, PE firms carry on activities such as issuing distribution notices, notifying each individual investor of how much money they may expect to have transferred into their bank account, notifying them of the expected dates of the transfer, and so on. The return of capital does not necessarily happen in cash. As Fraser-Sampson (2007) explains, PE firms may also make distributions in specie (instead of selling shares in an underlying company and then distributing cash, they distribute the shares themselves, leaving the individual investors to decide when and how to sell them). Distribution of capital is really important to investors. It changes the returns (IRR), it enables them to continue investing, and so on. If PE firms are targeting their existing LPs for their successor funds, this aspect is even more critical. As the director of a large PE firm stated:

There is no question that you cannot raise a successor fund if you haven't distributed capital and probably it will be in the order of at least 75% return of capital before you can raise another fund – D/L/9

The above quote clearly indicates the importance of returning capital to the investors / LPs. The distribution of capital from a current and/or predecessor funds of a PE firm significantly ‘prefigures’ (i.e., makes it easier or difficult) (Schatzki, 1988b, 2010a) the success of fund raising efforts for their successor funds (Talmor et al., 2011).

In this part of the value chain, whatever the exit strategy is, accounting again has a crucial role. There are several valuation calculations to be conducted and there are often complex tax issues which need to be taken into consideration. So actors draw upon accounting and associated calculative practices in order to help them determine the price of the company, the exit strategy, the timing of exit, and so on. The distribution of capital back to investors according to their respective shares also involves drawing on accounting information such as the share of each LPs, the carried interest, etc.

### **3.3.5. Client service**

Client service is an important practice within the PE industry. The ‘teleology’ (Schatzki, 1996, 2002b, 2010b) of client services is to provide good, superior, and top quality service to investors (limited partners) of the PE funds. Our exposure to and interactions within the field suggest that speed, accuracy, timeliness<sup>44</sup>, and flexibility of reporting are key aspects of good client service for PE firms. Some PE firms have a separate portfolio servicing team which provides fund administration and reporting services to their clients.

In one of the large PE asset management firms where I interviewed, the portfolio servicing team was composed of about 50 people (which represents one third of the staff of the PE firm). This shows the level of importance given to client service. ‘Client service’ is a key success factor of the PE firms along with ‘performance’. The following quotes from interviewees show the importance of client service for PE firms:

client service and performance are the key success factors of this business – MD/L/4

... number 2 [the second most important factor – after performance] which goes with that is really having a strong client focus and our clients are our investors...we are heavily resourced to look after our investors in terms of communication and in terms of being accessible – M/S/3

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<sup>44</sup> Reporting frequencies and times are generally agreed upon in the partnership agreement. Failure to report on time would lead to a breach of partnership agreement which can have serious consequences for the PE firms.

However, to my surprise this is not discussed in the existing literature. Significant numbers of people are involved in ensuring good client service. When asked about what exactly the portfolio servicing team does in providing customer service, the director of portfolio servicing team of a large asset management company said:

... we receive information from the underlying private equity managers that we invest in...we process that data, we review it for accuracy and completeness, we input it in a database and through that we then generate reports to our clients. We report to our clients monthly, quarterly, annually with the audited accounts, but we also process daily cash flows .... So at any point in time whether it is a daily cash flows service or a periodic reporting service ... We need to ensure accuracy, timeliness, and obviously we have to be flexible – D/L/8

The above quote also indicates the significance of accounting and reporting procedures in the client service activity. The following quotes by an interviewee provide us further insights on how deeply accounting and accountants are involved in the portfolio servicing activity.

My team is made up of accountants – trained accountants, or trained CFAs or CAIA or some kind of a finance qualification – D/L/8

... we have a team that is focussed on dealing with the cash flows, and we have a team closely related to that team that deals with the quarterly updates and then the two together ... verify the data, they process it and they put it into our system. Then we have a reporting team that deals with data extract and generating the various reports ... depending on the client and their reporting needs, and we then have a separate accounting and tax team ... and ... groups that focus more on a compliance ... compliance reviews, almost like an internal audit check ... – D/L/8

I observed the reporting team's practices in this firm. The associates take approximately 3-4 hours just to update the net asset values and other figures in the

quarterly reports and each is also checked for quality (i.e., accuracy of the numbers) by one of the other associates. The quality check takes approximately 1 hour per report. Some of the actions performed by the actors in portfolio servicing include: running queries for the latest numbers/balances on a proprietary database by selecting the appropriate fund and the reporting period, updating the significant activity templates, updating the tables and charts in the report with the help of the new/recent accounting and other data, running macros on the MS excel spreadsheet to update the movements (of cash flow, new commitments, etc.) in the fund, updating the portfolio performance tab, ensuring the numbers are in line with the numbers in the financial statements. The actions performed while checking the quality of the reports include: reading through the documents and comments by the originating analyst with due attention and care to ensure the accuracy of the numbers updated, trying to understand the numbers by performing some calculations, looking for any differences and querying where necessary, etc.

The actors in the portfolio servicing team are typically qualified accountants. They engage in common commercial accounting practices and routines drawing heavily on accounting information to create artefacts (fund performance and other such reports for their clients). Consequently it is argued that the practice of customer service in PE firms is largely constituted through accounting practices.

It is interesting to note that the portfolio servicing practices are organized and linked by at least 2 sets of 'practical understandings' (Schatzki, 1996, 2002b, 2010b) which cohere and have a degree of overlap. The first set of understandings relate to the provision of high quality customer service as the aim of the practice is to provide good service to the clients which includes making sure that they reply to any queries of the clients as soon as possible, provide them with the necessary information/reports as requested and so on. The portfolio servicing practices are also organized and linked by a second set of understandings comprising the several GAAP rules (from different countries), internal consolidation rules, internal reporting and reporting rules for the proprietary reports generated, navigating through spreadsheets and various reports to find/derive appropriate accounting numbers to prepare the reports, etc. This is reflected in the following quote from the head of portfolio servicing of a large PE asset management firm.

We process numbers; we process large amounts of information. The complexity in our area is the fact that it's not standardized. So we have ... exposure to ... almost a thousand funds, [covering] more than 350 different managers, you know reporting across different GAAPs .... So the challenge for us is to try and standardize that to put it in to a system so we have a single source of data to meet all our reporting requirements – D/L/8

These understandings consist, primarily, of knowing how to carry out such actions. They also consist of both knowing how to recognize these actions (as performed, say, by others in the same firm or even by people/staff in other firms) and having the knowledge or understanding of how to respond to them in an appropriate manner.

There are several 'rules' [including, but not limited to accounting rules] (Schatzki, 1996, 2002b, 2010b) which portfolio services teams follow in carrying out their day to day activities and tasks. These rules can be broadly classified into external and internal (the rules that PE firms impose on themselves). The first category of rules embrace restrictions that are imposed by external institutions such as financial market regulators (e.g., Financial Services Authority in the UK) or other national legislation from national or international institutions. These latter rules which the PE firms have to adhere to include such things as rules from the partnership act or companies act, in the UK, depending upon the legal structure of the firm, global location or place of incorporation, investor protection act, banking rules, specific guidelines on the PE portfolio valuation (For example FASB 157), etc.

The following quote from the director of a large PE firm illustrates well the kind of impact external rules like FASB 157 have on the day to day operations of the portfolio service practice of PE firms:

The energy [of our people] ... and the cost ... is tremendous and it's a huge impact on our portfolio. One of the things that investors really liked about private equity was that they didn't mark to market ... even if wasn't real it showed a sense of stability. You were marking really a cost for a long time so you didn't get the volatility...you really had a low correlation with the markets but

now you have to mark to the market and most use triangulation to do it....It's just causing a lot of issues. So we spend a huge amount of time on this now... the accountants make sure that you have some volatility introduced in the portfolio. So it's having a pronounced effect – D/L/9

The rules that PE firms impose on themselves compose the second type. Internal rules are rules that are often generated within the firm and are monitored within the firm by other actors in the 'site'. Some of these rules could be similar to rules adopted elsewhere in the PE industry or even more widely in other industries. A director of a large PE firm gave an example of an internal rule prevalent in his firm which organizes the actors 'constituting' (Schatzki, 2010a) both portfolio servicing and investment management practices:

... even though portfolio servicing is the owner or controls the data and prepares the reports, they are also reviewed and signed off by an investment manager responsible for the product or the client –  
D/L/8

There are several such internal rules specific to individual firms in the PE industry that organize the work situations commonly encountered while practicing their day to day responsibilities.

Alongside portfolio servicing teams, the senior management (partners and the executive committee), sales team, asset management team, and others also contribute to ensuring good client service in one way or another. In fact, this is an aspect which is taken care of throughout the value chain (from fund raising through exit and even after exit in an attempt to retain existing investors and encourage them to invest in successive funds). As a consequence, the 'practical understandings' of customer service is distributed across actors from different teams, although not uniformly. The asset management team, for instance, contributes to customer service by answering queries from investors (for example, on the performance of the portfolio, future transactions in pipeline, market conditions, etc.) in a timely manner. Here we see that the 'practical understandings' carried by the asset management team also contributes to client service practice. However, such understandings are different from to the

‘practical understandings’ of the portfolio servicing team members who also contribute to achieving the same ‘teleology’. However, there are some overlaps in understandings and practices among staff in asset management and portfolio services at a high level. The common aspect in both cases would be that they have to offer good service to customers: conduct enquiries in order to identify and attend to customers’ requirements; be prompt and polite in responding to them, and do their best to ensure good satisfaction among the clients.

As I hope the above detailed description substantiates, PE industry can be conceived as an extensive nexus of confederations of nets of practice-order bundles (Schatzki, 2002, p 173). In other words, it is a complex web of interlinked practice-order bundles. Participating in PE practices entails immersion in an extensive tissue of coexistence that embraces varying sets of people (ibid, p 87) performing disparate yet intermeshed practices. In this section I have discussed only a selection of the important PE practices. There are others such as strategizing, firm management practices, people management practices, legal practices, etc. which could also be significant. Some complimentary issues are considered by King (2008) who adopts a strategy as practice perspective and examines decision making processes at leading venture capital firms in Boston and Silicon Valley.

### **3.4. Discussion**

The objectives I set at the commencement of the chapter were to provide a better understanding of the practices of PE firms and the role and implication<sup>45</sup> of accounting and associated calculative practices in the PE setting. I also noted my intention to contribute to ‘practice turn’ in accounting (Ahrens & Chapman, 2007; Chua, 2007). In order to pursue this research objective I experimented (Baxter & Chua, 2008) with aspects of Schatzki’s (2002) ‘site’ ontology to theorize my empirical findings. In line with the objectives set forth at the beginning of the chapter, I now discuss two issues in this section. Section 3.4.1 focuses on the implication of accounting in its different forms in the PE setting and Section 3.4.2 focuses on reflections from my experience with Schatzki’s ‘site’ ontology to achieve the main

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<sup>45</sup> In this chapter, the term implication is used to mean the action or state of being involved in something (Source: Oxford Dictionary of English).

objective of the chapter which is to theorize the PE practices and to evaluate the implication of accounting in the PE setting.

### **3.4.1. Accounting in the PE ‘site’**

Schatzki’s practice theoretical framework has helped me in better appreciating the interrelations between major practices constituting the PE firms and accounting. Accounting takes shapes of both ‘integrative’ and ‘dispersed’ practices in the PE business landscape, the ‘site’ investigated/analysed in this research.

As a ‘dispersed’ practice, [management] accounting cuts through and intersects/meshes with several other PE practices. In the previous section I have noted that accounting and associated calculative practices ‘constitute’ (Schatzki, 2010a) (i.e., form an integral part) of the various PE practices. The skilful and knowledgeable actors actively draw on accounting information and reports to perform their day to day projects and tasks in accomplishing the ‘teleologies’ of the respective [‘integrative’] practices they contribute to. [Management] accounting informs the ‘practical intelligibilities’ of the actors in the PE landscape. For example, in the fund raising stage, the PE firms use accounting and other associated calculative and representational information as rhetoric (Busco & Quattrone, 2012) to convince potential investors to secure investment commitments into their funds. Accounting and associated information helps in composing and configuring the *invento* and *dispositio* of the fund raising artefacts and efforts. While sourcing and making of investments, accounting helps the PE fund managers significantly in defining whether an opportunity is attractive or not for their PE firms. During the investment management stage, the accounting numbers and reports help investment managers decide on the appropriate course of actions [particular changes to be made in the portfolio company] to improve the performance and values of the portfolio companies, and during the exit stage, performance calculations such as IRRs and money multiples significantly influence the timing and strategy of exit. Consequently, I argue that [management] accounting “actualizes and sustains [PE] practices in the sense of nexuses of doings” (Schatzki, 1996, p 90).

Accounting practice and its constitutive understandings are woven into practice-order nexuses. “They are not isolated and self-contained atoms. Their ‘dispersion’ consists simply in their widespread occurrence across different sectors of social life” (Schatzki

1996, p 91), including the PE business landscape. Ahrens and Chapman (2007, p 4) elaborate the ways in which specific organizational actors draw on accounting to achieve, “if not grand strategic missions, at least specific sub-sets of organisational objectives”, what they refer to as the ‘situated functionality’ of accounting. From my reflections of the PE ‘site’, I note that the ‘situated functionality’ of accounting is ‘prefigured’ [facilitated or made easier] (Schatzki, 1988b, 2010a) by its ‘dispersed’ nature. Moreover, while Schatzki (1996, p 91) claims that ‘dispersed’ practices are only governed very rarely by rules and ‘teleoaffective structures’, I based on my experience from the field note that [management] accounting as a ‘dispersed’ practice still follows some rules (e.g., fundamental accounting principles, fundamental calculation rules, etc.). So it may argued that management accounting and associated calculative practices are examples of those rare practices which are ‘dispersed’ within and across social ‘sites’, but which still lean on certain principles [or rules].

Accounting also exists as an ‘integrative’ practice in the PE landscape with its own ‘teleologies’. However, it is couched in the form of ‘customer service’ practice. Accounting calculations ‘constitute’ a major subset of its ‘teleological structure’ of customer servicing in the PE setting, which are performed mostly by accountants. In fact, customer service has been described as one of the key success factors for PE firms and our exposure to and interactions within the field suggest that speed, accuracy, timeliness, and flexibility of reporting are key aspects of client service. Accountants and accounting profession must be proud of the important contribution of their day to day work in the PE setting as their practical accomplishment generates a key success factor for PE firms.

#### **3.4.2. Experimenting with Schatzki’s ‘site’ ontology**

“Getting to grips with very challenging forms of social theory and conducting empirical research and mobilizing the theory to direct and interpret the empirics is, to say the least, an extremely taxing process ...”  
(Morgan & Willmott, 1993, p 6).

Similar to Baxter and Chua’s (2008) experience of experimenting with Bourdieu’s work, my experience with Schatzki’s ontology has been challenging but also intellectually rewarding. Reflecting on Schatzki’s practice organization framework in my analysis of the PE value chain, I found the concepts of ‘teleoaffective structure’ and ‘practical understanding’, and ‘dispersed’ practices useful in identifying the

‘constitutive’ role of accounting in PE. This is most evident in my discussion of ‘client service’.

**Table 4: Summary of ‘teleoaffective structures’ and ‘general understandings’ as used or expressed in existing studies**

<b>Example / Study</b>	<b>Teleoaffective structures</b>	<b>General understandings</b>
Shakers (Schatzki 2002)	<b>Religious conviction</b> (p 86), <b>Sense of community</b> (p 86) Hierarchical authority (p 82) Making and maximizing profit (p.81), meeting demand (p 81), keeping the machinery functional (p.81), maintaining sufficient stock (p 81)	<b>Religious conviction,</b> <b>Sense of community</b> (p.86; 166)
Nasdaq (Schatzki 2002)	Making money, as much as possible (p.162), Success, or winning (p 163), <b>Enhancing the sense of self-worth / self-esteem goals</b> (p.163)	<b>Wonder and goodness of the free pursuit of individual gain,</b> Sense of community (p.166)
Menu design (Ahrens and Chapman 2007)	Achieving target food margin (p 13, 15, 19,21), Achieving target labour cost percentage of sales (p 17) <b>Strategic priority of growth</b> - 13 key tasks (p 19, 24)	<b>Strategic message</b> (Jørgensen and Messner 2010; p.187)
New product development (Jørgensen and Messner 2010)	<b>Strategy</b> of modularisation (p 191), Doubling revenues in five years (p 193), <b>Overall concern with profitability</b> (p 201)	<b>Strategic objective</b> of the division (p 195), <b>Overall concern with profitability</b> (p 201)

In this section, I reconsider and raise queries over a particular aspect of Schatzki’s practice organization framework: ‘general understandings’. I believe that the concept is rather weakly defined (see also: Caldwell, 2012) and its differentiation from ‘teleoaffectivity’ is unclear. I base my discussion on my application of Schatzki’s

ontology in PE but also by relating this to other recently published research in the accounting literature and the empirical examples in Schatzki's own writings.

In his 2002 and 2010 writings, although Schatzki gives specific definitions for 'practical understandings', 'rules', and 'teleoaffective structures', he has not given a clear definition of what constitutes 'general understandings'. He seems to suggest that general understandings are closely linked to teleoaffective structures and should be expected to strongly influence levels of affectivity. He explains general understandings with the help of examples (Please see Table 4). In the case of the Shaker herbal medicinal industry, 'religious conviction' and 'sense of community' were identified in illustrating general understandings and teleoaffective structures (Schatzki, 2002b, p 86). In the case of day trading on the Nasdaq, 'the sense of wonder and goodness of the free pursuit of individual gain' and again 'sense of community' were argued to exhibit the attributes of general understandings (ibid, p 166). In addition Schatzki does suggest that this element of practice organization can be distinguished by its relatively general acceptance across the community. As can be seen from Table 4, in certain cases, such as the Shakers example, Schatzki has isolated certain elements that he has placed in the 'teleoaffectivity' category (see the centre column in Table 4) and repeated these as also illustrative of 'general understandings'. In other settings, such as Nasdaq, the 'general understanding' identified is closely related to one of the elements in teleoaffective structure. The difficulty of interpretation here is twofold:

- i) How is it possible to determine how generalised the acceptance of an element must be across a community of practice to be deemed a general understanding?
- ii) What is the particular impact of such generalised structures of affectivity? Schatzki at no point suggests that these effects outweigh all other 'structural' influences.

The problematic nature of general understandings, its lack of specificity and its interpretation has been recognized recently in the sociology literature. Caldwell (2012, p 8) argues that 'general understandings' "is probably the most opaque and underdeveloped idea in Schatzki's discussion of what holds the organization of a practice together".

Turning to the accounting literature, Jørgensen and Messner (op. cit.) engage in an extended discussion of teleoaffective structures and general understandings in their study. They identified ‘strategic objective’ and ‘overall concern for profitability’ as ‘general understandings’ in their setting, which were again also noted to be ‘teleologies’ (please see Table 4). It is noticeable that Ahrens and Chapman (2007) do not explicitly identify the general understandings in their research study of a restaurant chain. But Jørgensen and Messner (2010, p 187) do suggest a ‘general understanding’ for Ahrens and Chapman’s (2007) study and here again it is one of the elements of ‘teleology’ (please see Table 4).

In his recent writings, Schatzki has tried to clarify the concept by attempting to define it. “General understandings are abstract senses, for instance, of the beauty of an artisanal product or of the nobility of educating students. They are not ends for which people strive but senses of the worth, value, nature, or place of things, which infuse and are expressed in people’s doings and sayings” (Schatzki, 2012b, p 16). General understandings “are senses of general matters pertinent to goings-on in the practice” (Schatzki, 2012a). If ‘general understandings’ are not supposed to be the goals/ends for which people strive, then why does Schatzki isolate two elements of the teleoaffective structures in the case of Shakers as qualifying to be the ‘general understandings’ (see Table 4)? Is it just a matter of co-incidence that these elements of general understandings are also identified as teleoaffective structures in both the case of Shakers (Schatzki 2002) and in the case of new product development (Jørgensen & Messner, 2010)? ‘Strategy’ and ‘profitability’ (which are noted as ‘general understanding’ in Jørgensen and Messner’s study) are of course general matters pertinent to the on-going of most businesses. Does that mean strategy and profitability are the ‘general understandings’ for most businesses? If the answer is yes, does such an acknowledgement add anything to our ability to analyse practices and practice organisation in a specific ‘site’ or case setting?

The questions I raise about the problems of applying Schatzki’s organization framework are unsurprising. While Schatzki offers a meta-theory for understanding human sociality its application in any particular instance is always likely to be tentative. My experience with the framework and my observations are important since Schatzki himself has relied almost exclusively on secondary data and third party

description to illustrate his conceptualisations of practice theory at the level of the empirical 'site' [see discussion of Shakers (Schatzki, 2002b, pp 25-38) and Nasdaq (ibid, pp157-174)].

More recently, I sought further clarification on 'general understandings' from Schatzki prior to his public talk at Essex University<sup>46</sup>. During this conversation Schatzki again emphasized that 'general understandings' is distinct from the other three elements of practice organization. Schatzki argued that while the 'teleologies' explain what are the goals of [respective] practices, 'general understandings' explain the attitude with which a practice is performed. This attitudinal effect is reflected in the manner in which the actors of a practice carry out the projects and tasks in a particular setting, versus as observed in other settings. For example, as Schatzki (2002, p 86 and p 166) notes, in the case of Shakers the general understanding is reflected in the zealous tenacity and dedication of these workers, while in Nasdaq, the trading practices were described as intoxicating for many actors.

Let me revert to and consider some to the questions which I posed a couple of paragraphs earlier in this Section 3.4.2 regarding 'general understandings'. 'Profitability' can clearly be regarded as the goal which for-profit organizations in general aim to achieve. Similarly, 'strategies' of organizations either entail or imply end-project-task combinations which orient organizational actors in achieving the 'teleologies' of the organization. So 'profitability' and 'strategy' can reasonably be regarded as being teleological structures (Jørgensen & Messner, 2010). Since Schatzki's recent writings (2012b) and his clarification offered clearly suggest that 'general understandings' are not goals, ends or telos for which people strive (ibid, p 16), it can be safely argued that 'profitability' and 'strategy' by themselves cannot qualify as candidates for 'general understandings'.

Schatzki's recent definition of the concept that 'general understandings' are "...senses of the worth, value, nature, or place of things ..." (ibid, p 16) seems to suggest that these are aspects more closely related to 'mattering'. This is reflected both in his earlier and more recent examples of the concept. For example, when he claims in his 2002 book that "wonder and goodness of the free pursuit of individual gain" was a

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<sup>46</sup> Schatzki delivered a lecture titled 'Practices, Governance and Sustainability' on 24<sup>th</sup> May 2012.

general understanding imbuing Nasdaq trading practices, we believe, it is not the ‘pursuit of individual gain’ which is the general understanding, rather it is the ‘wonder and goodness’ of such pursuit which he regards as a ‘general understanding’. ‘Wonder and goodness’ and the ‘satisfaction’ accompanying the capital gains, we believe, as mentioned earlier, are aspects related to ‘how things matter’. Similarly, “the beauty of an artisanal product or of the nobility of educating students” (Schatzki, 2012b, p 16) (his more recent examples of the concept), are aspects which are related to ‘how things matter’ to people. This ‘mattering’ as Schatzki argues (and I concur with him) is reflected in [affective dimensions of] the doings and sayings of actors ‘constituting’ the practices and in the manner in which (i.e. how) people perform certain actions. As Schatzki has argued elsewhere, “how one acts, interacts, talks, perceives, reflects, fears, and desires, in short, the entire spectrum of ways of being, is beholden to and governed by how things matter” (Schatzki, 1986, p 56).

Based on such an understanding, I claim that the ‘general understanding’ imbuing the PE ‘site’ is the joy, intrinsic reward and motivation of earning performance fees or ‘carried interest’. Very similar to the traders in Schatzki’s Nasdaq example, PE professionals experience great satisfaction in accumulating gain and dejection on mounting losses on their portfolios. I saw that the senior PE professionals who are entitled to earn ‘carried interest’ work very passionately towards achieving improvements in the valuations of portfolio companies and those junior and mid-level PE professionals who are not entitled to earn ‘carried interest’ work passionately so as to get promoted and become entitled to earn ‘carried interest’. ‘Carried interest’ is something which is always in the background of PE professionals. Another aspect of ‘general understanding’ which we noticed through our interactions and observations in the PE ‘site’ is the ‘satisfaction, and a sense of achievement and pride’ for the investment professionals when they execute very large and/or landmark transactions. This is clearly visible in the pride with which they talk about their successful transactions and achievements.

### **3.5. Concluding remarks**

In this chapter, drawing on interviews, observation data, documentary evidence, and secondary literature, I have analysed the practices forming part of the PE value chain using Schatzki’s ‘site’ ontology. I have simultaneously illustrated the role of

accounting and accountants in the different parts of the PE value chain. Schatzki's practice theoretical framework has helped me better appreciate the interrelations between various practices forming part of the PE 'site' and the accounting applied in the 'site'.

Accounting as a 'dispersed' practice is strongly meshed and deeply implicated with other PE practices. Accounting also exists as an 'integrative' practice in the PE setting with its own 'teleologies'. As an 'integrative' practice, accounting is typically couched in the form of 'customer service' practice, which is a key success factor for PE funds alongside performance. This research indicates that accountants and accounting information play a major role in delivering customer service, a key success factor, in the PE setting.

To study accounting in the contexts in which it operates implies examining the ways in which accounting relates to and intersects with many different activity bundles (Jørgensen & Messner, 2010, p 203). Schatzki's practice theory enabled me to identify the multiple roles that accounting information contributes to. Similar accounting techniques fulfil different uses in different practices but may also take the same form in different practices across firms. In the PE setting, reports in different areas of a firm use similar or the same accounting information (for example, some of the reports used in fund raising and customer service activities are essentially the same). Even in these latter instances, the impact of these similar reports will be different as they are utilized by different actors for their own local or situated reasons. I argue that this illustrates the 'situated functionality' (Ahrens & Chapman, 2007) that is such an important feature of accounting practices whether in the PE industry or elsewhere. This 'situated functionality' of accounting, as I noted, is 'prefigured' (Schatzki, 1988b, 2010a) by its 'dispersed' nature.

In this chapter, I have also problematized a particular aspect of Schatzki's practice organization framework: 'general understanding', which has so far been taken for granted in the accounting literature. I expressed theoretical concerns in relation to the role of 'general understandings' and the differentiation of this concept from 'teleoaffectivity'. 'General understandings' make a significant appearance in Schatzki's 2002 book - when he provides some illustrations of the concept. At this stage Schatzki begins to discuss the four 'dimensions' that underlie his

conceptualisation of social practice (Schatzki, 2002b). This is in contrast to his specification of a triumvirate of ‘elements’ in his practice organisation framework described earlier (Schatzki, 1996). I have tried to throw further light on the concept and attempted to clarify the definitional issues surrounding ‘general understandings’ in the context of our research. I believe this clarification would aid further research drawing on Schatzki’s ontology.

I found PE practices as an intriguing object of study. Further research could investigate specific practice bundles of the PE value chain such as client services or investment management in more depth. This could provide great potential for further insights on this increasingly important area of financial services. The next chapter focuses on specific practice-arrangement bundle - the investment evaluation of PE funds at a large global PE asset management firm.

## Opening the blackbox of [e]valuation in private equity: How quality is determined by fund of funds

**Synopsis:** This chapter contributes to the ‘sociology of finance and accounting’ and the ‘sociology of valuation and evaluation’ literatures by investigating the investment [e]valuation practices prevalent in the PE industry. Drawing on the case material related to the due diligence of PE funds at a leading PE asset management firm, the chapter brings to fore the important aspects of ‘practical intelligibility’ of the investment professionals undertaking due diligence of PE funds. The chapter also identifies and differentiates the ‘causal’ and ‘prefigurational’ relations between evaluation practices and material entities forming part of the ‘site’. Moreover, I demonstrate the role of practice memory in the ‘site’.

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### 4.1. Introduction

Despite [e]valuation being recognized as one of the “... fundamental coordination problems which represent a source of uncertainty for market actors” (Beckert, 2009, p 252), there remains some significant mystery over how the professional participants in financial markets evaluate investment opportunities (MacKenzie, Hardie, Clunie, Preda, & Pardo-Guerra, 2012). MacKenzie et al. argue that the investment evaluation practices are crucial to the operation of financial markets as they help determine the investment opportunities to which investment capital does and does not flow. Unfortunately, we know surprisingly little about such investment evaluation practices (MacKenzie, 2011; MacKenzie et al., 2012). Hence, the “problems of valuation and calculation” should be put at the core of the sociology of finance and accounting research agenda along with an emphasis on the analysis of the “actual calculative practices of actors at work” (Beunza & Stark, 2005, p 99; see also: Kalthoff, 2007).

PE as an industry has over the years become a significant component of the global financial markets. The PE industry has exploded in scale and scope in recent years with approximately USD 3.5 trillion in global assets under management as of 30<sup>th</sup> June 2013<sup>47</sup>. An important group of professional investors in the PE industry is the asset management firms who offer and manage PE fund of funds products. In 2011, the top 25 PE Fund of funds had approximately USD 249 billion of pension money under management<sup>48</sup>. Given the sheer magnitude of money being managed, it is important for us to understand how these PE asset managers deploy our pension money. How do they evaluate and select the best PE funds to invest our pension money? This chapter takes a first step towards shedding light on the investment evaluation practices of PE asset managers.

Studying and understanding the investment evaluation practices of PE asset managers is also important for pragmatic reasons. Such pragmatic issues include questions of capital allocation and issues around the efficiency of this part of the finance industry. Once an investor commits to invest in a PE fund, the PE firms have complete discretion over the subsequent investing of these funds in whatever opportunities the investment professionals of the PE firm deem appropriate. Moreover, an investor is unable to exit from a PE fund until it is completely liquidated (normally a period of 10-12 years), except under extremely unusual circumstances or unless the investor elects to dispose its position in a secondary sale (Steers, 2010). It is also noted that investors face other problems in evaluating and/or assessing their commitment as there is little or no publicly available data to assist in PE fund manager selection. As Steers (ibid, p 4) explains, “there are no rating agencies to help, no standard documentation and no comprehensive published measures of individual funds’ performance. There are also no ‘investable’ PE indices, so an investor cannot track a ‘standard’ portfolio of managers”. Given this context, and the role of these firms in investors wealth and post-retirement security, there are naturally concerns as to how investors can be assured or assure themselves that their funds are being committed to a good manager who will be motivated to make effective and profitable commitments of invested funds.

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<sup>47</sup> Source: The 2014 Preqin Global Private Equity Report (p 14).

<sup>48</sup> Rankings based on the amount of pension money managed [Source: Financial Times 03/07/2012].

“The sense of an economic investment is not pre-given, but has to be found out and decided, step by step and moment by moment” (Kalthoff 2005, p 71). In this chapter I report my research on the investment evaluation practices at Directors Group (DG), a leading PE asset management firm. I particularly focus on the due diligence practice at DG which is an important practice in evaluating and deciding which PE funds to invest in. By understanding the investment evaluation practices, this chapter aims to contribute to the exciting new specialisms of social studies of finance and accounting (Carruthers & Kim, 2011; Knorr Cetina, 2007; MacKenzie et al., 2012; Vollmer et al., 2009) and ‘sociology of valuation and evaluation’ (Lamont, 2012). This chapter also directly addresses Van der Stede’s (2011) call for more accounting research in financial services firms.

Most literature on calculative practices treats calculation as some form of technical operation/analysis involving numbers (Callon & Law, 2005). However, drawing on Heidegger (1954), Kalthoff (2005, p 73) argues that “calculation is not limited to operations with numbers: computing in a broader more essential sense means ... to take into consideration, to count on something. It also means to form a judgement with something upon something – activities in which images, categories and distinctions are involved”. In this chapter, I explain the due diligence of PE funds as a calculative practice, not always necessarily involving numerical analysis (Callon & Law, 2005; Callon & Muniesa, 2005; Kalthoff, 2005; Lave, 1988).

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 & Mahama, 2012; Svetlova, 2009; Vaara & Whittington, 2012). Practice approaches respond well to the realities reported back from the field, they open us to insights from across all the organizational disciplines and they also offer rich theoretical and methodological resources (Whittington, 2011, p 184). “Schatzki has developed one of the strongest and far-reaching versions of practice theories available to date” (Nicolini, 2012, p 15). As mentioned earlier in Chapter 2, in this chapter, I experiment with additional concepts from Schatzki’s ‘site’ ontology which are central to his arguments but which the accounting research has not so far engaged with so far. The chapter brings to fore the important aspects of ‘practical intelligibility’ of the investment professionals undertaking due diligence of

PE funds. The chapter also demonstrates the ways in which investment evaluation practices in PE relate to the various ‘material entities’ or ‘arrangements’ forming part of the social ‘site’ under investigation and also to shed light on how the various practices. Not only do I identify and differentiate the ‘causal’ and ‘prefigurational’ relations between evaluation practices and material entities forming part of the ‘site’, but also demonstrate the role of ‘practice memory’ in the ‘site’.

This chapter is organized as follows. The next section introduces some additional concepts of Schatzki’s ‘site’ ontology that are used to explain my case. Section 4.3 introduces DG, my case firm. Section 4.4 presents the research design. Section 4.5 elaborates on the due diligence practices of DG and Section 4.6 draws on Section 4.5 to demonstrate the relations between ‘practices’ and ‘material entities’. In Section 4.7, I explore and explain the investment management meetings at DG. Section 4.8 builds on the case material and the theoretical insights to discuss the findings of the case and finally Section 4.9 outlines the conclusions.

## **4.2. Some additional concepts of ‘site’ ontology**

As explained in Chapter 2, according to Schatzki (2005b, p 471), the ‘site’ of the social is a nexuses not just of practices and but also constitutes material arrangements. He explains material arrangement as set-ups of entities (human beings, artefacts, other organisms, and things) and practices as “organized, open-ended spatial-temporal” nexus of human activities (bodily doings and sayings). He explains that human coexistence “transpires as and amid an elaborate, constantly evolving nexus of arranged things and organized activities” (Schatzki, 2002b, p XI; cf. Latour 1987; Knorr Cetina 1997). Hence, Schatzki’s ontology clearly acknowledges compositional significance to materiality in social life.

As explained by Schatzki (2002b, 2010b), a set of actions that compose a practice are organized by and linked through (1) ‘practical understandings’, (2) ‘rules’, (3) ‘teleoaffective structure’, and (4) ‘general understandings’. Together, these four dimensions, as Schatzki labels them provide a framework of practice organization. Please refer to Chapter 2 for a brief review of the above mentioned terminology and concepts.

Schatzki notes that “practices are carried on amid and determinative of, while also dependent on and altered by, material arrangements” (Schatzki, 2010a, p 130). He argues that “materiality is not interwoven with social life, but stronger, a dimension of it. Society is not just inevitably and ubiquitously linked to materiality and nature: the latter is a dimension of the former” (ibid, p 141). Because practices are defined as bodily doings and sayings, and humans are classified as part of the material arrangements, practices are by default material. There is no practice which is not material. So following his ontology, “any thing, property, or event can be at once both social and material-natural” (ibid, p 133).

Unlike interactionist accounts of social life (for e.g., Dickens, 1992; Rappaport, 1971), Schatzki emphasizes the constitutive role of materiality to social life and “declines to talk of interactions, exchanges, or dialectical relationship between society and nature” (op. cit., p 134). However, he states that ‘practices’ and ‘arrangements’ form bundles through at least four sorts of relations: causality, prefiguration, constitution, and intelligibility (op. cit., p 139).

Causality: Schatzki (op. cit., p 139) argues that there are different forms of causal relations between practices and material arrangements: (1) Human activities and practices intervene in the world and alter, create or rearrange non-human material entities; (2) Non-human material entities also exert causal effects: Whenever people react to material properties of entities (or to events that befall material entities), the entities (or events) cause their actions; and (3) Non-human material entities also maintain causal relations among themselves.

Prefiguration: “Prefiguration is the social present shaping/influencing/affecting the social future, above all, the nascent social future” (Schatzki, 2010a, p 140). While it is very common to conceptualize prefiguration through the notion of fields of possibility (e.g., Giddens, 1984), Schatzki (op. cit., p 140) argues “that to analyse prefiguration as the delimitation of possibility is to reduce its bearing on the actual course of practice to a minimum”. He suggests that “prefiguration is better understood as a qualification of possible paths of action on such registers as easy and hard, obvious and obscure, tiresome and invigorating, short and long, and so on” (op. cit., p 140). He argues that material arrangements clearly prefigure practices in such varied and infinitely complex ways.

Constitution: Material entities constitute practices in two ways: (1) by being essential to them; (2) by being pervasively involved in particular practices at particular times and places. Schatzki argues that almost all practices would not exist or would not take the current forms were it not for the particular material entities present therein. Also, most non-human material entities “through which human practices proceed would not exist or would assume different shapes were it not for the particular practices that are responsible for them and/or carried on amid them”. Practices and material entities/arrangements are co-constitutive (op. cit., p 140).

Intelligibility: According to Schatzki (1996, p 111), intelligibility means making sense. Schatzki argues that the non-human material entities that make up arrangements amid which humans proceed are intelligible to the humans and this intelligibility is ‘instituted’ in the practices they carry on (Schatzki, 2010a, p 141). According to this thesis, the meaning of the non-human material entities is tied to the human practices of which they are part.

### **4.3. Introduction to the case organization**

“A setting is a named context in which phenomena occur that might be studied from any number of angles” (Hammersley & Atkinson, 2007, p 32). The setting for my research in this chapter is ‘Directors Group’<sup>49</sup> (DG), a large global PE asset management firm that offers several investment products, which invest exclusively in PE funds. The company was formed in the late 1990s’ and is still privately held. The firm’s global presence involved, in 2011, a staff of more than 100 people working in more than 5 offices in the North and South Americas, Europe and Asia<sup>50</sup>. The firm has grown rapidly in the last 5 to 6 years by establishing new offices and investment teams in emerging markets and also in Western Europe and North America. The firm’s competitive position is assisted by the strong team of senior investment professionals having over 20 years of investing and due diligence expertise. DG oversees over USD 20 billion of client committed capital. The clients of DG include well established pension funds, multinational insurance companies, other institutional investors, and high net worth individuals.

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<sup>49</sup> Names of the people and the company have been disguised.

<sup>50</sup> The exact number of employees and offices are not specified in order to ensure anonymity.

The different businesses within the firm include: Primaries, Secondaries, Co-investments, Real estate, and Clean energy and infrastructure. The Primaries fund of funds business offers various investment products for its clients which invest in new issues of PE funds (Fraser-Sampson, 2010). Each product has a particular focus, strategy and size and investments are made according to the respective product strategies. A few examples of the product offerings in this business are as follows: European Mid Market fund, Global Venture fund, Emerging Markets fund, etc. Also the firm has successors for each of its products. For example, there are European Mid Market fund I, European Mid Market fund II, European Mid Market fund III, etc. which have been raised at different points in time (in succeeding years). The strategy of the secondaries business is to offer investment products whose main objective is to buy LPs' position in PE funds (Gilligan & Wright, 2010). Please refer to Appendix 9 for an illustration of DG's primaries and secondaries products. The Co-investment business offers investment products which invest in individual portfolio companies alongside other PE funds (Beaton & Smith, 2011). The Real estate and Clean energy and infrastructure businesses offer products that invest in projects of their respective domain interests. The firm has successfully raised at least 5 successor funds for its legacy primary products.

#### **4.4. Research design**

Similar to previous chapter, again for research in this chapter, I combine Schatzki's 'site' ontology with subjective epistemology (interviewer / knower and respondent co-create understandings), and naturalistic methods (Denzin & Lincoln, 2008).

Data collection: In order to ensure theoretical consistency and appropriate research design, I follow the suggestions by Schatzki to study organizations and gather empirical materials which were discussed in Section 3.2 of Chapter 3.

To gain in-depth insights on the activities and practices, several interviews were conducted with people at various levels in DG<sup>51</sup> (from associate level to the managing directors). As Sandberg and Tsoukas (2011, p 350) note, "merely asking detailed and concrete questions about what practitioners do and how they accomplish their work temporarily disrupts practitioners' absorbed coping and allows them into a mode of

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<sup>51</sup> Please refer Appendix 6 for the organizational hierarchy in the investment management team at DG.

[involved thematic] deliberation. [...] In these moments the logic of practice comes to the fore in that the relational whole into which they are absorbed and its significance becomes momentarily manifest”. Accordingly, the interviewees were prompted (indirectly) to temporarily step back and reflect on (how they performed) their practices. The interviews were recorded digitally and subsequently transcribed. A list of interviews conducted with anonymised details of the interviewees is provided in Appendix 5. During the data collection period, I became aware of an Associate who was promoted to Vice President<sup>52</sup>.

I also analysed internal documents such as information memorandums, fund profiles, fund rating documents, etc. Moreover, I observed an Associate and a Vice President for a couple of half day sessions while they were working on the fund rating and due diligence practices. Fund rating is done by the analysts/associates once a week and they spend approximately 3 hours per week on this activity. Depending on the familiarity of the investment opportunities and the PE houses, the analysts/associates rate 3-5 opportunities in 3 hours’ time. The due diligence of a fund is a much longer process which takes up to 4 months per investment opportunity. The analysts and associates spend approximately 50% of their working week on due diligence.

Again, similar to research in the previous chapter, while the theory influenced / guided the data collection, I was as open as possible in the interviews so that I did not miss unanticipated but potentially important aspects in the field (Walsham, 1995, 2006). The data collection was influenced by theory only to the extent that the focus on practices and activities could be maintained. Hence, we can say that the theory guided the data collection only partially.

Data analysis: The empirical material gathered was simultaneously being analysed using concepts drawn from Schatzki’s (2002b) ‘site’ ontology (thereby creating a data-theory link). First, I differentiated the practices of the Primaries and Secondaries teams respectively. Next, I coded the data based on theoretical concepts of Schatzki’s ‘site’ ontology including the four dimensions of practice organizations which helped me to identify the role of practice memory. I also coded the data using the concepts that explain the relations between practices and entities forming part of the ‘site’.

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<sup>52</sup> I hope this demonstrates the level/depth of access.

Those concepts are: ‘causality’, ‘prefiguration’, ‘constitution’, and ‘intelligibility’, the various practices in the ‘site’.

#### **4.5. Primaries versus secondaries due diligence**

Investment evaluation can be said to refer to “*how* market participants arrive at their judgement of the value (desirability) of the good<sup>53</sup> offered in the market” (Aspers & Beckert, 2011, p 14; italics in original). The investment evaluation practices at DG are extensive, elaborate, and include several stages (please refer to Appendix 7). The various investment evaluation practices include: rating practice, the due diligence practice, investment management meetings, and investment committee meetings. In this chapter, I mainly focus on the due diligence practice but I also briefly examine aspects of the investment management meetings in Section 4.7.

“To be involved in a practice is to be immersed in a context, in which things, people, actions and options already matter in specific ways” (Sandberg & Tsoukas, 2011, p 341). In the following sections, I will focus on how particular things, people and actions matter to investment professionals in the context of investment evaluation.

##### **4.5.1. Primaries due diligence**

Due diligence is a long and complex process which involves detailed evaluation/appraisal of the investment proposals under consideration. As Jane stated:

Full due diligence means normally 2 or 3 months of assessment and review  
– Jane (Director/5)

The due diligence of investment proposals at DG is a team based practice. For each due diligence at DG, a team comprising two or three investment professionals is formed. Depending upon the complexity of the due diligence and the timing, the team may be formed of either one senior and one junior member of the investment team, or two seniors and a junior, or one senior and two juniors. The due diligence responsibilities are allocated by the managing directors of the respective regions (Americas, Europe, and Asia) to their team members. The managing director takes into account the specialization of the team members in terms of strategy (e.g., venture,

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<sup>53</sup> Although economists usually distinguish between goods and financial assets/investments, Aspers and Beckert subsume financial assets/investments under the notion of goods (ibid, p 4: footnote 1).

buyout, growth, etc.) and/or geography, their workload and the closing date of the PE funds.

According to Schatzki (2002b, p 80; see also Schatzki 1996, 2010), “a practice always exhibits a set of ends that participants should or may pursue” which he refers to as ‘teleology’. The ‘teleology’ of the due diligence practice is to determine the quality of the investment proposal [PE fund] under consideration based on a detailed evaluation/appraisal. Jane explained:

I mean really a due diligence is to check if it’s [investment proposal] of investable quality – Jane (Director/5)

The investment professionals at DG conducting the due diligence of a proposed opportunity [PE fund] perform a detailed evaluation/appraisal of the PE fund taking into consideration several aspects/issues of the PE fund and form a view about the its quality. At this point, two very important questions arise:

- (1) What is under evaluation/appraisal?
- (2) How is the quality of the investment opportunity determined?

PE funds are established as “blind pools” of capital (Talmor & Vasvari, 2011). At the time of initial fund raising, when the GPs seek investment commitments from LPs for their fund, the fund would not be holding any ‘real’ assets. Hence the phrase ‘blind pools’. There are details that can be provided about the aim and likely size of the proposed investment pool – but there are no underlying investments at this stage and so there are no businesses or financial assets that can be formally evaluated.

The GPs advertise the objective of the fund, its strategy, details of the experience and qualifications of its investment professionals and other essential information about the proposed new fund and the LPs decide whether they wish to commit to invest in the fund or not. So how do LPs make investment decisions about committing to invest in a *new* fund, and what aspects are taken into consideration for evaluating and/or determining the quality of such investment opportunities? These are very interesting questions to ask because unlike many other investment opportunities that are “real” assets in themselves or which represent underlying “real” assets in the form of securities [e.g., secured debt instruments, common stocks, real estate investments, etc.], the opportunity to invest in a new PE fund [primary investment] does not

represent any underlying “real” assets at the time the investment decision is made. The ‘blind pool’ represents an investment programme which will gradually be invested in “real” assets over the first 5 to 6 years of the fund’s existence.

The following quote by Jane illustrates the key aspects of due diligence for DG’s Primaries business:

... [there are] 3 main areas really. We are looking at the management team [of the PE fund under consideration] and there we are looking at each individual [investment professional], we look at their CVs, whether they came from a financial background or maybe they worked in [PE] industry themselves, maybe they come from an entrepreneurial background. So we look at their experience, we look at how long they have been with the management team, how stable and how cohesive the management team are, we look at the economics of the management team as well, so you know not just salaries and bonuses, but the carried interest which is incentive fee, whether that is equally shared amongst the team, whether the right people are getting the right share of the carry. So we look at all the economics and the incentives of the team, stability of the team, we look at the people who have left, so if it is a team where the people have come in and stayed for a couple of years and then gone, we will try and analyse that ... We also look at the previous funds and the performance of those and we drill down the individual companies, so we look at the role that the [investment professionals of the] GP had in the companies, whether they were majority ownership, how they added value, did they make acquisitions, did they change management teams, did they increase the [number of] customers, exactly what they have done to build value ... And then we also look at the terms and conditions of the funds as well, you know how are we tied in, what powers the investors have. Those are the sort of 3 main areas but really they all overlap. And we like to do detailed reference calls, obviously the managers are going to tell us what we like to hear but then what we try and do is get both references which they have given to us and then our own references – Jane (Director/5)

Each issue<sup>54</sup> referred to by Jane is important for various reasons. Since in the primaries business the time between commitment to invest in a PE fund and getting the investment proceeds back from the fund is about 10 – 12 years, it is extremely important for DG that there are no (potential) problems in the management and

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<sup>54</sup> The due diligence team embarks on a formal due diligence process with the help of an IM template. The IM template has several headings which highlight the various aspects/issues which need to be considered during primaries due diligence. Please see Section 4.3 for details on the template.

investment teams of the PE funds it is going to invest in. This is the reason why DG evaluates the salaries, bonuses, and arrangement to share the carried interest of both the members of the management and investment teams of the PE fund under consideration. With its vast experience in investing in PE funds, the due diligence teams at DG evaluate whether the various members of the management and investments teams of the PE fund under consideration are getting a 'fair' share of the carried interest alongside their salaries and bonuses. This is to ensure that this aspect does not become a potential source of conflicts among the members of the management and investment teams during DGs' investment tenure.

In the following we will look at some vignettes based on recent due diligences undertaken by DG in order to explain how the key issues mentioned earlier by Jane matter within DG. In the first vignette, Tom, one of the VPs, explains a recent due diligence process he was involved in. This particular due diligence was to evaluate a forthcoming European mid-market fund by a GP which was so far specialized and focussed in European mid-market transactions. As Tom explained:

...this particular [PE] manager, they have (sic) [started] other fund activities. For example they have started raising an infrastructure fund, a mezzanine fund, Asia pacific fund ... Our concern there would be that the [PE] manager ... used to be purely focussed on European large buyouts, our concern here is now they might create new teams to pursue these strategies but this [could be a] ... distraction to the team which is [currently in place]. They used to be purely focussed on European buyout and we would be concerned if they start doing lots of other things, we would definitely be concerned if it's (sic) the same team members [taking on all these new responsibilities] – Tom (VP/6)

So, the strategy of the PE fund and the constitution, expertise and responsibilities of the GPs investment team are not separate issues. They are very closely related within the evaluation and assessment of the PE fund. Also, we can see that DG while assessing one particular fund of a GP also takes into consideration what the GP is doing in terms of other funds and how many funds the often limited number of senior investment professionals are involved at the same time. Such constraints compromise the amount of time and quality of expertise the GP's investment professionals can bring into each fund they are involved in.

Tom continued to explain the importance of the key terms of the partnership agreement. He stated:

...if we invested in a fund whose fund strategy is to invest predominantly in Europe, it's a European buyout manager that's their strategy but then suddenly they start making investments in Japan and Australia then we would be concerned. So that would also be an issue. I mean it depends on most fund[s' offer] documents<sup>55</sup>. Some do have an allowance of say 10% to other geographies, some have 0 [%]. It just depends on how the fund documentation was structured in the first place – Tom (VP/6)

The following example provided by Jane in which she explains another recent due diligence further reveals the importance of analysing the composition of the GPs investment team that would be managing the PE fund under consideration.

We have just gone through a due diligence ... Actually performance [of the prior funds run by this GP] looks quite good, it's a very stable team but we have concerns for instance in this particular case on succession. All the partners are in their 50s. Obviously we are looking at going into another 10 year partnership with them. So we like to think that they have looked at succession issues [with the investment team] and they have dealt with it ... In this case, they've said we haven't discussed it. We haven't discussed it internally ... and we are not communicating anything to the outside world. Now that is really unusual to do ... in private equity. So that was one concern – Jane (Director/5)

Another aspect taken into consideration is [as mentioned at the start of the above quote from Jane] the financial performance/track record of the previous funds managed by the particular members of the GPs investment team which would be managing the PE fund under evaluation. Recently Talmor and Vasvari (2011) indicate that analysing the performance track record is as an absolute imperative in the due diligence process and presumably the most important due diligence criterion. However, for DG it is just one of the criteria but not the most important one (c.f., Talmor and Vasvari, 2011).

Jane went on to identify two reasons for why track record cannot form the sole or main criteria in the context of investing in European venture capital funds. The first reason is the difficulty/impossibility of obtaining an adequate impression about the

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<sup>55</sup> Private placement memorandum [PPM] is the industry term for the offer documents of PE funds.

potential of the GP's investment team just by looking at the historical financial reports. As Jane stated:

[The potential of] venture [capital funds] is very difficult to get across on paper you know you have to really meet with the group... sometimes on paper it doesn't look good – (Director/5)

Hence, similar to financial analysts in the studies by Knorr Cetina and Wansleben (Knorr Cetina, 2010; Wansleben, 2012), investment professionals at DG performing due diligence conduct 'proxy ethnographies' at the GP firm. This provides a look behind, or perhaps beyond, the figures and accounts they receive, fill the gaps left by disclosed information, and develop a feel of the PE firm and the fund under evaluation. In these instances a decision may depend much more on a feel for the consistency, expertise and skill set of the management team of the GP fund.

The second reason, she notes, relates to the recent and current macro-economic circumstances. As Jane explained:

...often you can't really look at [the financial] track record because we have been through such an awful period in the European venture [capital sector] that there hasn't been performance. So it really is looking at the potential of the portfolio [of the current fund being invested]. So you spend a lot of time talking to the managers [at the GP] about that ... hmm ... quality of the management ... (do) they understand the technology, their networks ... sometimes from meeting somebody you get a real feel for if this is really a high profile person, obviously we do reference calls as well to support all that ... hmm ... and again I can give an example of a group I was in recently. They were invested in a company that deals with a particular technology and we are aware of another company that has a competing technology ... hmm ... and I just sort of mentioned to them you know about this other company and they didn't seem to have heard of it and that to me you know... truly you must know the competitors in the market. So it's things like that you go just get a feel sometimes from talking to people that they are not quite as connected or switched on ... hmm ... you can't define, you often can't define what it is but through meeting people the way they [GP's investment professionals] gel together, their knowledge and everything ... – (Director/5)

The above quote re-emphasizes the famous adage: "past performance does not guarantee future results". Just because the past performance of most funds were poor

[due to the macro economic circumstances] does not necessarily mean that they will continue to deliver poor performance into the future as well. So while DG analysts take into consideration the past performance, they look beyond and take into consideration other aspects as well. Other qualitative factors such as the network of the GPs team, the level of expertise of the various members of the team in the targeted sectors of the PE fund under evaluation, etc. are used in order to assess the quality and potential of the PE fund under consideration. Hence, the above two quotes reiterate:

- (a) The impossibility for (financial) reports (for e.g., fund performance reports) to show an underlying economic ‘reality’ (Kalthoff, 2005); and
- (b) The importance of meeting with the GPs investment team [which is responsible for the PE fund under evaluation] in order to get a feel about the quality, potential, and the expertise of the team, its professional and personal network and other relevant aspects. These meetings are very important in terms of the insights they generate and help the investment professionals conducting the due diligence at DG to form a view about the PE fund under evaluation.

After analysing/evaluating the fund under consideration [as discussed above] the analysts prepare a report. The due diligence report prepared by the analysts reflects the view formed or developed by the analysts on the respective fund. Hence, the due diligence reports [representation devices] “are by no means neutral devices; they do not just depict reality ‘out there’ but represent them in a specific way and offer a specific view upon” the PE fund (Kalthoff, 2005, p 168; see also: Kalthoff, 2002). As Kalthoff (2005, p 74; see also: Heidegger, 1977) explains “getting a picture of something (cognitive presentation) is equivalent to being in the picture, which in turn means to *produce* or to *build* something” [italics in original]. In this case, the investment professionals at DG conducting the due diligence build or produce their view about the investment proposal in their report.

As I have indicated in the above discussion, there are several factors which shape the ‘practical intelligibility’ (Schatzki, 2002b) of the due diligence team while conducting the due diligence of Primaries opportunities. We have also seen that DG spends a lot of time in qualitative diligence. Many of the aspects which the due diligence team takes into consideration cannot be expressed in numerical form and cannot be

evaluated by quantitative analysis. The due diligence team judges the PE fund and forms a view about it based mainly on several qualitative criteria. Hence, the ‘calculation’ (Kalthoff, 2005) here is mainly non-numerical.

#### **4.5.2. Secondaries due diligence**

The secondaries business has some important differences when compared to that of the primaries. Whereas in the primaries business the investment professionals aim to get into/invest in a PE fund when the PE manager is fund raising, the secondaries business looks to acquire/purchase an existing LP’s position in a PE fund which is either partly or fully invested. In other words, whereas the primary fund of funds make commitments to PE funds to finance future investments in a portfolio of companies that are typically not yet identified, secondary fund of funds buy an existing pool of assets (funded portion) alongside a legal obligation to contribute unfunded capital to the PE fund in the future (Kleyменова & Jinkens, 2011). Since secondaries business invests in PE funds when the PE funds are at least partly invested, the investment represents partial ownership in a “real” asset bundle [the underlying portfolio companies] through the PE fund. Rupert, one of the vice presidents suggested that we have to think of secondaries business a bit like used car sales or acquisitions. Talking about the business she heads at DG, Maria, the managing director of the secondaries team stated:

Generally if you figure most private equity funds have a life of ...between 13 and 15 years, maybe a little shorter. We are generally investing ... on average something between the 3rd and the 5th year of a fund’s life. So that fund is probably at least 60% invested or much more fully invested than that and so we basically chop off a third of the time horizon – Maria (MD/9)

This shorter holding period and the different nature of the investments which characterize the secondaries business brings about considerable differences in regard to investment evaluation and due diligence practices when compared to primaries. Since for secondaries any investment will involve taking at least a partial position in “real” assets [portfolio companies] through the PE fund, there is much more scope for DG’s due diligence team to conduct financial and economic analysis of the underlying assets. Maria highlighted an important difference in the approach to secondaries due diligence as against the due diligence of primaries:

... what we do in secondaries is considerably more analytical<sup>56</sup>. We run very detailed models and spreadsheets assessing the investments in a given portfolio that we are considering acquiring and as part of that we of course have a price that we are targeting that we should pay and the discussion centres around whether it's an economically attractive transaction at that price and then we spend a fair amount of time forming our own opinion of what the value for each of the portfolio companies is as opposed to the values that the General partner might have signed ... So it's a far more I would say analytical as opposed to qualitative decision at some point because if the investment just doesn't have sufficient return you just don't do it whereas there could be situations given an investment in a fund which we would make as a primary investment where you might find a situation let's say the fund that preceded the current fund was not very good and the current fund is very immature but you think it will be a good fund. [In such a situation] ... you recommend a fund on a much more qualitative basis than on a quantitative basis ... and still get a deal approved whereas with a poor mathematical outcome, in terms of rates of return, for a secondaries you just don't proceed – Maria (MD/9)

As mentioned by Maria, calculating/identifying an appropriate price at which to buy the proposed investment is an important outcome of the secondaries due diligence and in order to determine the price, the due diligence team focuses on the quality of the “real” assets [portfolio companies] and the future potential of the portfolio companies.

As Rupert explained:

Well we look at the assets, then we see for example let's say the fund has 80% called and 10 transactions in there – 2 are written off already, 1 is a high flying 6x opportunity, well that's nice but I don't get that much from that, so my main focus I am looking at is the uplift opportunities. So transactions that they just started, that are still listed or valued at cost or slightly above or slightly below, there if I see ... the growth opportunity within those pieces that they can get a 2 or 2.5x from that 1x, that's my major uplift. I am looking for uplift. If it's already written up and if it will be sold in half a year and I buy in at a discount but still the piece is at 6x what's my upside? I can only get the downside that they sell it for 5x for example. So I look for uplift opportunities for the underlying companies – (VP/11)

Hence, analysing the portfolio and evaluating each company in terms of the potential increase in its value forms an important part of the due diligence of the secondaries opportunities. As also explained by Maria:

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<sup>56</sup> Read: Quantitative. This will become evident in the later part of the quote.

We ... go on to spend a fair amount of time ... in the portfolio company analysis. We do our own valuation of each of the companies based on the cash flows and based on the market multiples sometimes discounted cash flows depending on the company and as a result you know we have a different form of analysis and it talks about expected outcomes on a base case, on a conservative case, and on a higher case and we usually weight those so that you know ...we have a blended expected outcome – Maria (MD/9)

This analysis helps the team to determine the discount rate and in turn the price at which DG may want to purchase the proposed opportunity. As Kalthoff (2005, p 74) argues “the technical calculation of numbers is not the end of the story, but rather the starting point of the process of ‘calculating with something’, that is, expectation and interpretation”. The portfolio company analysis helps the due diligence team to determine if the investment opportunity is of interest for DG to buy [or not] and the price at which to buy [if at all]. The price is calculated by multiplying an appropriate discount rate to the book value of the investment opportunity under consideration.

Maria also explained that the due diligence team does not base its pricing and investment decision only on the reports and valuations of the GP. In order to perform an informed valuation of the portfolio companies the people carrying out the due diligence familiarize themselves with the companies by engaging in in-depth discussions with the investment manager at the GP who is directly responsible for a particular portfolio company.

... if there is an issue of ... specificity with a particular [portfolio] company we will talk to the actual person at the buyout shop who is in charge of an investment ... and we would ask them very specific questions which would 95% of the time address really all of the questions that we would have and based on that conversation we would determine our value for ... that [portfolio] company. We may or may not agree with what they have said to us about the company or what they think is possible based on ... you know ... our own experience having done this for ... quite some time – Maria (MD/9)

In some cases the due diligence team evaluating a secondaries opportunity also talks to other investors invested in the PE fund under consideration and frequently the due diligence team also engages in discussions with the primaries team if DG had invested in the PE fund at the time it was originally fund raising. Even here we can notice the

difficulty for the due diligence team to get an adequate impression of the companies' financial situation based solely on the reports of the GP.

As the above discussion has suggested, since the secondaries business of DG invests in PE funds which are at least 60% invested, the relative importance assigned in the investment evaluation is based more on the quantitative valuations<sup>57</sup> of the existing portfolio rather than on the qualitative aspects of the GP (such as the strategy of the PE fund, quality of the investment team, etc.). However this does not mean that such qualitative aspects of the GP are of no importance to the secondaries team. In order to ascertain if the unfunded portion will be invested wisely in the future, the secondaries team also focuses on the qualitative aspects of the GP. As Rupert stated:

...you have to be sure that the unfunded that's going to be invested and you pay for 100% is great right. That brings me back to the manager [GP] – (VP/11)

The relative weight/importance given to the qualitative aspects of the GP in the evaluation of the secondaries opportunities varies depending upon the level of unfunded portion of the opportunity [which represents the “blind pool” risk]. As Rupert explained:

The more unfunded the transaction opportunity becomes, the more I become a primaries guy right. If it is 100% funded I don't require that. The manager could be really bad but the assets are great – then it's all about how he exists – Rupert (VP/11)

In the next section I examine how artefacts or templates are used within DG to influence and prefigure practices. These material elements of the ‘site’ affect the scope of the practices in which the team members engage while also influencing the intelligibility of the practice bundles which from to affect behaviours and decisions making within DG.

#### **4.6. Due diligence and the identification of practice-arrangement bundles**

While section 4.5 focussed on technical aspects of the due diligence practices, Section 6 will analyse how the due diligence practices and arrangements or entities

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<sup>57</sup> As discussed earlier, I do not deny/undermine and very much recognize the qualitative judgement involved in performing the quantitative valuation of portfolio companies.

constituting those practices form bundles through certain relations (Schatzki, 2010a). An important entity ‘constituting’ the due diligence practices is the investment management [IM] template (which is in the form of a MS Word document). The due diligence teams embark on a formal due diligence process with the help of an IM which has several headings that indicate the various aspects/issues which need to be considered for every due diligence of a primary opportunity. The IM template is quite long [it runs over 10 pages]. It constitutes an internal ‘rule’, for both the primary and secondary teams who aim to assist the investment evaluation, to address all the issues/aspects relevant to an investment proposal.

The IM template is classified into 3 parts. The first part of the template<sup>58</sup> is an executive summary [Please see Appendix 8]. So in the first part, the due diligence team has to summarize its views of the investment proposal, highlight the merits of the proposals, any concerns related to the proposal (and the actions, if any, taken by the GP to resolve the concerns). They are also required to comment on the financial track record of the GP’s prior funds. The investment team has to rate the GP (the underlying manager with whom they would invest), the strategy of the fund, the competitive advantage, track record, the partnership terms, and corporate social responsibility initiatives of the GP. The rating has to be, as we can see from the template, one of the following: Exceptional, Sound, Acceptable, Potentially weak. This summary is based on the detailed analysis which is carried out in the second part of the template.

In order for the due diligence team to be able to summarize its views in the first part of the template, the team is guided by the detailed list of issues which are in the second part of the template. Here the due diligence team has to analyse and subsequently record its views on several aspects such as: the quality of the GP, the strategy of the GP, the current market environment, the historical performance or track record of the GP, outcomes of the meetings held with the GP and the reference calls made to enquire about the GP, and the various processes of the GP (e.g., deal sourcing, investment evaluation and due diligence, post investment monitoring, exit planning, quality of reporting to investors, etc.).

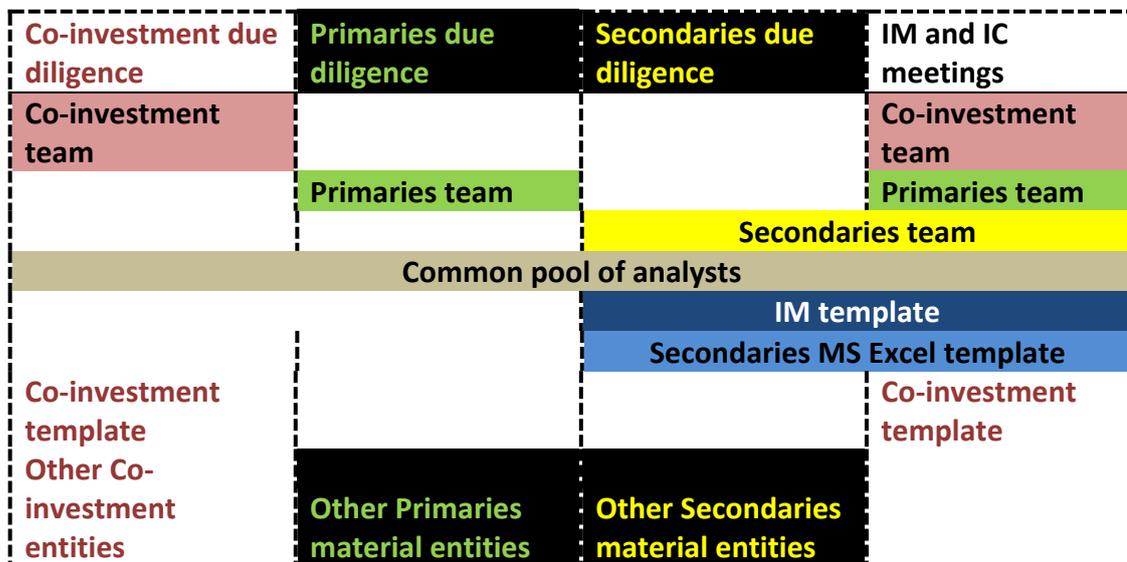
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<sup>58</sup> The entire template is not reproduced in this paper as DG classifies this template as confidential and for internal use only.

The third part of the template offers space to present various exhibits. Examples of a few exhibits include: Biographies of the investment professionals, age distribution of the investment professionals, board seat distribution, quantitative analysis (of the performance of the GP’s prior funds and their portfolio companies), sector team analysis of the GP, list of portfolio companies, etc.

In conducting the due diligence of investment opportunities and presenting the analysis, the secondaries team uses the same IM template that the primaries team uses. However, IM template being a MS Word document does not allow for performing various calculations which the secondaries team would like to perform (such as, determining the appropriate discount level and the price in order to achieve the “teleology” of the respective fund of fund, valuation and cashflow analysis of the portfolio companies of the investment proposal under consideration, etc.). Hence, in order to perform these calculations the secondaries team uses another MS Excel template in addition to the IM template discussed above. So both the IM template and MS Excel template form an important part in the due diligence of the secondaries opportunities.

**Figure 6: Simplistic representation of material entities ‘constituting’ various investment management practices at DG**



‘Constitution’: As discussed earlier, according to Schatzki (2010a), material arrangements ‘constitute’ practices by being pervasively involved in the practices and by being essential to the practices. Since both the primaries and the secondaries teams

use the same IM template to conduct and present the due diligence analysis, it can be argued that the IM template ‘constitutes’ (ibid) the due diligence practices of both the teams and also the investment management and committee meetings. However, the MS excel template which the secondaries team uses to arrive at the discount and pricing levels is the creation of the secondaries team and is used only for the secondaries due diligence and not in the due diligence of primaries or any other business of DG. Hence the MS Excel template [discussed above] ‘constitutes’ the investment practices of the secondaries business and the investment management and committee meetings. Figure 6 provides a simplistic representation of the material entities which ‘constitute’ the various investment management practices at DG. As we can notice, there are some entities which ‘constitute’ more than one practice leading to overlaps and coherences in the investment management practices at DG.

‘Causality’ and ‘Intelligibility’: A “type of causal transaction in social reality is embodied in people’s acting in response to actions and states of affairs” (Schatzki, 1988b, p 153). Talking about the IM templates, Rupert stated:

I would say they are in a sense a check list - yes. For example ... I mentioned earlier what my expectation on the unfunded is? I could ... easily forget ... that right, it’s possible a human error and you have a diligence call and you forget ... for example what the GP thinks he will do on the unfunded or you just don’t cover it because you don’t have such an excel [spreadsheet]. So doing the whole diligence without the excel [spreadsheet] and without such a memo [IM template] is difficult ... – Rupert (VP/11)

The IM template and the MS Excel spreadsheet used in the due diligence act as check lists within DG. They remind the person performing due diligence of important aspects to be taken into consideration while evaluating investment opportunities. By reminding them of the important aspects, the templates induce responses from the investment professionals.

An important ‘project’ as part of the due diligence ‘practices’ of DG is to evaluate the various aspects/issues suggested in the IM template and prepare a due diligence report out of that. So the due diligence teams provide their responses to the various aspects/issues listed on the templates. Let’s consider an example. One of the important aspects of the due diligence is the ‘succession planning’. So succession

planning analysis can be considered one of the ‘tasks’ as part of the ‘project’ – of inscribing the analysis on the IM template and preparing the due diligence report. In order to perform this ‘task’ of succession planning analysis, the analyst carrying out the due diligence performs several actions (bodily doings and sayings). For example, the analyst finds out the ages of the senior partners and directors and other employees of the fund under consideration by looking at the offer documents or the GP’s website or any other source. The analyst also identifies the years of experience with the GP of each investment professional. Then the analyst identifies and singles out those investment professional(s) whose age as of the date of due diligence is over 50 years. Particular attention is paid to the senior investment professionals. If the ages of one or more senior investment professionals is over 50 years, then the analyst ascertains if the GP has made any succession planning for the individual(s) over 50 years old. Which investment professional(s) will take on the responsibilities of the individual(s) over 50 years old and at what point in time? Another important aspect which follows is to make sure that DG is happy with the experience and expertise of the investment professionals at the GP who would be replacing those individuals (over 50s’). Having performed this analysis, the person conducting the due diligence inscribes his views on to the IM template. In the above example it may be argued that the actions undertaken by the analyst as part of performing the ‘task’ of succession planning analysis were undertaken *in response to* the specific aspect listed in the IM template. Hence I argue that the [various parts of the] templates induce ‘causal’ response from the due diligence teams.

As one may imagine, the responses which [the various parts of the] templates induce in terms of the actual actions performed can be quite varied between and even within the Primaries and Secondaries teams. The actual actions performed in response to the [various parts/aspects of the] templates depends on how the encountered aspect makes sense to the investment professional in the context of the investment proposal under evaluation. As Schatzki (op. cit., p 155) argues what “makes sense to people to do is determined by factors such as knowledge, how things matter, the states of existence for the sake of which they are prepared to act, the rules and paradigms they follow or observe, and the ways they have been socialized to act as a matter of custom”. In the following we shall explore some of the differences in the responses to the templates and the ‘intelligibilities’ in play while addressing a few aspects of the templates.

Whereas in the case of the primaries business the outcome of the due diligence analysis which is inscribed in the IM template turns into an investment memorandum of approximately 50-60 pages, in the case of secondaries the report is often much shorter<sup>59</sup>. Rupert from the secondaries team explained a few reasons as to what the differences are and the reasons for this.

We basically have a lot of information in the excel sheet and our memos ... [are] shorter than [those that] ... the primaries people have on their end. So it doesn't mean that it is less deep ... we are not as wordy I would say compared to primaries report... just to give you an example what is not so important from our end is say you have a fund that is 98% funded so it's very mature and you have previous companies in there, it's not as critical if the team of the general partner is top notch or not? It is [still] ... important of course but we look mainly at the fixed assets that are left in the portfolio vis a vis the primary guys who are very interested in the team itself because they basically back all their data with regards to what happened with the general partner in the past ... right. So if they have done interesting deals in prior funds and will their next fund be as good as they hoped it will be? That's the main question of a primary colleague. My main question is are the companies that [we] are buying through that vehicle are they good enough and is the GP correct in his exit expectations and am I in line with these. But if they have a team turnover of 10% vis a vis 15% it's not so much of an issue to me – Rupert (VP/11)

The above quote not only highlights the differences of responses to [the various aspects of] the template both between and within the primaries and secondaries teams but also the relative importance which the teams assign to various aspects of the investment proposal under consideration. In the above example explained by Rupert, the “blind pool” risk of the proposal is very low (just 2% represents blind pool, as the fund is already 98% invested). In this case the secondaries team focus much of their attention on the funded portion which represents the actual investments (portfolio companies) of the PE fund under consideration rather than the quality of the investment professionals at the GP or the past performance track record of the GP. However if the “blind pool” risk is higher, the secondaries team shift more of their attention on the quality of investment professionals at the GP and the past

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<sup>59</sup> This is for a single fund. However, if the secondaries team is evaluating an investment proposal which consists of more than one fund [portfolio of funds], then in such cases the investment memorandum can be much longer depending on the number of PE funds which constitute the portfolio being evaluated.

performance track record of the GP [and other qualitative criteria discussed in the primaries due diligence] in order to ascertain if the unfunded portion will be invested wisely in the future. In case of secondaries, the more unfunded the transaction opportunity becomes, the more the team focuses on aspects which the primaries team focuses on. On the contrary if the secondaries investment opportunity under consideration is 90 to 100% funded then the focus of the secondaries team is much more likely to be mainly on the assets [portfolio companies] and much less on the quality of the GP and his prior track record.

Above we have seen some of the difference in responses between primaries and the secondaries teams to the various aspects of the IM template. We shall now explore some differences in response to the various aspects of the IM template within the secondaries teams. In the above example we have seen that the secondaries team focus on the quality of the GP (in order to evaluate whether the unfunded will be invested wisely or not) depending on the “blind pool” risk (unfunded level). Now the actual actions which the secondaries team perform in order to evaluate the GP vary depending on whether the primaries team is familiar or invested with the proposed fund or not. If the primaries team has already evaluated/invested in the proposed fund when the PE fund was fund raising initially then the secondaries team does not re-evaluate the fund and the GP from the scratch<sup>60</sup>. The secondaries team, in such cases, evaluate any changes to the quality of the manager since the time the primaries team had performed their evaluations. Rupert explained that in such cases the secondaries team goes through the earlier diligence report prepared by the primaries team for the details of the biographies of all the investment professionals at the GP firm, looking for any changes since then. However, the secondaries team does not replicate all that information again while writing the due diligence.

The above discussion has evinced that the templates induce causal responses from the due diligence teams by leading them to perform certain actions. It has also evinced that the actual actions in response to [aspects of the] template vary depending on how the encountered aspect makes sense to the investment professional in the context of the investment proposal under evaluation. As Schatzki argues, how a person responds

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<sup>60</sup> One could argue that the earlier investments of the primaries team caused the secondaries team not to perform the evaluation from the scratch? But, as I argue towards the end of the next paragraph, it is a causal condition/conditioning factor but not the cause itself.

to any entity or state of affairs “depends not only on what it is but also on other factors such as that person’s ends and projects, his or her knowledge and skills, his or her moods, and various rules, paradigms, and customs. The fact that a totality of such factors determines the response does not alter the fact, however, that the person responds to something. The latter causes the action, whereas the other factors ... condition it” (op. cit., p 154). In the case of DG, the entities to which the investment professionals respond are [the aspect(s) of] the templates and the various other factors in the context condition the actual actions in response to [aspect(s) of] the template. The above discussion has also highlighted the connections, overlaps, and dependencies among the practices of the primaries and secondaries businesses within DG. This leads us to the discussion on ‘prefiguration’.

‘Prefiguration’: As explained earlier, in Section 2 of this chapter, ‘prefiguration’ is the “qualification of possible paths of action on such registers as easy and hard, obvious and obscure, tiresome and invigorating, short and long, and so on” (Schatzki, 2010a, p 140; see also: Schatzki 2002, ch. 4). In the case of DG, the practices and entities of the primaries team ‘prefigure’ the practices of secondaries team. As Rupert (the vice president of the secondaries team) explained:

It’s obviously helpful if you know the fund well, for example one that is tracked by the primary colleagues anyway and [we] get AGM data that I can look [at] ... If the primaries colleagues don’t have a good connection and don’t know the fund well ... [then] it’s hard for me to judge ... and there I am a bit on my own ... right. It’s not that I can base anything on my primary colleagues’ information ... Obviously I do a call then with the GP – (VP/11)

So if the Secondaries team gets to evaluate an opportunity to invest in a PE fund which the primaries business is familiar or currently invested with, then it becomes easier for the investment professionals of the Secondaries team to evaluate and take a decision on the proposed investment opportunity. This is because they would not only have better knowledge of the fund, its performance, and its progress from internal sources but will also be aware of the opinion/view of other DG colleagues about the performance of the fund, its managers and its underlying portfolio companies. On the contrary, if a proposed fund is not something that the DG’s primaries business is familiar or currently invested with, then it is much more difficult

and time consuming for the secondaries professionals to evaluate the investment opportunity and form a view on such an investment. However as, Maria (the co-head of the secondaries business) explained:

... it's rare that we look at a portfolio of 6 funds and we are [invested] in one of them [from the primaries business]. It's usually we are in 5 funds ... out of 6 [funds] – (MD/9)

The above quote indicates that the practices and the entities of the primaries team significantly 'prefigure' the practices of the secondaries team.

The IM template 'prefigures' the due diligence practices by acting as a checklist and reminding the due diligence teams of the key aspects to be considered while performing due diligence. Moreover, since the due diligence team inscribes its analysis on the IM template, it can be argued that the IM template 'prefigures' due diligence practices also by facilitating the presentation of the analysis required or prompted by it. Once the due diligence team finishes inscribing its analysis and review of the investment opportunity on to the template, the template then becomes a report which is internally referred to as 'investment memorandum' report. This report is then presented in the weekly investment management meetings for discussion and vote. So the IM template 'prefigures' also the investment management meetings by facilitating the discussion and decision making on the investment opportunity at the investment management meetings.

The MS Excel template used by the secondaries team prefigures mainly the secondaries due diligence practices as it is a creation of the secondaries team and it is useful mainly for the secondaries team in their due diligence. However, since the investment memorandum reports (which is prepared partly as a result of filling this template) constitutes the investment management meetings, it also 'prefigures' the investment management meetings by facilitating the discussions on the respective investment opportunities.

One might ask: How is the 'causal' relation between the practices and material arrangements different from the 'prefigurational' relation between them? The answer is as follows. 'Prefiguration' according to Schatzki is the "qualification of possible paths of action" on certain registers (Schatzki, 2010a, p 140; see also: Schatzki 2002,

ch. 4). On the contrary, “causality” pertains to “making actual, not the making possible, of something” (Schatzki, 1988b, p 168). As Schatzki argues, “just because something makes something else possible does not in itself mean that it in any way causes the latter” (ibid). As he further explains, “although, of course, making actual presupposes that what is made actual has already been made possible, its being made possible is not in any way responsible for its actually, as opposed to its possibly, existing” (ibid). In the case of DG, we can see that the ‘practices’ and ‘material entities’ of the primaries team ‘prefigure’ the practices of the secondaries team but do not ‘cause’ them. They ‘prefigure’ the practices by acting as factors that ‘condition’ the actions which the secondaries team performs in response to the templates. So the ‘causes’ of the actions of the secondaries team is the template and not the ‘practices’ and other ‘material entities’ which ‘constitute’ the primaries team.

The final outcome of the due diligence is a detailed report in which the due diligence team documents its analysis of the investment proposal. Having ascertained the quality of the investment proposal, the due diligence team inscribes its detailed analysis and opinion in the due diligence report which is internally referred to as ‘investment memorandum’. As the above director stated:

...due diligence...culminates in a document which we call the investment memorandum which is normally about 60-70 pages long on each fund – Jane (Director/5)

This investment memorandum is then presented to the internal investment management meetings and the investment committee for discussion and final vote.

#### **4.7. Investment management meetings**

“calculation ... is not the end of the story, but rather the starting point of the process of ‘calculating with something’, that is, ... interpretation” (Kalthoff, 2005, p 74).

Every week on Monday’s all the members of the PE investment management team across the globe at DG meet over a conference call. These meetings are called investment management meetings. During the course of the due diligence and after the preparation of the investment memorandum the due diligence teams present their on-going and final evaluation of the investment proposal at the investment management meetings to be reviewed by their colleagues. As Jane explained:

[The investment memorandums are] presented to the whole ... investment management team. Everybody is encouraged to have an opinion and to ask questions, because they may look at something differently, they may have thought of something we haven't, sometimes you get too close to a GP, so it's a really good common sense check – (Director/5)

Jane explained a discussion which occurred in a recent investment management meeting which she was part of:

For instance yesterday we had a good discussion on a US life science fund ... their more recent portfolio ... was largely unrealized ... the people that had done the due diligence were looking at the predictions as to where they thought the portfolio was going and they had got a few tables in there showing exit values... Then there was a question raised by a colleague who said: 'actually no you have got these predictions but the predictions are very different from the current values and how do you substantiate that you know? You can't just plug figures in there. Why do you think that's going to be exited at 3 times or 4 times when it is valued only one time'? So that team is going to go back and do little bit more work to say why they believe that. I had asked a question also ... questions could be about all sorts of things. It could just be well I have heard a rumour in the market that this person isn't happy and this person is going to leave. It's whatever everybody knows from their knowledge – (Director/5)

So as evinced by the above quote, it is through these investment management meetings that the (senior) investment professionals alter and shape the 'teleological structure' (i.e., the end-project-task combination) by demanding further analysis from the due diligence team or by suggesting the due diligence team to perform specific tasks to enhance their understanding of the investment proposal under consideration<sup>61</sup>. In the above case the due diligence team would go back and try to analyse and provide further information in order to justify their valuations. The investment management meetings also maintain and shape the 'practical intelligibility' of the investment professionals. They do so by asking the due diligence team various questions related to the investment proposal and investment memorandum in particular and also about the GP in general. In the above case, for instance, one of the committee members asked a specific question regarding a member of the investment team at the GP who is unhappy and may leave the GP.

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<sup>61</sup> Please note: By demanding further analysis and by specifying the due diligence teams to perform further tasks, although the senior investment professionals alter or shape the tasks within the 'teleological structure', they are maintaining or continuing the ends and projects with the 'teleological structure'.

The investment management meetings not only shape the ‘practical intelligibility’ of the investment professionals who present their due diligence, but also the intelligibilities’ of other investment professionals in the meeting who are listening to the proceedings and reviewing the investment memorandum. As Schatzki (1988b, p 156) argues, what a person lives through or experiences plays a major role in moulding ‘practical intelligibility’. Through observing and participating in the discussions of the investment management meetings and focussing on the instructions to the due diligence teams on various aspects of the investment proposal, the participants acquire certain knowledge and skills. As a consequence, I argue that those attending investment management meetings are influenced into certain ways of PE practice and their view on and responses to certain promptings are moulded to reflect these experiences. Hence the investment professionals at DG become more sensitive to certain factors and ways of proceeding and not others – certain rules, pieces of knowledge, ways of mattering, and ends, etc. take precedence over others – subsequently determining how to carry on, how to respond to actions and what makes sense for the investment professionals to do (ibid).

After an individual investment memorandum has been presented 2 or 3 times in the investment management meetings for discussion and when the due diligence team has addressed all the questions and queries of the people in the investment management meetings, then the investment proposal is put to a vote. Once a proposal receives a positive vote at the investment management meetings, then it is presented to the investment committee for a final vote and decision on the proposal. In most PE firms the final say on the investment decisions is held by the investment committees. The senior investment professionals of the firm sit on this committee. It is the same at DG too. The investment committee at DG is composed of 5 members: the head of the investment management - US, the head of the investment management - Europe, global co-head of co-investment, the head of research, and the CEO.

## **4.8. Discussion**

### **4.8.1. Reflections on the nature of [e]valuation practices at DG**

In Section 4.5 we explored some significant differences in the approach taken to the due diligence process in the evaluation of a primaries investment opportunity as opposed to a secondaries opportunity. We saw that the due diligence within primaries

is conducted based mainly on qualitative aspects related to the background of the PE fund and its management team. Most of these aspects cannot be transposed into or evaluated through any form of quantitative analysis.

The opposite is the case for the way the due diligence of secondaries opportunities is constructed at DG. Here the due diligence process involves substantial quantitative analysis. I noted that this difference in approach between primaries and secondaries investment opportunities is because of the different nature of the investment opportunities. In the primaries business the investment opportunities do not represent any underlying “real” assets. They are 100% ‘blind pools’ which represent investment programmes which will be invested in “real” assets in the subsequent 5 to 6 years by the investment professionals of the PE fund under consideration. On the contrary, the investment opportunities in secondaries represent DG investing and committing funds to take partial ownership in a “real” asset bundle [the underlying companies] through the PE fund (funded portion) alongside a legal obligation to contribute capital to the PE fund in the future (currently unfunded portion) as and when the GP calls for capital from the LPs to make further investments in “real” assets.

The extent to which the investment opportunity consists of a ‘blind pool’ commitment ‘prefigures’ [by facilitating or limiting] the performance of numerical/quantitative analysis in the evaluation/due diligence of investment opportunities. In the primaries business, since the investment opportunities are 100% ‘blind pools’ and consequently do not ‘constitute’ or represent any underlying “real” assets, the investment professionals at DG cannot perform any financial or economic analysis of the investment opportunities. As discussed earlier in Section 4.5, they are forced to evaluate the investment opportunity on the basis of several qualitative criteria such as the strategy of the PE fund, key terms of the partnership agreement, quality, expertise and cohesiveness of the management and investment teams at the GP and their past track record, etc.

Some quantitative evaluation is done in primaries. The due diligence team within Primaries evaluate the financial performance and conduct financial analysis of the previous/predecessor funds [where applicable] managed by the GP of the PE fund under consideration. But the relative weight or importance given to such analysis in

the overall decision making process, on whether to invest or not, is very limited. This, as I mentioned earlier, is due to: (a) the impossibility for financial reports to show some underlying “reality”<sup>62</sup> or the future potential of the current PE fund under evaluation; and (b) the recent and current macro-economic circumstances.

The due diligence teams in primaries judge the PE fund and form a view about it based substantively on a range of qualitative criteria. Hence I argued that the primaries due diligence is essentially a non-numerical calculative practice in which the investment professionals at DG form a view/judgement *upon* the investment proposal under consideration supported *with* a mix of qualitative criteria about the GP and the PE fund (Heidegger, 1954; Kalthoff, 2005; Stark, 2009). The elements ‘constituting’ the PE fund (i.e., the GP’s investment professionals, their experience, their prior track record, etc.) are taken into consideration in order to determine the quality of the investment proposal (PE fund under consideration) alongside other important factors such as the strategy of the fund and the terms and conditions of the partnership agreement.

Unlike primaries, the investment opportunities in the secondaries business represent partial ownership in a “real” underlying asset bundle through the PE fund and a ‘blind pool’ of up to 40%<sup>63</sup> (unfunded portion). The presence of the “real” assets (underlying portfolio companies) means that the due diligence teams of DG are able to evaluate the investment opportunity, at least partially, by conducting quantitative financial analysis on the underlying portfolio companies. In evaluating the funded portion, the investment professionals at DG focus their analysis (financial forecasts, net present value, discounted cash flow, etc.) mainly on those portfolio companies which the fund has bought within the last 2 years as these companies will be reflected at their purchase price or marked up only minimally to reflect the ‘fair values’ (Laux & Leuz, 2009). These are the companies which the PE fund under consideration is currently working on adding value to and hence these provide the “uplift opportunities”<sup>64</sup> for DG which would potentially increase in value, in the period, after

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<sup>62</sup> Accounting literature has long argued the incomplete representational ability of the accounting inscriptions (Busco & Quattrone, 2012; Robson, 1992).

<sup>63</sup> Since DG’s secondaries business invests in PE funds only if they are at least 60% invested.

<sup>64</sup> Those portfolio companies which the underlying PE fund [GP] has purchased recently whose valuations may increase in the next 3-4 years. Please refer Talmor and Vasvari (2011), Yates and Hinchliffe (2010), Klier, Welge, and Harrigan (2009) and Nisar (2005) for

the DG's investment into the PE fund. DG is not so much interested in those companies which the PE fund had invested 4-5 years ago and which are already marked up significantly to reflect the 'fair value' as the PE fund would have worked on those companies for the previous 4-5 years and hence according to DG these companies would offer very minimal or no uplift or increase in value after their investment into the PE fund. On the contrary, DG looks at those portfolio companies as a risk as there is no guarantee that the companies would be sold at the fair values reported by the GP.

An easily notable difference in the evaluation of the secondaries opportunities as opposed to those facing primaries is that the outcome of the evaluation of the secondaries opportunities is not only to determine whether DG would invest in the specific opportunity but also the price range [or range of discount to be applied to the recent NAV reported by the GP for the "real" assets (funded portion)<sup>65</sup>] in which DG would buy the PE fund interest [if at all]. The due diligence teams evaluating the secondaries opportunities have to come up with a price range at which the transaction would make sense to DG keeping in mind the 'teleology' (Schatzki, 1996, 2002b, 2010a) of DG's secondaries funds. As Rupert explained:

...we have certain underlying criteria that we need to have for our fund which are in the 1.6 to 1.8 multiple range, in the 20% IRR range to basically come up with a deal that makes sense for us and to work on that specific lever we need to play around with the discount – (VP/11)

Notwithstanding these differences in the approach to due diligence between primaries and secondaries, there are important similarities. Firstly, while analysing the unfunded portion of a potential secondaries opportunity, DG's investment professionals evaluate it as if they were analysing a primary opportunity. This is because the unfunded element of a secondaries investment is a 'blind pool' as are all primary investments.

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discussion on the various ways in which the PE funds improve the value of their portfolio companies.

<sup>65</sup> Rupert, one of the vice presidents in the secondaries team, explained that usually the buyers of PE fund interest on secondaries market don't get a discount on the unfunded portion, they only get it on the NAV.

Secondly, the evaluation of the funded portion of the secondaries opportunities is based on the anticipated future revenues, profits and exit values of the portfolio companies held by the PE fund. DG's investment professionals construct these numbers based on the accounting disclosures in the fund performance reports produced and made available to LPs by the GP. In these accounting reports the portfolio companies are represented on the basis of their 'fair values'. The analysis conducted at DG also takes into account discussions held with the investment professionals at the GP who are managing these portfolio companies.

It is notable that subsequent to the recent financial crisis, GPs "themselves have been navigating blind, finding it very hard to reliably predict forward revenues and profits for their portfolio companies" (Burdell, 2009, p 535)<sup>66</sup>. So although DG's investment professionals estimate the financial value of the "real assets" based on the reports and other information obtained from the GP and also based on the discussions with the investment professionals at the DG, these numbers are subject to significant assumptions and judgement and so are inherently subjective. As Kalthoff (2005, p 90) argues, there is no independent 'reality' external to the economic representations (figures/numbers/reports) that embody 'reality'. Hence, even though the secondaries business evaluates its investment opportunities, at least partially, by conducting numerical analysis on the underlying portfolio companies ["real" assets], the numbers [economic representations] on the basis of which they perform the analysis and make judgements upon the investment opportunity are not "real". The economic representations are 'creations' which are the outcome of 'operative writing' [e.g., calculation procedures, formulae, categories, etc.] (Kalthoff, 2005; Rheinberger, 1992; see also: Knorr-Cetina, 1981; Latour & Woolgar, 1986). Consequently, I would argue that while the secondaries investment evaluations look significantly different to those in Primaries because they consist, in part at least, of underlying assets, a significant element of any commitment to the investment is represented by unspecified future investment opportunities, 'blind pools.'

Other writers have raised similar concerns to those I raise above about the role of judgement and subjectivity in the construction of investment values. Callon and Law (2005, p 719) suggest that "we ... [ought to] think in the same terms about

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<sup>66</sup> For recent debates on the reliability, pros and cons of fair value accounting, please refer: Benston (2008), Penman (2007), and Véron (2008).

(quantitative) calculations and (qualitative) judgement. That ... [these evaluations and judgements] are all about arraying and manipulating entities in a space in order to achieve an outcome, a conclusion” (See also: Callon & Muniesa, 2005; Stark, 2009). Drawing on the neologism coined by Cochoy (2002), Callon and Law (op. cit., p 719) explain that qualculation refers to “calculation, whether arithmetical in form or not, the manipulation of objects within a single spatiotemporal frame – which can be done in indefinitely many ways”. I argue that the preparation of the investment memorandum and other documents associated with the evaluation of PE investment opportunities in either primaries or secondaries can be seen as illustrations of the application of ‘qualculative’ practices. I have summarised above the construction of these investment evaluation documents which combine numerical calculation with qualitative evaluations of investment opportunities in the PE industry. I have used the practices at DG to illustrate the complex construction of judgements about the quality of GPs management and investment teams, the problem of (e)valu(at)ing (Beckert & Aspers, 2011) ‘blind pools’, the reliance on forecasts of cash flow derived from accounting reports and the related judgements about macroeconomic performance.

Moreover, in both cases: Primaries and Secondaries, the investment memorandums are not neutral devices depicting some sort of ‘reality’ ‘out there’. Rather, they are constructions of the due diligence teams which offer a specific view upon the investment proposal under consideration (Kalthoff, 2002, 2005).

#### **4.8.2. Reflections on experimenting with Schatzki’s ‘site’ ontology**

Schatzki has provided us with rich theoretical concepts to analyse and identify the processes which surround social action and try to break up the nature of the complexity and on-going nature of these critical and yet poorly understood PE investment evaluation practices as they [re]occur in the ‘site’ we have studied. In this section, I reconsider and reflect on specific concepts of ‘site’ ontology which have so far not been brought into accounting and organizational theory literature.

##### **(a) Prefiguration versus Causality**

Drawing on the case material related to investment evaluation/due diligence practices at DG I have explored how the various ‘practices’ and ‘material arrangements’ in the primaries and secondaries business form practice-arrangement bundles through various forms of relations. In Section 4.6, I explored the relations between some of

the due diligence ‘practices’ and ‘material arrangements’ at DG. With the help of the empirical material of the case I have also demonstrated and/or clarified how practices and material arrangements exert different influences on the practices by way of ‘intelligibility’, ‘prefiguration’ and ‘causality’ (Schatzki, 2010a). As discussed earlier, practices and material arrangements prefigure other practices by qualifying possible paths of action on certain registers (Schatzki, 2010a, p 140; see also: Schatzki 2002, ch. 4). On the contrary, ‘causality’ pertains to “making actual, not the making possible, of something” (Schatzki, 1988b, p 168).

In my interpretations of the case setting I explained how the various practices of the Primaries team ‘prefigure’ the practices of the Secondaries team. When a Secondaries team is evaluating an investment opportunity which the primaries team is familiar with or currently invested in, then it is easier for the secondaries team to evaluate the opportunity. On the contrary if the secondaries team is evaluating an investment opportunity primaries team is not familiar with, then the secondaries team has to put in much more effort in evaluating the opportunity. We also saw that, a material artefact, the IM template ‘prefigures’ (in this occasion, makes easier) both the primaries and the secondaries due diligence practices by reminding them of the key aspects/issues to be considered while performing the due diligence. The IM template also ‘prefigures’ the investment management meetings and also the presentations to the investment committee as the due diligence teams ‘inscribe’ their analysis in the IM template and ‘translate’ (Latour, 1987; Robson, 1991) it into an investment memorandum which is referred to during the discussions at these meetings.

We also saw that in the complex chain of actions composing the due diligence and other investment management practices at DG, the IM template induces certain responses from the due diligence teams and hence I argued that it ‘causes’ certain actions. So in some situations, the IM template does have both ‘causal’ and ‘prefiguring’ influences on the practices. So, if a material entity can make some actions possible on certain registers, it *may* also be able to make them actual [i.e., cause them]. However, it is not necessary that a material entity that makes some actions possible [on certain registers] has to also always make those actually happen (Schatzki, 1988b).

From my experience of applying Schatzki's versions of two social arrangement concepts: 'prefiguration' and 'causality' to make sense of the empirics, I feel that it is relatively easy to identify in an empirical setting if [and how] certain practices and material arrangements 'prefigure' certain other practices. However, I feel that identifying the causal relations in a definitive manner is rather challenging. In Primaries, I can argue that because the 'blind pool' is 100%, certain practices are essential. In Primaries this results in the team assessing investment opportunities by examining several qualitative factors as discussed earlier in Section 4.5. I argue that this may be seen as a 'causal' effect, of the extent of a 'blind pool' in an investment opportunity, on the nature of evaluation practices of Primaries. In Secondaries, the existence of underlying assets clearly 'prefigures' the [possibility of] performing quantitative financial analysis. However, it has been very difficult for me to determine definitively if the degree to which the investment opportunity is represented by a 'blind pool' or not actually 'causes' the quantitative financial analysis to be the 'obvious' or required practice to engage in.

**(b) Practice memory**

Much of the forgoing discussion, especially on 'prefiguration' and 'causality', is also necessarily closely related to the idea of 'practice memory'. According to Schatzki (2010b, p 166) "the persistence of practice organizations over time is a type of memory – practice memory". In the case of DG we saw earlier (in Section 4.7) how the investment evaluation practices rely on 'practice memory'. The continuation of practice organizations such as 'teleologies', alteration of 'projects' and 'tasks' within the 'teleological structure' and the shaping of 'practical intelligibilities' is secured and sustained partly through the interactions/discussions and debates at the investment management meetings.

Once the due diligence responsibilities are allocated, the analysts commence the due diligence by going through all the available information (about the particular GP and the PE fund) that DG has accumulated so far. During this review, the analysts/associates also identify the questions/issues which need to be discussed during the due diligence conversations with the GP (either via a phone call or face to face meeting). After performing this desk review, the analysts/associates start recording their [initial] analysis on to the IM template and then present it to the

investment management meetings where further issues and questions are raised related to the particular investment opportunity. As a senior investment professional at DG explained,

...[we] hear it [the initial evaluations of the investment opportunities] on the investment management discussions and we ... steer it at that point and say look this is all very well but have you thought about this? Have you thought about that? And this is a concern to me; can you take a look at this and address it? – MD/7

As I mentioned earlier, the due diligence teams present the investment memorandums at different stages [initial and final evaluations of the investment proposals] with at least two iterations taking place at the investment management meetings to be reviewed by their colleagues.

The continuation and reinforcement of ‘teleologies’ and the shaping of ‘practical intelligibilities’ also happens within the due diligence teams while the investment professionals are working on their day to day activities. As I mentioned earlier, the due diligence teams always constitute at least one senior investment professional who is always guiding and advising the junior members in the due diligence team on what to do, how to proceed with a particular analysis, etc. and hence shaping their ‘intelligibilities’. Here we can notice how the individual reflections and recollections of some participants in the practice (for example, the senior investment professionals) helps in shaping the ‘teleological structures’ and ‘practical intelligibilities’ of the junior investment professionals at DG. Moreover, the investment memorandum templates and the various MS Excel spread sheets can also be argued to be carriers of ‘practice memory’ as the various headings within the templates (which remind the investment professionals undertaking the due diligence of the important aspects which need to be considered as part of the [e]valuation) can be argued to be the ‘rules’ to be followed during the due diligence/investment evaluation<sup>67</sup>.

Presentations to and the discussions with[in] the Investment Committee also shape the ‘practical intelligibilities’ of the investment professionals with regards to the

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<sup>67</sup> For me these issues also raise questions about the **privileging of information/data** and the **training to focus on some things rather than others**. Numbers where they are available, even if not ‘real’ perhaps.

investment criteria. These presentations also serve as a rehearsal of the organisations practice memory and help to further sediment it within current practices. As Rupert stated:

What I learnt from it [discussions with(in) the IC] basically is how the IC thinks and what they are looking for [in specific transactions] ... [and this] will help me for the next transaction I show to them – (VP/11)

One of the investment committee member's explained a situation where a particular investment opportunity was rejected by the IC on the basis that 2 members of the IC were unhappy about the investor relations [client service] wing of the particular GP. As the member of the IC stated:

... well two people [in the investment committee] felt very uncomfortable with the investor relations arm of a [PE] firm [under consideration] and ... although the 3 of us were extremely comfortable with it ... we said no [to the investment] – MD/7

While the above example might show the disregard of the IC towards the detailed due diligence work performed so far on the particular investment opportunity, it also reflects the continuous shaping of 'practical intelligibility' within the firm through the discussions in the IC. Members of the committee and investment professionals, like Rupert, charged with carrying out due diligence and presenting investment opportunities to the IC are all engaged in activities that rehearse and develop existing 'intelligibilities' that are bound up with the social 'site'. The latter quote also refers to an important 'intelligibility', that of privileging consensus decision making, which is regularly stated and consistently observed in the IC meetings. So while there is some general understanding of the importance of various aspects of an investment opportunity, which aspect of the opportunity takes precedence at IC and becomes a key factor in deciding on whether to go ahead with an opportunity or not is something that emerges and is assessed specifically for each and every transaction. So, although the [potential] financial performance and financial returns may seem to be the [main] deciding criteria, it is only deceptively so.

## 4.9. Conclusion

I have sought to provide a rich and theoretically informed understanding of the behaviour of investment professionals in the PE industry in this chapter. Drawing on empirical material from my case study of a large global PE asset management firm, I have identified and explained important work practices, and the complex of social action and mechanisms that lay behind such practices. By doing this, I have brought to fore the important aspects of ‘practical intelligibility’ (Sandberg & Tsoukas, 2011; Schatzki, 1986) of the investment professionals undertaking due diligence of PE funds. I have also demonstrated how practices and material arrangements exert different influences on the investment evaluation practices at DG by way of ‘prefiguration’ and ‘causality’ (Schatzki, 2010a). My focus had been on the nature of micro level practices as they impinge on due diligence processes which constitute the business model of this part of the PE industry.

My theorisations have been based on elements of Schatzki’s (1996, 2002b, 2010b) ‘site’ ontology. While I draw on Schatzki’s practice theory more generally, I have attempted in this chapter to extract those concepts which provide most purchase on the practices I have sought to understand. The concepts I have mobilised from Schatzki include ‘prefiguration’, ‘social causation’, ‘constitution’, ‘practical intelligibility’ and ‘practice memory’. I have reconsidered the application of these theoretic constructs in the previous section where I further examined their contribution to my theorisations and attempted to explain the difficulty of identifying ‘social causality’ within a practice theory framework. I have said little about ‘constitution’ primarily because I regard this as a reasonably self-evident feature of social ‘site’ analysis.

My theorisations have also been influenced by ideas from the sociology of finance literature. These latter concepts have provided me with ways to highlight the role of calculative practices which do not form a particular focus of Schatzki’s constructs. I concur with other writers (Beunza & Stark, 2005; Kalthoff, 2002, 2005; 2007; see also: Knorr Cetina, 2011) who argue that “problems of valuation and calculation” should be placed at the centre of a research agenda that seeks to comprehend the impact on economic and social life of the calculative practices that inhabit our monolithic financial institutions. I provide a valuable addition to the literature in this

regard by presenting a carefully theorised sociological understanding of an area of the financial services industry which has hitherto been under researched in spite of the significant size of the sector (approximately USD 3.5 trillion in global assets<sup>68</sup>) and its impact on other critical elements of the economic system.

I report a number of aspects of the role of material objects in my observations and interpretations of our case organisation. In my interpretation of the empirics I note the use of various proprietary documents and software tools [e.g., MS Excel templates used in Secondaries]. These material objects enable the direction and repetition of work practices and act as receptacles of ‘practice memory’.

From a theoretical perspective, I believe that while Schatzki recognises the role of material artefacts, the role of such objects is relatively low key in his description of ‘site’ ontology when compared to other theorists such as Knorr Cetina (for e.g., 1997, 2001). Schatzki has chosen to recognise the role of objects in order to provide a comprehensive theoretical account of the social ‘site’ and he is careful to distinguish his theorisation from those that have been developed elsewhere (for e.g., in Actor Network Theory and interactionist accounts). While this is consistent with Schatzki’s philosophical position it suggests that in his expositions of practice theory the role of artefacts and objects more generally is a relatively low key aspect of the social milieu. This is an area that I believe could be developed in future research possibly by further developing Schatzki’s constructs or by looking for a sensitive rapprochement with theorists of sociomateriality (Leonardi, 2011; Orlikowski, 2007). An important first step in attempting for such a sensitive rapprochement would be to compare and contrast the philosophical underpinnings of alternative theories of sociomateriality to understand the similarities and differences in them. This will be the focus of the next chapter.

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<sup>68</sup> Source: The 2014 Preqin Global Private Equity Report (p 14).

## Soci(omateri)al<sup>69</sup> practices

**Synopsis:** This chapter emphasizes the importance of materiality to organizational and other social practices and takes an important first step in further recognizing and developing the role of material objects in Schatzki's 'site' ontology. It provides a foundation for enhancing Schatzki's constructs with concepts developed by other theorists by reviewing and comparing some key alternative theoretical foundations (agential realism, critical realism, and ANT) which have been suggested to facilitate sociomateriality studies. The chapter contributes to the practice theory literature by reviewing and comparing these literatures and providing suggestions for theory development.

**Acknowledgements:** This chapter has benefited from the valuable comments of Professor Paolo Quattrone.

### 5.1. Introduction

In Chapter 4, having brought in the material entities 'constituting' the investment management practice at DG explicitly as part of the theorizations, we noted the relatively peripheral role of objects in Schatzki's ontology. I believe this is paradoxical given the general importance Schatzki assigns to material entities in the social 'site'. This may be influenced by his emphasis on reclaiming human agency and defending it from the post humanist attack. However, I believe defending human agency is one thing whereas recognizing the appropriate role of objects in social life is another<sup>70</sup>. I noted towards the end of the previous chapter that future research could be expanded to further recognize and develop the role of material entities in Schatzki's 'site' ontology by looking for a sensitive rapprochement of his constructs with [other] theorists of sociomateriality (Latour, 2005; Leonardi, 2011; Orlikowski, 2007). This chapter takes a first step in that direction by seeking to establish a basis for such a rapprochement through a comparison of key theoretical frameworks which have been suggested to facilitate sociomateriality studies (Barad, 2003; Bhaskar, 1979; Latour, 2005).

The importance of materiality to organizational and other social practices has been an issue which has received increasing attention recently in several streams of literature

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<sup>69</sup> This expression is to suggest that materiality is an integral component of the social life.

<sup>70</sup> We need not assign a [relatively] low key to objects in order to defend and reclaim human agency. Knorr Cetina's work on object oriented sociology is provides an example of such work.

including sociology (Pierides & Woodman, 2012; Schatzki, 2010a), organization studies (Carlile, Nicolini, Langley, & Tsoukas, 2013; Leonardi & Barley, 2010; Leonardi, Nardi, & Kallinikos, 2012; Nicolini, Mengis, & Swan, 2012; Robichaud & Cooren, 2013), information systems (Leonardi, 2011; Leonardi & Barley, 2008; Orlikowski, 2006, 2008) and accounting (Busco & Quattrone, 2012; Wagner, Moll, & Newell, 2011). This renewed interest is worth exploring given the fact that “the discussion about [the role of objects and] things has a long sociological tradition, from Marx, Durkheim, and Mauss through Mead ... up to contemporary social theorists” (Preda, 1999, p 364). “According to Heidegger, the world in which a person firstly and mostly exists is a world of organized equipment that are available for his actions and projects ... that help delimit the actions and paths he can take (the world also embraces other people, who are in-the-same-world that he is in)” (Schatzki, 2007, p 18).

Given the general agreement about the relevance of material objects to social arrangements and work practices (Orlikowski, 2007; Schatzki, 2010a) and having suggested the potential to further recognize and develop the role of material entities in Schatzki’s ‘site’ ontology, this chapter aims to provide an overview of some key alternative approaches to theorizing sociomaterial practices which have gained popularity in organization studies and information systems literatures. This chapter is organized as follows. First, I provide a brief overview of the philosophical assumptions and other critical aspects of the sociomateriality literature drawing on Barad’s work on agential realism and relational ontology – the approach propagated by Orlikowski in the organization and information studies literatures. Next, I briefly review an alternative perspective to the study of sociomateriality which Leonardi has proposed (he argues this to be compatible with agential realism). Subsequently, I provide some suggestions for cumulative theory development in sociomateriality and provide an extended comparison of several approaches to the study of sociomateriality including agential realism, critical realism, Schatzki’s ‘site’ ontology, and Actor-Network theory. The final section summarizes the contribution of this chapter.

## 5.2. Sociomateriality: Philosophical assumptions

Orlikowski (2007) has recently argued that organization studies have “traditionally overlooked the ways in which organizing is bound up with the **material forms and**

**spaces** through which humans act and interact. And the extent that such neglect continues, our understanding of organizational life and its consequences will remain necessarily restricted” [emphasis added] (Orlikowski, 2007, p 1435). Her argument about the relative neglect of materiality in organization studies is based primarily on her reflection on how technology has been studied in organizational research. However it is important to remember that technological artefacts are not the only (sort of) material entities that constitute organizational and/or social life<sup>71</sup> (Mutch, 2013). Orlikowski herself argues that if one:

“consider[s] any organizational practice, and then consider[s] what role, if any, materiality may play in it. It should be quickly evident that a considerable amount of materiality is entailed in every aspect of organizing, from the visible forms — such as bodies, clothes, rooms, desks, chairs, tables, buildings, vehicles, phones, computers, books, documents, pens, and utensils — to the less visible flows — such as data and voice networks, water and sewage infrastructures, electricity, and air systems” (op. cit., p 1436).

It is surprising that while she recognizes other forms of material than technology that help constitute organizational and social life, she claims that materiality has been neglected in organizational studies only by reflecting upon how technology has been studied in organizations<sup>72</sup>. Organizational studies have of course explicitly examined other material forms such as spaces, accounting and strategy reports/documents, inscriptions, etc. (e.g., Carlile, 2002; Hanseth & Monteiro, 1997; Sahay, 1997; Vurdubakis & Bloomfield, 1994) which Orlikowski seems to neglect.

Orlikowski (2006, p 466) has also argued that “as the deep intermingling of materiality in practice continues apace with artefacts such as embedded intelligence, software agents, social tagging, and monitoring systems, new conceptual tools and insights are required to [more] adequately ... [understand organizational practices]”. She reiterates this argument elsewhere (Orlikowski, 2007, p 1435): “our primary ways of dealing with materiality in organizational research are conceptually problematic”

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<sup>71</sup> Moreover, not all technological artefacts may be material in nature (Faulkner & Runde, 2011).

<sup>72</sup> As Faulkner and Runde (2012, p 51) note, Orlikowski and Scott seem to use the terms ‘materiality’ and ‘technology’ interchangeably. This is problematic as these terms are not necessarily taken to mean the same thing by other writers (See also: Faulkner and Runde, 2012). As Mutch (2013, p 29) argues: “materiality is not a synonym for the physical nor is it restricted to information and communication technology ... artefacts”. Kautz and Jensen (2013, p 19) also make a similar argument.

and proposes to adopt an “alternative approach that posits materiality as constitutive of everyday life”. Again as with her previous argument, she reflects only the ways technology has been dealt with in organizational studies and no other forms of materiality.

The alternative view she suggests

“... asserts that materiality is integral to organizing, positing that the social and the material are constitutively entangled in everyday life. A position of constitutive entanglement does not privilege either humans or technology .... Instead, the social and the material are considered to be inextricably related — there is no social that is not also material, and no material that is not also social” (ibid, p 1437; italics in original)

Drawing on Barad and Suchman, Orlikowski labels this approach as ‘sociomateriality’ (See also: Orlikowski, 2010b; Orlikowski & Scott, 2008). Orlikowski and Scott have the merit of prompting (1) a debate on the material aspects of; and (2) recent shift in theorizing the material aspects of organizing that has shaped the nature of the research carried out in Organization and IT studies (Jones, 2013; Kautz & Jensen, 2013). The term ‘sociomaterial(ity)’ has also made inroads in the accounting literature [prompted by scholars from the organization studies and IS fields] (Wagner et al., 2011).

As noted by some scholars (e.g., Faulkner and Runde, 2012 and Jones, 2013), this perspective introduces important ontological dimensions into the literature and incorporates some fundamental assumptions of ‘constitutive entanglement’, relationality, interpenetration, and agential cuts<sup>73</sup>. Faulkner and Runde question the universality of these assumptions/claims and the “rather generic or unqualified ways” in which they are brought in and recognize that “this might be seen as placing an undue weight on what is still quite a small body of work” (Faulkner and Runde, 2012, p 49). In this section, I review some of the key philosophical assumptions of sociomateriality (Barad, 2007; Suchman, 2007) as outlined in recent debates as it is important to treat these with the respect and seriousness that they deserve (Mutch, op. cit., p 29; see also: Jones, 2013). Table 5 below lists the key philosophical aspects/assumptions raised and discussed in recent sociomateriality literature.

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<sup>73</sup> Mutch (2013) argues that the degree of seriousness with which sociomateriality studies take into consideration the philosophical assumptions/aspects is questionable (see also: Kautz and Jensen, 2013).

**Table 5: List of philosophical aspects/assumptions raised and discussed in recent sociomateriality literature**

<b>Research</b>	<b>Philosophical aspects raised and discussed</b>
Faulkner and Runde (2012)	Relationality (p 52), Interpenetration (p 55), Agential cuts (p 58)
Jones (2013)	Inseparability (p 201), Interpenetration (p 203), Relationality (p 203), Embodiment (p 203)
Kautz and Jensen (2013)	Relationality (p 19), Performativity (p 18),
Mutch (2013)	Agential cuts (p 34)

### **5.1.1. Inseparability**

An important theme of the recent discussions on sociomateriality seems to be the notion of inherent inseparability of the social and the material (Orlikowski and Scott, 2008). Taken literally, it would suggest that it is not meaningful to consider the social and the material as independent of each other (Jones, 2013, p 202). As Orlikowski and Scott (2008, p 456) argue:

Sociomateriality “does not presume independent or even interdependent entities with distinct and inherent characteristics”.

However, Jones (ibid, p 202-203) tabulates various references to inseparability in the writings of Orlikowski and Scott (2008) and Orlikowski (2010) and argues that those statements are not always consistent on what is regarded as inseparable and suggests that there these distinctions deserve greater attention.

Jones (ibid, p 200) suggests: “this inseparability would seem to involve two aspects, fusion and indissolubility” and notes that these two terms are not necessarily equivalent. Fusion may refer to the combined form or the process of creation while indissolubility refers to the impossibility of dividing or slicing the association (ibid). However, Jones notes that “fusions need not be irreversible and indissoluble fusions may have been created by previously separate elements”. Consequently, he argues that these aspects do not necessarily have the connotations that proponents of sociomateriality would appear to be seeking (ibid, p 200). He further argues that

“... inseparability would seem a different and stronger claim than that of interpenetration, which would not seem to imply any necessary

blending of elements. Rather, it would seem to refer to their mutual positioning” (Jones, 2013, p 200)

**Table 6: References to inseparability in Orlikowski and Scott (2008) and Orlikowski (2010)**

1	“the fusion of technology and work in organizations”	Orlikowski and Scott (2008, p 434)
2	“there is an inherent inseparability between the technical and the social”	Orlikowski and Scott (2008, p 434)
3	“a possible way forward is to challenge the deeply taken-for-granted assumptions that technology, work, and organizations should be conceptualized separately, and to theorize their fusion”	Orlikowski and Scott (2008, p 454)
4	“This is a relational ontology that presumes the social and the material are inherently inseparable ... this is a constitutive entanglement that does not presume independent or even interdependent entities with distinct and inherent characteristics ... Any distinction of humans and technologies is analytical only, and one with the recognition that these entities necessarily entail each other in practice”	Orlikowski and Scott (2008, p 456)
5	“the social and the technical are posited to be ‘ontologically inseparable from the start’”	Orlikowski (2010b, p 134)
6	“inseparability of ‘observed object’ and ‘agencies of observation’”	Orlikowski (2010b, p 136)

Source: Jones (2013, p 202)

### **5.1.2. Interpenetration**

Another important aspect of the recent discussions on sociomateriality is that of interpenetration. While the theme of interpenetration is discussed both in Faulkner and Runde (2012) and Jones (2013), their interpretations of this aspect are different. While Jones (2013, p 203) regards interpenetration as “a notion of two elements being in close mutual association, but not necessarily fused”, Faulkner and Runde suggest that the interpenetration thesis owes much to Barad’s notion of ‘entanglement’. As Barad argues:

“To be entangled is not simply to be intertwined with another, as in the joining of separate entities, but to lack an independent, self contained existence” (Barad, 2007, p ix).

Faulkner and Runde (2012, p 58) express strong reservations against the interpenetration thesis and argue that it “must be rejected as a general claim about the nature of social reality”. According to them, the interpenetration thesis depicts:

“... a world picture in which machine operators meld physically with the machines they operate, computer programmers with the computer programs they write, and architects with the drawings they produce” (ibid, p 57).

Faulkner and Runde (ibid) argue that while this image may be intended/rendered metaphorically, ontologies are supposed to be about what exists and consequently “one should be chary about positing metaphorical cases of interpenetration”. Mutch (2013) and Leonardi (2013) make similar arguments. As Leonardi explains:

“this philosophical stance presents empirical problems because actors in the world do not perceive the material and the social or the technological and the organizational as interpenetrated entities. Instead, they can relatively easily point to a hammer or a piece of software and say “this is material” but they would likely have a hard time fathoming that a hammer was in any way social” (Leonardi, 2013, p 66).

### **5.1.3. Relationality**

Relationality is a closely related theme to interpenetration. The relationality thesis holds that humans and things only exist in relation to each other. As Slife (2004, p 159) stated:

“all things . . . start out and forever remain in relationship. Their very qualities, properties, and identities cannot stem completely from what is inherent or ‘inside’ them but must depend on how they are related to each other”.

However, Jones (2013, p 203-204) tabulates various references to relationality in the writings of Orlikowski (2007) and Orlikowski and Scott (2008) and argues that those statements are not always consistent on what are the relata<sup>74</sup>. He further argues that “there is ambiguity about whether it is the existence of entities, the boundaries between them, or the process of mutual constitution that is being focused on” (Jones, op cit, p 213).

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<sup>74</sup> Relata: Objects / entities / concepts between which a relation is said to hold.

**Table 7: References to relationality in Orlikowski (2007) and Orlikowski and Scott (2008)**

1	The distinction of humans and artefacts, on this view, is analytical only; these entities relationally entail or enact each other in practice. As Law puts it (2004, p 42; emphasis in original): This is a thoroughgoing <i>relational materiality</i> . Materials-and so realities-are treated as relational products. They do not exist in and of themselves”	Orlikowski (2007, p 1438)
2	“a relational ontology that dissolves analytical boundaries between technologies and humans”	Orlikowski and Scott (2008, p 455)
3	“people and things only exist in relation to each other”	Orlikowski and Scott (2008, p 455)
4	Pickering (1993, 1995) argues for the value of a relational ontology that is premised on the “insistence that material and human agencies are mutually and emergently productive of one another” (Pickering, 1993, p. 567)	Orlikowski and Scott (2008, p 459)

Source: Jones (2013, p 204)

Furthermore, Kautz and Jensen (2013) question Orlikowski (and Scott) on the issue of inseparability and relationality. Kautz and Jensen ask: How can one argue for a relational ontology that presumes the inseparability of the social and the material? They argue that in order for the relata to be in relation they have to be separated to be recognized as part of the relation. While Orlikowski and Scott (2008, p 456) may argue drawing on Barad that “any distinction of humans and technology is analytical only, and done with the recognition that these entities necessarily entail each other in practice”, scholars like Kautz and Jensen (2013, p 19) ask: how can Orlikowski (and Scott) juxtapose ontology with an analytical distinction and not with epistemology?

#### **5.1.4. Agential cuts**

An aspect of sociomateriality discussions which is closely related to inseparability and relationality is that of agential cuts.

“The lines between things ...agential cuts... are drawn and enacted by ...agencies of observation... and are ...performed... rather than being intrinsic properties of those things” (Faulkner & Runde, 2012, p 52).

An important question to Orlikowski and Scott would be: if this is how we encounter phenomena in our everyday life, then why do we need to draw boundaries between,

and possibly even in relation to the properties of, entities? Faulkner and Runde (2012, p 58) question Orlikowski and Scott that if the contents of the world are not separated by intrinsic boundaries then “on what basis do we distinguish between things, be this in our capacity as researchers or simply as people going about our everyday affairs?” Furthermore, they question the relevance and applicability of the above ideas (agencies of observation performing agential cuts) for organizational research. They also raise questions about the identity of the agencies of observation.

“Do social scientists make agential cuts in the course of carrying out research into the social domain? And to what extent do ordinary individuals going about their day to day business get to make agential cuts, or is this only the privilege of scientific researchers? Can isolated individuals even make agential cuts, or is this only something they can do as members of communities? And do humans make agential cuts all the time ... or do they also proceed on the basis of agential cuts performed by prior generations of agencies of observations and which they take as more or less given?” (Faulkner & Runde, 2012, p 59).

These are some of the important aspects/issues discussed in the recent debates on sociomateriality.

It is important to note that some authors claiming to adopt the ‘sociomaterial’ perspective of Suchman and Barad seem to equate sociomaterial perspective with agential realism<sup>75</sup>. In other words, they write as if ‘sociomateriality’ perspective is the same as or belongs to the exclusive remit of relational ontology. For example, Wagner et al (2011, p 183) draw support from Orlikowski and Scott’s writings to argue that the sociomateriality “perspective does not assign agency either to persons or things but considers the social and technological to be ontologically inseparable, yet constitutively entangled”. But this is not correct. According to Leonardi (2013, p 70), “talking about sociomateriality is to recognize and always keep present to mind that materiality acts as a constitutive element of the social world...”. It is specifically the relational ontology of Barad that considers the human and technological to be ontologically inseparable, yet constitutively entangled. There are alternative theoretical foundations upon which to build the study of the sociomaterial nature of organizational and other practices that do not necessarily presume ontological inseparability (e.g., Schatzki, 2002). Such an attempt to expropriate the term

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<sup>75</sup> The title of Mutch’s (2013) suggests the same (Leonardi, 2013, p 73). Similar to Leonardi (ibid), I do not equate agential realism with sociomateriality.

‘sociomateriality’ by relational ontology enthusiasts is unwarranted and unnecessary. As Leonardi (2013, p 67) argues, and I concur, “there is no reason that the sociomaterial perspective must be footed exclusively on the foundation of agential realism ...”. Several scholars (including Orlikowski and Scott, in retrospect) argue for and value a plurality of theoretical approaches in the study of sociomateriality, and in the academy generally.

As mentioned earlier, there are several alternative theoretical foundations available on the basis of which we could study the sociomaterial nature of organizational and other social practices. Examples of the theories I have in mind are Schatzki’s (2002) ‘site’ ontology, socio-cultural theories of mediated action (e.g., Wertsch, 1988), actor-network theory<sup>76</sup> (e.g., Latour, 1987, 2005), object-centred socialities (e.g., Knorr Cetina, 1997; Preda, 1999), and certain ontologies of science (Pickering, 1995; Rheinberger, 1997; Rouse, 2003). Some authors (Leonardi, 2013; Mutch, 2013) argue that critical realism (Bhaskar, 1979) provides another alternative basis on which to study sociomateriality. In the following, I will briefly review one such alternative adopted by Leonardi whose conceptual contributions are regarded as having “played a decisive role in the spreading of the idea of sociomateriality in IS” and organization studies fields alongside Orlikowski (Kautz and Jensen, 2013, p 16).

### **5.3. Leonardi’s alternative perspective to studies of sociomateriality**

Leonardi (2011) advocates the metaphor of ‘imbrication’ in order to theorize the process by which the social<sup>77</sup> and the material are form a confluence to become the sociomaterial. In retrospect, Leonardi (Leonardi, 2013, p 70) argues that his “view of [human and material] agencies imbricating over time is wholly compatible with a critical realist perspective ...”. He states:

“...as scholars begin to push us to think about organizing as a sociomaterial process, the imbrication metaphor helps us to explain how the social and the material become interwoven in the first place

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<sup>76</sup> An important insight of ANT is that action is irredeemably complex and that the effects of the non-human entities cannot always be separated from the human entities, but also more importantly that we ought not to want to make this separation. A serious application of ANT should always maintain the inseparability argument. The researcher cannot guarantee to split the effects of the human and the non human entities. This is in contrast to Leonardi who appears to argue that this can always be done.

<sup>77</sup> As noted earlier, Leonardi seems to use the terms ‘social’ and ‘human’ agencies interchangeably.

and continue interlocking in ways that produce the infrastructures that people use to get their work done” (Leonardi, 2011, p. 165).

As the above quote evinces, Leonardi clearly distinguishes between human and material agencies (see also: Leonardi, 2012; Leonardi, 2013).

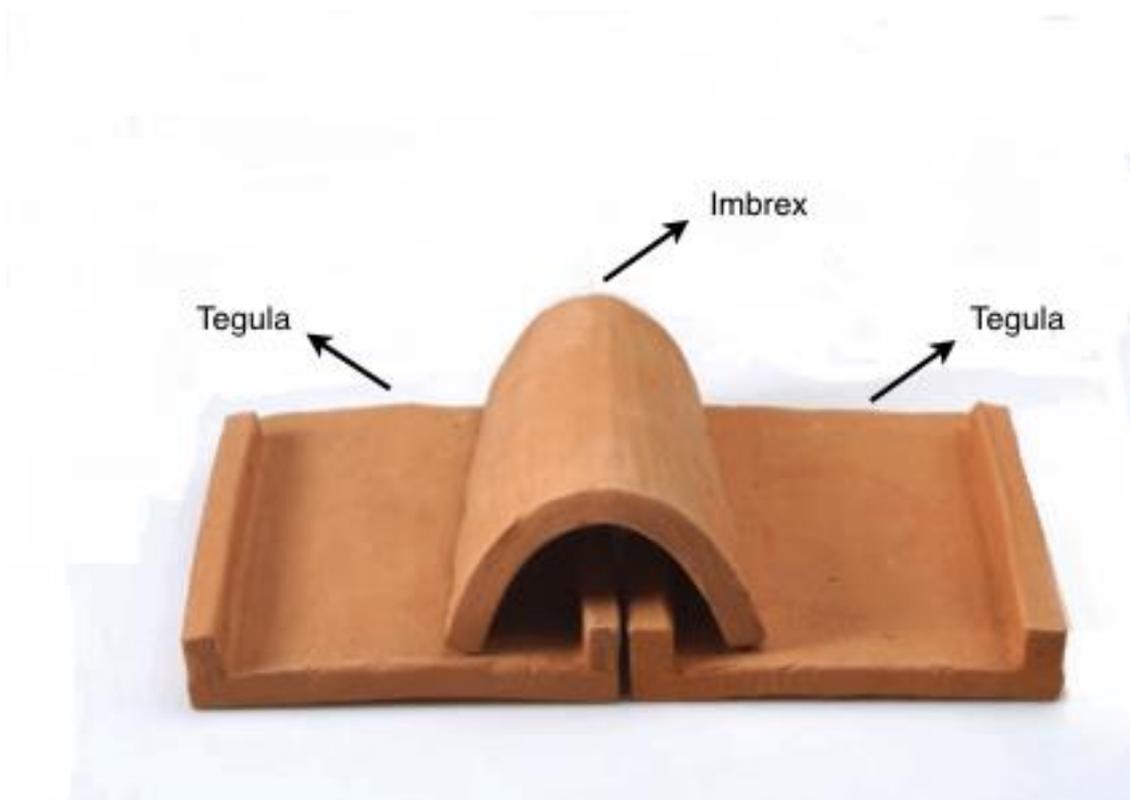
“To imbricate means to arrange distinct elements in overlapping patterns so that they function interdependently. The verb *imbricate* is derived from names of roof tiles used in ancient Roman and Greek architecture. The tegula and imbrex were interlocking tiles used to waterproof a roof” (Leonardi, 2011, p. 150, italics in original).

Please find below a pictorial representation of the imbrication metaphor of Leonardi.

Leonardi relates imbrication with human and material agencies by explaining that:

“Human and material agencies, though both capabilities for action differ phenomenologically with respect to intention. Thus like the tegula and imbrex, they have distinct contours yet they form an integrated structure through their imbrication. [...] applied to organizational analysis we consider [imbrication] to be the way that interagency relationships are interweaved to form ... infrastructure” (Leonardi, 2011, p 151).

**Figure 6: Pictorial representation of the imbrication metaphor**



Leonardi (2011, p 151, footnote 5) carefully notes that “...using the imagery of imbrices and tegulae has its problems. Both tiles are made of “material” in the sense

that they are physical creations of clay. The struggle to find a suitable image with which to describe the imbrication of human and material agencies points to the conceptual difficulty of integrating these phenomena. Thus, the analogy is meant to be illustrative rather than to be read literally”.

A summary of Leonardi’s view on the topic of sociomateriality can be found in the following table.

**Table 8: Summary of Leonardi’s view on the topic of sociomateriality**

Concept	Definition
Materiality	The arrangement of an artefact’s physical and/or digital materials into particular forms that endure across differences in place and time and are important to users.
Sociomateriality	Enactment of a particular set of activities that meld materiality with institutions, norms, discourses, and all other phenomena we typically define as “social”.
Sociomaterial Practice	The space in which multiple human (social) agencies and material agencies are imbricated.
Social Agency	Coordinated human intentionality formed in partial response to perceptions of a technology’s material agency.
Material Agency	Ways in which a technology’s materiality acts. Material agency is activated as humans approach technology with particular intentions and decide which elements of its materiality to use at a given time.

Source: Leonardi (2012, p 42)

#### **5.4. Some tentative suggestions for theory development**

As Kautz and Jensen (2013, p 21) note, when discussing the materiality of information technology, Leonardi and Barley argue that this topic “remains grossly under-theorized [as] ... individuals in a wide variety of occupations and organizations routinely interact not only with people but with information technologies. The latter indisputably have material properties” (Leonardi & Barley, 2008, p 161, p 171). Similarly, Orlikowski (2007, p 1435) has recently argued that organization studies has “traditionally overlooked the ways in which organizing is bound up with the material forms and spaces through which humans act and interact”. However, as Kautz and Jensen (ibid, p 23) note, Orlikowski and Leonardi “are forgetting decades of system

sciences which have prevailed” in the IS literature. While, Orlikowski (2007, p 1437) states that she is basing her position on the tradition of Latour, Callon, Law, Pickering, Knorr-Cetina, Beunza, etc., she does not relate her findings to the earlier literature drawing on these theorists.

Recently, in the sociology literature, Lamont (2012) has called for a comparative and cumulative theory building in the sociology of valuation and evaluation. She recognizes that there are “more than half a dozen of literatures [including cultural sociology under the influence of Pierre Bourdieu, economic sociology, sociologists of knowledge and science, students of inequality, social psychology, organizational sociology, etc.] that consider valuation and evaluation from different angles” (ibid, p 203) and notes that the different streams of literature “have not been in systematic dialogue with one another and function largely as independent silos defined by different substantive or institutional cores and networks of social interaction” (ibid, p 204). Lamont aims at “putting various bodies of work in conversation with one another in order to stimulate more cumulative theory building” on valuation and evaluation.

The ideas on cumulative theory building on [e]valuation (reviewed above) offers us important points of reflection for studying sociomateriality. Drawing on her work, I suggest, we should similarly aim for a comparative and cumulative sociological theory building on sociomateriality. Please note, this is not to suggest a unified and/or coherent theory (or grand theoretical reconciliation) as in Ahrens et al (2008). Neither am I assuming/suggesting philosophical and methodological commensurability. Furthermore, I recognize that “engagement with other methodological traditions is time-consuming and intellectually demanding ...” (Lowe & De Loo, 2013). All I am suggesting is that the various streams of literature interested in theorizing sociomateriality converse with each other more enthusiastically<sup>78</sup>. This would help us to “specify exactly whether and how each study may contribute to a [comparative and] cumulative theory” of sociomateriality, “and alternatively whether they simply provide one more instantiation of previously identified [theoretical frameworks, methodologies, and] processes” (Lamont, ibid).

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<sup>78</sup> This I hope may avoid duplicating [same] studies across different [streams of] journals. Please see my remarks in the next paragraph.

Scholars including Appadurai (1986), Law (1987), Knorr-Cetina (1997) and Preda (1999), etc. have long argued for a sociological theory of things (In other words, for a theory of sociomateriality). A problem in comparative and cumulative sociological theory building on sociomateriality seems to be the tendency of some authors to use the same empirics to craft papers for different journals within and across disciplines (Wagner et al., 2011; Wagner, Newell, & Piccoli, 2010). While by undertaking such a strategy, they may be able to make incremental contributions to various domain literatures such as accounting, organization theory or IS, they may fail to contribute to a substantive theory of objects/sociomateriality<sup>79</sup>.

From the perspective of the sociology of soci[omateri]al practices, the main challenges ahead are those of comparing individual studies that concern similar processes in order to specify exactly whether and how each study may contribute to a comparative and cumulative theory of objects/sociomateriality (Lamont, 2012, p 204)<sup>80</sup>. “This will require moving to a higher degree of abstraction so as to identify similarities and differences across studies” (ibid) and approaches.

Leonardi’s (2013) comparison of agential realism and critical realism can be seen as an initial step in this direction. In the following I have extended both the dimensions and approaches to Leonardi’s contribution<sup>81</sup> (Please see Table 9). In this adapted and extended comparison, I have added two additional dimensions for comparison: (1) View on agency, and (2) How are practices organized and/or linked? This also includes a conceptualisation of structure. In terms of theoretical frames, I have added 2 further theories to compare and contrast: (1) Schatzki’s ‘site’ ontology and (2) actor-network theory.

## 5.5. Chapter summary

As Sandberg and Dall’Alba (2009, p 1349) note, “ ... the performance of organizational practices can be more closely examined by bringing to the fore the manner in which practice is constituted through our entwinement with others and

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<sup>79</sup> I acknowledge that the idea of ‘a cumulative theory of objects’ is certainly ambitious and not likely ever to include all theoretical approaches.

<sup>80</sup> It may well be the case that some scholars do not intend to contribute to the theory of sociomateriality and rather focus their case studies on contributing to domain literatures of accounting, organizing, etc.

<sup>81</sup> My changes and additions are shaded in light turquoise colour.

things in our world”. In concluding the previous chapter, I commented that role of material entities in Schatzki’s ‘site’ ontology is relatively low key and suggested that future research could be expanded to further recognize and develop the role of material entities in Schatzki’s ‘site’ ontology by looking for a sensitive rapprochement of his constructs with [other] theorists of sociomateriality (Latour, 2005; Leonardi, 2011; Orlikowski, 2007). An important first step in attempting to reach such a sensitive rapprochement would be to compare and contrast the philosophical underpinnings of alternative theories of sociomateriality to understand the similarities and differences in the alternative underlying assumptions. As Nicolini (2012, p 1) argues, “much is to be gained if we appreciate both the similarities and differences among practice theories...”. This chapter has contributed to practice theory literature by developing such a comparison at philosophical, theoretical and methodological levels. I believe this extended comparison will be very useful both in developing a gradual comparative and cumulative [not single/unified and/or coherent] sociological theory of objects/sociomateriality. I also hope this extended comparison will prove helpful in elucidating “how depending upon the type of theoretical foundation one lays, ... [one] will build very different empirical studies, and make significantly different kinds of contributions to the study of sociomateriality” (Leonardi, 2013, p 74).

**Table 9: Comparison of Agential realism, Critical realism, ‘Site’ ontology, and Actor-network theory**

	<b>Relational ontology Agential realism</b>	<b>Representational ontology<sup>82</sup> Critical realism</b>	<b>‘Site’ Ontology</b>	<b>Relativist ontology Actor-network theory</b>
Ontology	<p><u>Ontology of inseparability</u></p> <p>“...relational ontology, which rejects the notion that the world is composed of individuals and objects with separately attributable properties that ‘exist in and of themselves’ (Law, 2004, p. 42). Such an ontology privileges neither humans nor technologies (Barad, 2003; Knorr Cetina, 1997; Latour, 2005; Pickering, 1995; Schatzki, 2002b) nor does it treat them as separate and distinct realities” (Orlikowski, 2010b, p 134; emphasis added).</p>	<p><u>Ontology of separateness</u></p> <p>The social context and the materiality that exist in it are separate. The social and the material become “sociomaterial” as people imbricate social and material agencies.</p> <p>“...the metaphor of imbrication [is] a way of recognizing that human and material agencies are distinct phenomena ...” (Leonardi, 2011, p 152).</p> <p>imbrication suggests that human and material agencies are effectual at producing outcomes (e.g., routines or technologies) only when they are joined together, but that their interdependence does not belie their distinct characters (ibid, p 151).</p>	<p>According to Schatzki (2005bp 471), “the site of the social is composed of nexuses of practices and material arrangements”. He explains material arrangement as set-ups of entities (human beings, artefacts, other organisms, and things). Please see item 4 for definition of ‘practices’ according to Schatzki.</p>	<p>“ANT pictures a world made of concatenations of mediators where each point can be said to fully act” (Latour, 2005, p 59).</p> <p>“...ANT is ontologically relativist in that it allows that the world may be organized in many different ways, but also empirically realist in that it finds no insurmountable difficulty in producing descriptions of organizational processes” (Lee &amp; Hazard, 1999, p 392).</p> <p>“ANT is empirically realist, in the sense that it leaves the task of challenging its empirical base to the research and user communities it addresses, and ontologically relativist in that it typically embarks on research without a clear picture of what sort of entities it will discover through interaction. This serves to distinguish ANT from both ‘modern’ and ‘postmodern’ research strategies” (Lee &amp; Hassard, 1999, p 393-394).</p>

<sup>82</sup> Kautz and Jensen (2013, p 24) suggest Leonardi’s approach as belonging to a representational ontology

	<b>Relational ontology Agential realism</b>	<b>Representational ontology Critical realism</b>	<b>'Site' Ontology</b>	<b>Relativist ontology Actor-network theory</b>
Epistemology	Analysts make arbitrary distinctions about what is "social" and what is "material" (agential cuts) when looking at a unified whole ("sociomaterial")	Analysts make determinations about how and why the separate "social" and "material" become the "sociomaterial" and persist that way over time.	Understanding is the mode of access to social 'reality'. For (a) understanding 'practical intelligibility' is grasping what it makes sense to others to do and why, (b) grasping why requires apprehending intelligibility-determining factors, and (c) grasping these factors makes it possible to uncover the other phenomena (beyond the interpersonal moulding of 'practical intelligibility') constitutive of social 'reality' in-itself (Schatzki, 1986, pp 298-299).	"...network is an expression to check how much energy, movement, and specificity our reports are able to capture. Network is a concept, not a thing out there. It is a tool to help describe something, not what is being described. It has the same relationship with the topic at hand as a perspective grid to a traditional single point perspective point ..." (Latour, 2005, p 131).
What is materiality	There is no materiality. There is only sociomateriality	The arrangement of an artefact's physical and/or digital materials into particular forms that endure across differences in place and time	Schatzki (2010a, p 133), identifies materiality to include "physicality, composition, bio-physicality, nature, and environment".	<p>"In STS, materiality is usually understood as relational effect. Something becomes material because it makes a difference: because somehow or other it is detectable. It depends, then, on a relation between that which is detected and that which does the detecting. Matter that does not make a difference does not matter. It is not matter since there is no relation. No relation of difference and detection. No relation at all" (Law, 2010, p 173).</p> <p>"Using verbs rather than nouns, and exploring how it is that processes work, it [material semiotics] talks more of mattering or materialising, than of matter or materiality. Since different practices materialise in different ways, its understanding of materiality is complex. How do materials hold together, if they do? This is its analytical and empirical question" (ibid, p 187).</p>

	<b>Relational ontology Agential realism</b>	<b>Representational ontology Critical realism</b>	<b>'Site' Ontology</b>	<b>Relativist ontology Actor-network theory</b>
What is soci(omateri)ality?	<p><u>What is social?</u> There is no social. There is only the sociomaterial</p> <p><u>What is sociomateriality?</u> The inherent inseparability between the material and the social.</p>	<p><u>What is social?</u> Abstract concepts such as norms, policies, communication patterns, etc.</p> <p><u>What is sociomateriality?</u> Enactment of a particular set of activities that meld materiality with institutions, norms, discourses, and all other phenomena we typically define as "social."</p>	<p>According to Schatzki, Sociality is human coexistence. His 'site' ontology "construes materiality as part of society, that is treats materiality as an ingredient of social phenomena" (Schatzki, 2010a, p 124). His ontology holds that "most social phenomena are intercalated constellations of practices, technology, and materiality. By doing so, Schatzki's ontology "erases one of the boundary lines that theorists have traditionally relied on in demarcating the social: that between society and materiality" (ibid).</p>	<p><u>What is social?</u> "... the term [social] ... is the name of a movement, a displacement, a transformation, a translation, an enrolment. [...] Thus, social ... is the name of a type of momentary association which is characterized by the way it gathers together into new shapes" (Latour, 2005, p 65).</p> <p>"...there is no society, no social realm, and no social ties, but there exist translations between mediators that may generate traceable associations" (ibid, p 108).</p> <p><u>What is sociomaterial?</u> "Although our most common encounter with society is to be overloaded by new elements that are not themselves part of the social repertoire, why do we keep insisting that we should stick to the short list of its accepted members? Such a limitation made sense during the time of modernization. [...] But this doesn't mean that sociology should accept for ever to be an object-less discipline, that is, a science without object" (Latour, 2005, p 234; italics in original).</p> <p>"Things, quasi-objects, and attachments are the real center of the social world, not the agent, person, member, or participant-nor its society or its avatars" (ibid, p 238).</p>

	<b>Relational ontology Agential realism</b>	<b>Representational ontology Critical realism</b>	<b>'Site' Ontology</b>	<b>Relativist ontology Actor-network theory</b>
View on agency	<p>“agency is an enactment, it is not something someone has [apriori]” (Barad, 1996) [Leonardi, 2013, p 61].</p>	<p>“Human agency is typically defined as the ability to form and realize one’s goals [...] [and the] human agency perspective suggests that people’s work is not determined by the technologies they employ” (Leonardi, 2011, p 147).</p> <p>“Material agency is defined as the capacity for nonhuman entities to act on their own, apart from human intervention. As nonhuman entities, technologies exercise agency through their “performativity” (Barad, 2003; Pickering, 1995); in other words, through the things they do that users cannot completely or directly control” (Leonardi, 2011, p 148).</p> <p>Drawing on Taylor, Groleau, Heaton, &amp; Van Every (2001), Leonardi (2011, p 150) argues that “although human and material agencies both influence people’s actions, their influence is disproportionate because human agency always has a “head status” while material agency has a “complement status”.</p>	<p>According to Schatzki (Schatzki, 2002b, p 191) ‘agency’ refers to doing. He believes “such a rendition can be common ground to humanists and posthumanists alike” (ibid). “Doings are events that are assigned to humans, organisms, artefacts, and things qua perpetrators” (ibid). Schatzki also notes that “this delineation of doings employs responsibility, not intentionality ...”.</p> <p>Schatzki argues that different types of entities exhibit different types of doings. He classifies doing into ‘causal type’ and ‘performative type’.</p> <p>“To do something causally is to make ... something happen” (ibid, p 192). Schatzki argues that “nonhumans and humans alike do things causally” (ibid).</p> <p>“Performing an action is carrying out bodily doings and sayings ... Performing an action is also ... carrying on the practice of which it is a part. Many human doings instantiate this sort of agency. The extent to which nonhumans can be accorded it is an open question” (ibid).</p>	<p>“Agencies are always presented in an account as doing something, that is, making some difference to a state of affairs, transforming some As into Bs through trails with Cs” (Latour, 2005, p 52).</p> <p>“ ... If agency is one thing, its figuration is another. What is doing the action is always provided in the account with some flesh and features that make them have some form or shape, no matter how vague” (ibid, p 53).</p> <p>“Subjects ... depend on a flood of entities allowing them to exist. To be an ‘actor’ is ...a fully artificial and fully traceable gathering ...” (ibid, p 208).</p> <p>“You need to subscribe to a lot of subjectifiers to become a subject and you need to download a lot of individualizers to become an individual-just as you need to hook up a lot of localizers to have a local place and a lot of oligoptica for a context to ‘dominate’ over some other sites” (ibid, p 216).</p> <p>“From now on, when we speak of actor we should always add the large networks of attachments making it act” (ibid, pp 217-218).</p> <p>“...An actor-network is what is made to act by a large star-shaped web of mediators flowing in and out of it. It is made to exist by its many ties: attachments are first, actors are second” (ibid, p 217).</p>

	<b>Relational ontology Agential realism</b>	<b>Representational ontology Critical realism</b>	<b>'Site' Ontology</b>	<b>Relativist ontology Actor-network theory</b>
What is a 'practice'?	A sociomaterial accomplishment.	The space in which social and material agencies become constitutively entangled through the process of imbrication.	Practices are “organized, open-ended spatial-temporal” nexus of human activities (bodily doings and sayings) examples of which are educational practices, management practices, shop-floor practices, etc. He explains that human coexistence “transpires as and amid an elaborate, constantly evolving nexus of arranged things and organized activities” (Schatzki, 2002b, p XI; cf. Latour 1987, Knorr Cetina 1997). Hence, Schatzki’s ontology clearly acknowledges compositional significance to materiality in social life.	“Latour’s account ... social affairs as composed of associations alone” (Schatzki, forthcoming, p 10). There is no pendent of practices in ANT because actions are the doings of particular actors [...] ANT thereby fails to capture a key feature of human social life, namely, the practices that are tied to arrangements and help constitute social phenomena” (Schatzki, 2010a, p 135).
How are practices organized and/or linked?  View on structure?	To be done <sup>83</sup>	“For Bhaskar ... the plurality of causes that coproduce an event is a plurality of mechanisms ... [which] are real relations which govern events ...” (Schatzki, 1990, p 282).  “ ... social relations form systems and ... these systems are such that relations of necessity govern actual social affairs through them” (ibid).	According to Schatzki (Schatzki, 2002b, 2010b), a set of actions that compose a practice are organized by and linked through (1) ‘practical understandings’, (2) ‘rules’, (3) ‘teleoaffective structure’, and (4) ‘general understandings’. Together, these form the dimensions, or framework, of practice organization.	“For Latour, ... human activities, like activities more broadly, are only contingently related to one another” (Schatzki, forthcoming, p 10).  “A structure is just a[n actor-] network on which you have only very sketchy information [or whose participants are so quiet that no new information is required]. It’s useful when you are pressed for time, but don’t tell me it’s more scientific” (Latour, 2005, p 154; see also: p 202).  “As long as we try to use either local interaction or structure, or some compromise between the two, there is no chance to trace social connections—and the cleverer the compromise, the worse it would be, since we would simply extend the lease of two non- existing sites” (ibid, p 204).

<sup>83</sup> As agential realism has complex views on these concepts, I aim to investigate these aspects as part of my post-doctoral work.

	<b>Relational ontology Agential realism</b>	<b>Representational ontology Critical realism</b>	<b>'Site' Ontology</b>	<b>Relativist ontology Actor-network theory</b>
<p>Methodological unit of analysis</p> <p>Methodological focus</p>	<p>The sociomaterial practice</p> <p>Identify what implications sociomaterial practices have for organizational processes (e.g. identification, negotiation, etc.).</p>	<p>Social and material agencies</p> <p>Identify how the social and the material become the sociomaterial and what implications this has for organizing (e.g. Communication networks, centralization, etc.).</p>	<p>Schatzki's ontology directs researchers attention to practices, arrangements, and nexuses forming (part of) the social 'site'. "They might also examine such matters as the organizations of practices, above all, the teleologies and general understandings that animate them" (Schatzki, 2010a, p 145). Schatzki inspired "accounts might also describe particular significant arrangements, for instance, those that decisively contributed to the evolution of practice-arrangement nexuses or were particularly noteworthy symbolically or to the people involved" (ibid, pp 145-146).</p>	<p>Object and subject might exist, but everything interesting happens upstream and downstream. Just follow the flow. Yes, <b>follow the actors themselves or rather that which makes them act, namely the circulating entities</b>" (Latour 2005, p 237; emphasis added).</p>
<p>Potential contributions</p>	<p>Showcase how all organizational processes are sociomaterial and how recognition of this fact can improve our theorizing about them. Demonstrate that organizing occurs in practice and that practice is neither social nor material; it is both.</p>	<p>Showcase how organizations and technologies come to be as they are and why people think they had to be that way. Move technology into a constitutive role in organizing and organizational processes while showing how organizing shapes technology.</p>	<p>Showcase "how practices and arrangements are tied together as nexuses" (ibid, p 146). Explain "how practices and arrangements causally relate, how arrangements prefigure practices, how practices and arrangements constitute one another, and how the world is made intelligible through practices. Another new task is investigating how practice-arrangement nexuses are connected and, as connected, form still wider formations" (ibid).</p>	<p>"... To explain is not a mysterious cognitive feat, but a very practical world-building enterprise that consists in connecting entities with other entities, that is, in tracing a network" (Latour, 2005, p 103).</p> <p>"A good ANT account is a narrative or a description or a proposition where all the actors do something and don't just sit there. Instead of simply transporting effects without transforming them, each of the points in the text may become a bifurcation, an event, or the origin of a new translation. As soon as actors are treated not as intermediaries but as mediators, they render the movement of the social visible to the reader" (Latour, 2005, p 128).</p>

## Conclusions

Practice theories have become fashionable approaches to studying accounting and other organizational phenomena (Schreiber, 2013). This thesis has aimed to contribute to social studies of finance and accounting (Vollmer et al., 2009) and practice theory literatures (Feldman & Orlikowski, 2011; Orlikowski, 2007, 2010b) by experimenting (Baxter & Chua, 2008) with the practice theoretical concepts developed by Theodore Schatzki (a philosophical social theorist) and demonstrating their relevance and usefulness in understanding and explaining accounting and other organizational phenomena.

In this chapter, I will first describe my reflections on, and insights gained from experimenting with Schatzki's 'site' ontology. Next, I will draw together the main findings of my doctoral research and summarize the contributions of this thesis. Finally, I also provide some directions for interesting and potentially insightful research possibilities, which follow from the ideas and concepts I have applied in my research. I believe that the further research I describe has great potential to contribute both theoretically and from a practitioner perspective.

### **6.1. Experimenting with Schatzki's 'Site' ontology: Reflections on the relevance and usefulness of practice theory concepts**

As Baxter and Chua (2008, p 226) note, we need to come to grips with what the notion of 'practice' entails. Ahrens and Chapman (2007) introduce Schatzki's framework to accounting research as a useful way to understand and make sense of 'practices' both as a theoretical concept and empirical phenomena. However, as Baxter and Chua (ibid) note, "...much work needs to be done in conceptualizing and operationalizing these notions [of 'integrative' and 'dispersed' practices as] activities and arrays". The same holds true with the associated theoretical concepts such as practice organization framework ('practical understandings', 'rules', 'teleoeffective structures', and 'general understandings'), 'practical intelligibility', and the sociomaterial nature of 'practices' (Orlikowski, 2007, 2010b). An important methodological contribution of this thesis to practice theory literature lies in operationalizing concepts from Schatzki's ontology. I have demonstrated the

relevance and usefulness of Schatzki's 'site' ontology concepts to understand empirical phenomena (in my case accounting and other [calculative] practices in PE). With this focus hopefully something new has been learnt about accounting and investment evaluation practices in the PE industry [please refer to Section 6.2 for the contributions of this study]. I hope the phenomenological character of Schatzki's concepts has made the complex phenomena of PE seem less complex to the readers.

In the following, I summarize the relevance and usefulness of Schatzki's concepts for studying accounting and other organizational phenomena:

- (1) Accounting scholars have repeatedly emphasised the importance and value of studying how accounting relates to and [re]engages with various other organizational practices (Ahrens, 2010; Baxter & Chua, 2008; Jørgensen & Messner, 2010; Miller, 1998; Whittington, 2011). My research examined the role of accounting and associated/allied calculative practices in PE in order to consider these intersections with other organizational practices in a complex financial services setting. Schatzki's 'site' ontology has proved to be a useful framework to consider these intersections and interrelations. Concepts such as 'teleological structures' and 'constitution', encourage us to go beyond the outside appearances or labels of the practices and look at the 'integrative' projects and tasks and their 'teleologies'. For example, we saw (Chapter 3) how some routine and fundamental accounting practices constitute the 'teleological structures' of client service practices in PE firms and in turn contribute to the survival and success of PE firms as client service is a key success factor for the GPs in the industry. Moreover, in Chapter 3, we saw how the concept of 'dispersed' and 'integrative' practices help us to understand and appreciate the complex intertwining of accounting and other PE practices. With these concepts, I could note that the 'situated functionality' of accounting is 'prefigured' by its 'dispersed' nature.
- (2) Sandberg and Tsoukas (2011) have argued for the development of what they call 'practical rationality theories' that capture essential aspects of the logic of practice and demonstrate the way in which organizational and other social practices are 'constituted' and enacted. Sandberg and Tsoukas note that theorists such as Schatzki, Taylor, Dreyfus and Polt have developed useful

concepts for undertaking such theorizing (ibid, p 339). As noted in Section 2 of Chapter 2, Schatzki's concept of 'practical intelligibility' focuses on what it makes sense to someone to do. By using the concept 'practical intelligibility', the thesis also provided some insight into the factors that influence or are taken into account while evaluating investment opportunities in PE. We saw (in Chapter 4) that the same factor (for example, quality of the management team) can take different significance depending on the type of opportunity under evaluation. While evaluating a primary opportunity, the due diligence teams assign high importance to the background and quality of the management team and other such qualitative factors. On the other hand, while evaluating a secondary opportunity, the due diligence teams assign high importance to the quality of the assets in the portfolio and relatively low importance to the quality of the management team. So I noted that the extent to which the investment opportunity consists of a 'blind pool' commitment 'prefigures' [by facilitating or limiting] the performance of numerical/quantitative analysis in the evaluation/due diligence of investment opportunities. In the process, we got to understand that how an encountered aspect makes sense to the investment professional depends also on the context of the investment proposal under evaluation.

- (3) Sandberg and Dall'Alba (2009) note that it is important for us to understand and provide a close analysis of how organizational practices are constituted in their enactment and performance over time. Schatzki's concepts of 'constitution' and 'practice memory'<sup>84</sup> are particularly helpful in understanding the performance of practices over a longitudinal timeframe. For example, in the case of DG, we saw that the continuation of practice organizations such as 'teleologies', alteration of 'projects' and 'tasks' within the 'teleological structure' and the shaping of 'practical intelligibilities' was secured and sustained through a complex web of [inter]actions and entities. The 'teleological structure' and the shaping of 'practical intelligibilities' was secured partly through the interactions/discussions and debates at the investment management meetings, partly through the day to day interactions in

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<sup>84</sup> As defined earlier in Chapter 4 (Section 4.8), 'practice memory' is the continuation of practice organizations (i.e., 'practical understandings', 'rules', 'teleoaffective structures', and 'general understandings') over time.

the due diligence teams, and also with the help of material artefacts such as the investment memorandum template and the MS Excel spreadsheets.

While I have been appreciative of the positive aspects of Schatzki's 'site' ontology framework, I have also chosen to be critical of some of the theoretical concepts which are poorly defined and/or underdeveloped (see for e.g., my comments on 'general understanding' concept in the discussion section of Chapter 3 and my comments on the role of objects in Chapters 4 and 5). I have also made an effort to contribute by seeking to clarify these aspects (Section 4.2 in Chapter 3 and in Chapter 5 respectively) which I will summarize and review in the next section along with other contributions which this thesis has made.

## 6.2. Research contributions

In recent times the size and scale of the PE funds and their impact has been increasingly significant. A growing number and range of economic activities have come under the umbrella of PE management. Also, the source of funds to the PE industry has become increasingly diverse. This thesis has examined in detail select large scale constellation of practices-arrangement bundles that are spatially-temporally extensive (the 'site' of PE industry – Chapter 3) and more specific and/or smaller bundles (investment [e]valuation practices at DG – Chapter 4) (Schatzki, forthcoming). This thesis has provided a rich and theoretically informed description of those practice-arrangement bundles. The thesis has described and analysed the spread of both accounting [and] calculations in such practices. By doing so, this work makes theoretical contributions to social studies of finance and accounting (Vollmer et al., 2009) and practice theory (Feldman & Orlikowski, 2011; Orlikowski, 2007, 2010b) literatures. Furthermore, a methodological contribution is made by applying Schatzki's (2002) 'site' ontology to PE or organisational research.

In this section, I will draw together the main findings of my doctoral research and summarize the contributions of this thesis.

In **Chapter 2**, I discussed the philosophical, theoretical and methodological aspects informing and as relevant to this thesis. I reviewed the key aspects of Schatzki's 'site' ontology. Although his ontology has been adopted in accounting research, there is no systematic review of his account of action (which I discuss in Section 2.3). I also

provided a brief and selective review of Schatzki's critique of Giddens, Bourdieu, and actor-network theorists. Although he provides critical analysis also of Pickering, Habermas and many other theorists' accounts, I focussed only on the 3 theoretical viewpoints which have made a significant impact in [management] accounting research (Englund & Gerdin; Justesen & Mouritsen, 2011; Malsch et al., 2011). This review discussion, I hope, also helped in developing an understanding of some of the key themes that link practice theories. The epistemological and methodological consequence of Schatzki's ontology has not been systematically discussed within the existing research and especially research which has drawn on Schatzki in empirical settings. I have carefully traced those aspects from his earlier work and discuss it along with other methodological literature to the extent this it is relevant for this research.

As Schatzki cautiously explains, it may well be the case that the general features of generation of action that a cross-cultural theory (as developed by himself or Bourdieu for example) uncovers are instantiated differently in different 'sites' or different individuals. In order to uncover the specific instantiations of the action generative mechanisms in a given 'site', the researchers have to apprehend the 'practical intelligibility' of actions performed in the particular 'site' (Schatzki, 1987, p 114). I have attempted to situate myself within the PE industry in order to apprehend how practitioners/professionals understand their worlds and assign significance to their actions. Proceeding on the basis of interviews, documentary evidence, and observations (albeit limited), I have developed an appreciation of how the actions constituting specific PE practices make sense to the participants in the action (ibid, p 117).

The first 'site' investigated in this thesis is the PE industry as a whole [**Chapter 3**]. Here, the relationship between accounting and other organizational practices forming part of the PE value chain has been explored. The chapter examines the role of accounting, particularly its 'situated functionality' in various practices forming part of PE value chain. One of the key arguments of the recent practice based studies following Schatzki's ontology has been that accounting possesses 'situated functionality' (Ahrens & Chapman, 2007). Ahrens and Chapman (ibid) suggest that this has been overlooked and has been a significant failing of decades of research.

Although Ahrens and Chapman adopt the phrase ‘situated functionality’ they do not explore it in detail. Their analysis “emphasise[s] the ways in which organisational members actively reconstitute their ... [accounting and] control systems...” (ibid, p 1). They show how actors intentionally “...mobilise accounting to contribute in specific ways to what they regard as the objectives of their organisational units”. Through my field research presented in Chapter 3, I have been able to extend the ‘situated functionality’ concept. The findings of my study suggest that the ‘situated functionality’ of accounting is ‘prefigured’ by its ‘dispersed’ nature. My study shows what it really means in the terms of Schatzki's philosophy from where it originated. So while the manager's intention may be to mobilise accounting to achieve the ‘teleologies’ of their practices, whether and to what extent they can do so is ‘prefigured’ by the extent to which accounting functions as a ‘dispersed’ practice in their organizational settings. This I believe is an important insight for further studies exploring the ‘situated functionality’ of accounting.

In Chapter 3, by exploring a specific instantiation of ‘site’ as the global PE industry and by studying the interrelated practices therein, I have been able to problematize a specific aspect of Schatzki's practice organization framework – ‘general understandings’. This aspect has so far either been taken for granted (for e.g., in Jørgensen & Messner, 2010) or sometimes even ignored (for e.g., in Ahrens & Chapman, 2007) in the existing accounting literature. I experienced the ‘general understandings’ concept to be problematic through my fieldwork. The concept is poorly defined and is explained only with the help of a couple of empirical examples by Schatzki. Later on, I found support for this argument in the sociology literature. Caldwell's (2012) review of Schatzki's work also notes the problematic nature of ‘general understandings’. I was encouraged by one of the reviewers of my submission to *Management Accounting Research* to address (although tentatively) this problem and suggest theoretical enhancements. In such an attempt I engaged with further writings of Schatzki, particularly aspects from his doctoral dissertation, which is so far not referred to or cited in the accounting literature. Here I was able to conceptualise and explain it more effectively. This can be regarded as a specific theoretical contribution to the emerging [accounting] studies drawing on Schatzki's ‘site’ ontology.

While the case study presented in Chapter 3 focussed on experimenting with Schatzki's ontology and exploring the relationship between accounting and other organizational practices forming part of PE value chain, the case study in **Chapter 4** focussed specifically on the investment evaluation practices in a large global PE asset management firm. Investment evaluation practices are important in determining the capital flows to investment opportunities. In Chapter 4, my focus was on the nature of micro level practices as they impinge on due diligence processes which constitute the business model of this part of the PE industry. I have brought to fore the important aspects of 'practical intelligibility' of the investment professionals undertaking due diligence of PE funds. While my theorisation of such practices have been mainly based on elements of Schatzki's (1996, 2002b, 2010b) 'site' ontology, the theorisations have also been influenced by ideas from the sociology of finance literature. These latter concepts have provided me with ways to highlight the role of calculative practices which do not form a particular focus of Schatzki's constructs. I concur with other writers (Beunza & Stark, 2005; Kalthoff, 2002, 2005; 2007; see also: Knorr Cetina, 2011) who argue that "problems of valuation and calculation" should be placed at the centre of a research agenda that seeks to comprehend the impact on economic and social life of the calculative practices that inhabit our monolithic financial institutions.

In Chapter 4, the concepts I have mobilised from Schatzki include 'prefiguration', 'social causation', 'constitution', 'practical intelligibility' and 'practice memory'. These concepts have been very useful in exploring the relations between the practices and the constitutive material entities forming part of the 'site'. These theorizations are a useful contribution to the accounting literature as the case studies drawing on Schatzki have so far only focussed on the elements of his practice organization framework. I demonstrate using empirical material how those additional concepts from Schatzki operate in a complex financial services setting. I report a number of aspects of the role of material objects in my theorization of the due diligence practices in my case organisation. In my interpretation of the empirics I note the use of various proprietary documents and software tools [e.g., MS Excel templates used in Secondaries]. These material objects enable the direction and repetition of work practices and act as receptacles of 'practice memory'. I also noted the difficulty of identifying 'social causality' with a practice theory framework such as Schatzki's.

From a theoretical perspective, I noted that while Schatzki recognises the role of material artefacts, the role of such objects is relatively low key in his description of ‘site’ ontology when compared to other theorists such as Knorr Cetina (for e.g., 1997, 2001). I also suggested that future research could focus on further developing Schatzki’s constructs on the role material entities. I suggested that this could be done by looking for a sensitive rapprochement with theorists of sociomateriality (Leonardi, 2011; Orlikowski, 2007). With a view to taking some initial steps in such a direction, I engage with the sociomateriality literature in Chapter 5.

**Chapter 5** builds on the suggestions made in Chapter 4 to further recognize and develop the role of material entities in Schatzki’s ontology by looking for a sensitive rapprochement with theorists of sociomateriality. I took an important first step in that direction by comparing and contrasting the philosophical underpinnings of alternative theories of sociomateriality. I engaged specifically with the literature of sociomateriality turn in practices studies in organization theory and information systems literature, some of whose insights have also appeared in the accounting literature (Wagner et al., 2011). I provided a brief review of the philosophical assumptions and other critical aspects of the sociomateriality literature drawing on Barad’s work on agential realism and relational ontology – the approach propagated by Orlikowski in organization and information studies literatures. I also briefly reviewed Leonardi’s alternative perspective to the study of sociomateriality.

This extended comparison of alternative theoretical approaches to study sociomateriality is a useful contribution to practice theory literature as Nicolini (2012) argues that much is to be gained if we appreciate both the similarities and differences among practice theories. This extended comparison also helps in elucidating “how depending upon the type of theoretical foundation one lays, he or she will build very different empirical studies, and make significantly different kinds of contributions to the study of sociomateriality” (Leonardi, 2013, p 74).

To summarize, the different chapters in this thesis have together contributed to social studies of finance and accounting (Vollmer et al., 2009) and practice theory (Feldman & Orlikowski, 2011; Orlikowski, 2007, 2010b) literatures both theoretically and empirically. The thesis also contributes methodologically, to an extent, by providing

theorizations drawing on (additional) concepts of Schatzki's ontology which have so far now been adopted by existing empirical studies drawing on Schatzki's ontology.

### **6.3. Directions for future research**

I concur with Baxter and Chua (2008, p 228) that "...practice theory provides new and valuable insights and questions for contemporary management accounting research". In the following, I provide some directions for future research which follow from the current work.

#### **6.3.1. Private equity secondary investments: What are the synergies from primaries?**

The research in Chapter 4 has not only contributed to the emerging stream of social studies of finance and accounting literature, but also provided some interesting ideas for future research which would have significant managerial implications. An important insight from my research in DG has been that the investment evaluation practices of the Primaries team 'prefigures' the investment evaluation practices of the Secondaries team and vice versa.

The secondaries market for PE is taking on increasing significance. "Around \$10bn of transactions were completed in 2009 - a figure that more than doubled to approximately \$22bn in 2010 as discounts narrowed. 2011 saw a continuation of this trend, with a total transaction volume of \$25bn"<sup>85</sup>. In 2012, the transaction volume was estimated to be \$35 billion (JP Morgan, Oct 2012). Moreover, in 2012 secondaries managers raised an aggregate \$20.3 billion globally<sup>86</sup>. Secondaries fund of fund managers can be broadly classified into two categories: (i) those who operate both primaries and secondaries business (for example: DG – my case firm in Chapter 4, Pantheon, Partners Group, Adams Street Partners, etc.); (ii) those who exclusively operate secondaries business (for example: Coller Capital, Lexington Partners, Greenpark Capital, etc). Firms compete intensely in fund raising efforts with competition both across and within the two categories.

Firms operating in both the primaries and secondaries businesses claim to leverage the knowledge and due diligence information from their primary fund teams in evaluating

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<sup>85</sup> Source: <http://www.greenparkcapital.com/Secondaries.aspx> (accessed: 07 March 2013).

<sup>86</sup> Source: Financial News (07 March 2013).

secondaries opportunities<sup>87,88</sup>. As the Vice President of the secondaries team at DG stated:

It's obviously helpful if you know the fund well, for example one that is tracked by the primary colleagues anyway and [we] get AGM data that I can look [at] ... If the primaries colleagues don't have a good connection and don't know the fund well ... [then] it's hard for me to judge ... and there I am a bit on my own ... right – Rupert (VP/11)

In fact, one may argue that the knowledge of the PE funds and their portfolios held by the primaries teams help the secondaries teams of the firm to not only evaluate the investment opportunities better ... but also quicker. Coming up with an attractive and appropriate bid/price for the portfolio under consideration is also argued to be important for success in the secondaries market (JP Morgan, Oct 2012).

Moreover, in terms of the knowledge of the PE fund portfolios in the market, the co-head of the secondaries team at DG stated:

... it's rare that we look at a portfolio of 6 funds and we are [invested] in one of them [from the primaries business]. It's usually we are in 5 funds ... out of 6 [funds].

PE firms operating in both the primaries and secondaries business claim that the above relationships with GPs on the primaries side helps also in sourcing appropriate opportunities for the secondaries business. "Meaningful relationships with agents and GPs" is also regarded as critical for investment success in the secondaries market (JP Morgan, Oct 2012, p 1). However, PE firms operating only in the secondaries business argue that the relationships with GPs on the primaries side does not offer any significant benefit for the secondaries business. As the CEO of a mid-sized dedicated secondaries firm stated:

Net net, No ... if you go back to the primary investing you look at 200 PPMs, you make 1 investment. So you have got 99 GPs that you have

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<sup>87</sup> <http://www.pantheonventures.com/investment-strategies/secondary> (accessed: 07 March 2013).

<sup>88</sup> Source: <http://www.capdyn.com/lines-of-business/investment-types/secondary-fund-investments.cfm> (accessed: 12 March 2013).

disappointed. On the one GP you do, yes you may get a call on the secondary. Well we have got 150 ... funds. So, yea we do get the calls. [...] So once you are in, an LP - primary or secondary its more likely you get a call, once you know the fund. [...] So there is no added value really there. The added value is already being an LP. Well we are in as many funds as your average fund of fund and we have never disappointed a GP by promising something, primary capital.

In fact, the above CEO argues that not being present in the primaries business offers certain benefits. As the CEO explained:

Keeping in mind that we actually have some really great LPs who can see what we do, who we invest in and who ask us, particularly on European GPs our US LPs ask who is a good mid-market European GP? We bring them together. Somebody called that ‘concierge services’ the other day. A lot of fund of funds have understandably a bit of a reluctance to introduce LPs and GPs because if they deal directly that’s not good. For us that’s fine, we don’t mind. So our GPs like that.

Moreover, commenting on the information advantage the firms operating in both the primaries and the secondaries businesses claim to have, the above CEO stated:

You have probably got the advantage of the hour and a half or 2 hours that takes up to set up the analysis for the quarterly report. [...] We have bigger team doing secondaries looking at it from a secondary pricing transactional point of view. We have much more insight into most portfolios than fund of funds.

Understanding the ‘reality’/‘realities’ behind these arguments by firms who are competing with each other (for fund raising) is rather important. I believe that further research could focus on identifying in detail the advantages the primaries operations can offer to the secondaries operations (in investment evaluation, deal sourcing, and portfolio construction), which may lead to superior performance on the secondaries front. I feel that such a focus has great practical relevance and at the same it will be a useful contribution to academic knowledge. As Aspers and Beckert (2011) argue, a “detailed look at the valuation and evaluation [practices] reveals a highly complex

world of social mechanisms behind these practices”. In order to identify the advantages the primaries operations can offer to the secondaries investment evaluation and portfolio construction, I suggest undertaking a field research project exploring the secondaries investment evaluation practices of firms from each category [dedicated secondaries vs. firms operating both primaries and secondaries businesses]. As Silverman (2011) argues, “one of the strengths of qualitative research is its ability to access directly what happens in the world...”. For such a research, data could be collected from 3 PE asset management firms of different sizes (large, medium, and small) from each category [as mentioned above]. This will serve a meaningful comparison and help in identifying the advantages the primaries operations can offer to the secondaries operations (in investment evaluation, deal sourcing, and portfolio construction).

### **6.3.2. ‘Intentionality’ and ‘situated functionality’**

An interesting idea for a useful research project emerged from my engagement with Schatzki’s ontology. Schatzki’s ‘site’ ontology has very specific roots in accounting literature. It was first introduced by Ahrens and Chapman (2007). The starting point of Ahrens and Chapman’s paper is their reflection on the contribution made by interpretive studies in accounting. They start by stating that interpretive research sought to correct the simplifications of functionalist studies. In so doing, the authors claim that these interpretive studies “... portrayed accounting often as ‘just political’, ‘unintended’, ‘temporary’, etc., foregrounding its political, symbolic, and ritual functions. They left relatively unexplored the practical commercial and strategic uses of accounting ... [and] tended to downplay the ways in which accounting can and does help organizations through its role in the constitution of particular functionalities” (ibid, p 2).

At this point it is important to point out that researchers with a focus on social and organizational aspects aim to capture different aspects of the relationship between systems and organization from those with a technical focus (Ahrens and Dent, 1998, p 3). Moreover as Chua (1986, p 618) explains, “the interpretive perspective questions the traditional view of accounting information as means of achieving pre-given goals. [...] Accounting information may be used to retrospectively rationalize action and to impose a goal as though it always existed”. Hence, it is surprising why Ahrens and

Chapman would expect interpretive research to focus on functional aspects of accounting when it has a different motivation and purpose.

However, Ahrens and Chapman's view is that, while "organizational members may well be aware of the limitations of accounting and reporting practices. Nevertheless they draw on them, for example, to discharge formal obligations, communicate with colleagues, pursue informal objectives, avoid switching costs, etc. Through such uses, accounting can potentially make significant contributions to the ways in which organizational motivations take shape and [how] organizations coordinate intentional action" (op. cit., p 2).

In an attempt to address the earlier noted issue[s], Ahrens and Chapman's study aimed to "elaborate the ways in which specific organizational members sought to use accounting to achieve, if not grand strategic missions, at least specific sub- sets of organizational objectives, what one might call the 'situated functionality' of accounting" (op. cit., p 4). Ahrens and Chapman further argue that "management may not win all their games all the time, but they are nonetheless more central to bigger and more resourceful network[s]" (op. cit., p 7). However, I believe that whether management are central to bigger and resourceful networks or not is an empirical issue which varies on a case to case basis and cannot be prefigured/presupposed. Ahrens and Chapman (op. cit.) give a single example of Quattrone and Hopper's (2005) study where "a Japanese head office that insisted on maintaining their preferred accounting configuration when introducing an ERP system, despite the ERP system's technological imperatives for change". However, there are several studies in the literature where the management's supposedly privileged preferences/changes/initiatives are not received/accepted by the employees (See Wagner et al. 2011 for a recent example).

In their discussion of management control as practice Ahrens and Chapman state that they "would like to give greater prominence to the construction and functioning of managerial intent and some of the ways in which they relate to the situated functionality of accounting" and "to those ends", they adopt Schatzki's ontology as it "offers advantages in the study of management control practice because it is more accepting of structures of intentionality" than ANT (ibid, p 8).

There are some critical issues to note on the fundamental premise and arguments put forth by Ahrens and Chapman. The critical issues are:

- (1) It is not explained exactly why/how Schatzki's ontology "is more accepting of structures of intentionality" than ANT? Interestingly enough, as noted earlier, Ahrens and Chapman claimed to have adopted Schatzki's ontology as they believe that "it is more accepting of structures of intentionality". However, towards, and in the conclusion section of their paper, they note that they "found it useful to build on theories of cognition in practice" (ibid, p 22). They further note that "the notion of structures of intentionality relies on a conception of functionality that is cognitively distributed over people, practices, arrangements, and contexts (Hutchins, 1995; Lave, 1988)" (ibid). This leaves their theoretical base for intentionality unclear.
- (2) (Just) because the authors believe that managerial intention is not reflected or theorized well in the existing literature, does it [necessarily] substantiate a change in the world view of the authors [i.e., adopting a different ontology]? As Ahrens and Chapman themselves point out, there are other ways of theorizing managerial intent by drawing on or relating supplementary concepts to existing theories/approaches [such as boundary objects in the case of ANT (Briers & Chua, 2001; Dechow & Mouritsen, 2005)].

The above aspects could usefully be explored in greater detail. I believe that such a project would be very interesting and insightful. I would plan to organize such a project as follows. First I will explore the traces of 'intentionality' in Schatzki's ontology and further elaborate on the concept. Next I will trace 'intentionality' in 'theories of cognition'. Finally I will juxtapose these to the way Ahrens and Chapman present and theorize 'intentionality' in their case study and see how well it corresponds to the explications of the concept within Schatzki's ontology and 'theories of cognition'.

#### **6.4. Final remarks / Closing words**

Overall, I strongly believe that through this doctoral research I have been able to contribute to social studies of finance and accounting and practice theory literatures. I throw light on some of the important practices constitutive of the PE industry in a novel way. My theorizations are new to the social studies of finance and accounting literature[s] (Vollmer et al., 2009). It is new to the sociology of finance literature as the existing approaches in the literature operate at the intersection of economic sociology, social studies of science and social studies of cognition (Preda, 2007).

While scholars have adopted Schatzki's ontology in the accounting literature, their theorizations have been based mainly on concepts of the practice organization framework. I have problematized and attempted to clarify a specific aspect of this practice organization framework: 'general understandings' which has been so far taken for granted or even ignored in the accounting literature. This has enabled me to shed new light on both the practices I studied and also on concepts in accounting literature [for e.g., 'situated functionality']. I hope the clarification on 'general understandings' would aid further research drawing on Schatzki's ontology.

I have also introduced additional concepts from Schatzki's ontology such as 'practical intelligibility' and 'practice memory' into my theorizations of the empirical material. The concept of 'practical intelligibility' helped me to grasp how things make sense to the investment professionals while evaluating investment opportunities in PE. The concept of 'practice memory' helped me to understand how investment evaluation practices are constituted in their enactment and performance over time at DG. These are useful contributions to the social studies of finance and accounting literature and I hope the readers of this thesis appreciate the interesting insights I have brought to light.

Finally, I hope that my extended comparison of key alternative approaches to studying sociomateriality (a contribution to practice theory literature) forms a good basis for further recognizing and developing the role of artefacts in Schatzki's ontology by carefully adapting and appropriating ideas from these other approaches.

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# Appendices

## Appendix 1: List of interviews conducted across the PE industry

<b>Date</b>	<b>Interviewee</b>	<b>Code</b>
10 <sup>th</sup> May 2011 11 <sup>th</sup> Nov 2011	Partner of a Spanish Healthcare fund	P/S/1
05 <sup>th</sup> July 2011	Executive Director of the PE business of a large global multi asset investment firm	ED/L/2
06 <sup>th</sup> July 2011	Member of a small PE firm based in London	M/S/3
12 <sup>th</sup> July 2011	Managing Director of a large global PE asset management firm	MD/L/4 <sup>#</sup>
15 <sup>th</sup> July 2011	Managing Director, Chief Financial Officer, and Chief Operating Officer of a large global PE asset management firm	MD/L/5 <sup>#</sup>
14 <sup>th</sup> Sep 2011	Chief Investment Officer of a large global PE asset management firm	CIO/L/6
05 <sup>th</sup> Sep 2011	Founder and Managing Partner of a medium sized PE firm	P/M/7
02 <sup>nd</sup> Nov 2011	Director and Head of the Portfolio Servicing team at a large global PE asset management firm	D/L/8 <sup>#</sup>
14 <sup>th</sup> Dec 2011	Vice President of the Portfolio Servicing team at a large global PE asset management firm	M/L/9 <sup>#</sup>
27 <sup>th</sup> Jan 2012	Director of Client Relations at a medium sized management buyout firm	D/L/10
21 <sup>st</sup> Feb 2012	Associate and Supervisor, Data Quality Management – Portfolio Servicing at a large global PE asset management firm	A/8/11
07 <sup>th</sup> Feb 2012	Director of Investment Management at a large global PE asset management firm	D/L/12 <sup>#</sup>
02 <sup>nd</sup> Mar 2012	Vice President of Portfolio Servicing team at a large global PE asset management firm	VP/L/13 <sup>#</sup>
06 <sup>th</sup> Mar 2012	Vice President of Investment Management – Secondaries team	VP/L/14 <sup>#</sup>
04 <sup>th</sup> May 2012	Associate, Investment management at a large global PE asset management firm	A/L/15 <sup>#</sup>
27 <sup>th</sup> Nov 2012	CEO of a medium sized PE Asset management firm	CEO/M/1 6

<sup>#</sup>These interviews helped me secure further access into the firm and hence the limited extracts from these interviews are also referred to in Chapter 4. So they appear again in Appendix 5.

## Appendix 2: Observation of investment management and portfolio servicing practices within a large PE asset management firm

Date	Duration	Professional and practice followed
27 <sup>th</sup> Apr 2012	Half day	Vice President of Investment Management team at a large global PE asset management firm
07 <sup>th</sup> Dec 2012	1 hour	Associate of Investment Management team at a large global PE asset management firm
17 <sup>th</sup> Dec 2012	Full day	Associate in the Reporting team at a large global PE asset management firm
18 <sup>th</sup> Dec 2012	Half day	
19 <sup>th</sup> Dec 2012	Half day	
11 <sup>th</sup> Jan 2013	1 hour	Analysis of archival records at a large global PE asset management firm

## Appendix 3: Public talks by PE practitioners in business schools

Person	Code	Source
Edward J. Mathias (Director, The Carlyle Group)	D/L/9	<a href="http://knowledge.wharton.upenn.edu/pe/class-06-vid.cfm">http://knowledge.wharton.upenn.edu/pe/class-06-vid.cfm</a> (accessed: 22/10/2011)
Marc Wolpov (Co-CEO, Audax Group)	CEO/M/10	<a href="http://knowledge.wharton.upenn.edu/pe/class-09-vid.cfm">http://knowledge.wharton.upenn.edu/pe/class-09-vid.cfm</a> (accessed: 22/10/2011)
Joe Rogers (Vice President, Audax Group)	VP/M/11	

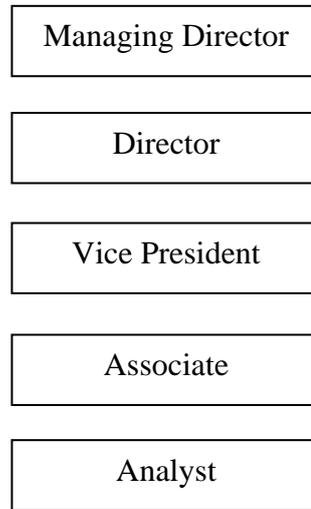
## Appendix 4: Additional interviews in the industry [which helped me further understand the PE industry]

Date	Interviewee
13 <sup>th</sup> June 2013	Partner of a large global PE asset management firm
26 <sup>th</sup> June 2013	Partner of a large global PE asset management firm
03 <sup>rd</sup> July 2013	Vice President of a large global PE asset management firm
16 <sup>th</sup> July 2013	Principal of a large global PE asset management firm
24 <sup>th</sup> July 2013	Investment Manager of a large global PE asset management firm
30 <sup>th</sup> July 2013	Senior Associate of a large global PE asset management firm

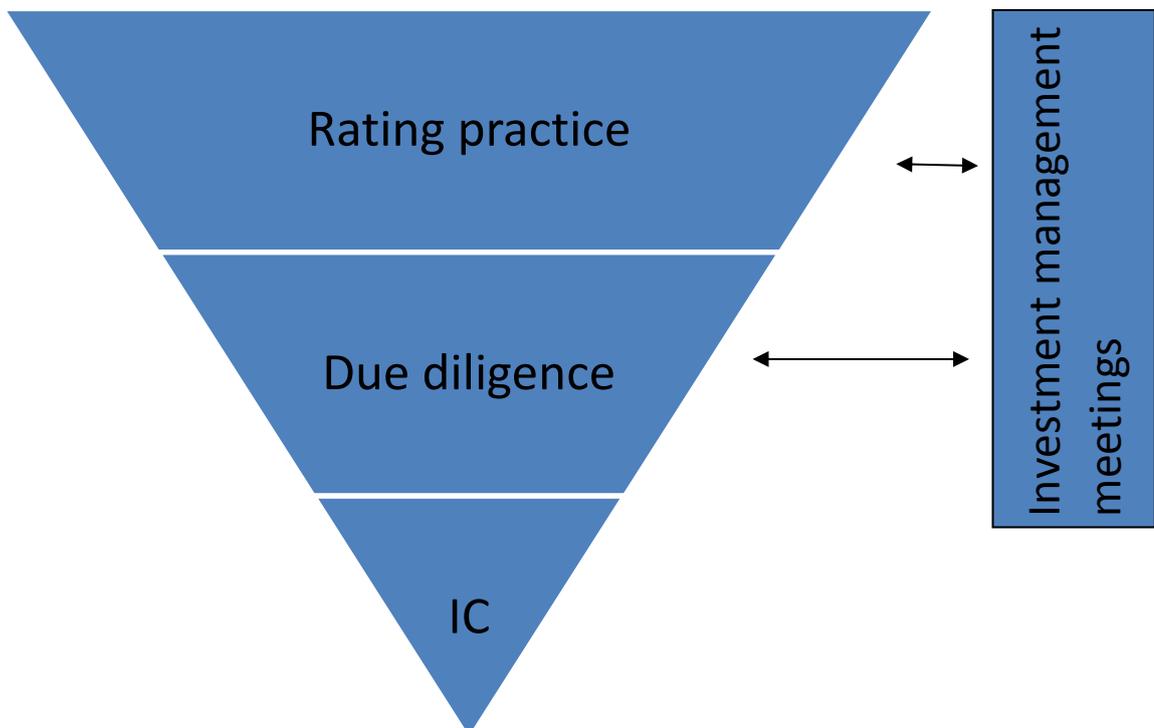
### Appendix 5: List of interviews conducted at Directors Group

<b>Date</b>	<b>Interviewee</b>	<b>Code</b>	<b>Office</b>
12 <sup>th</sup> July 2011	Managing Director and Head of Investment Management Emerging Markets, Member of product committee	MD/1	EU/1
15 <sup>th</sup> July 2011	Managing Director, Chief Financial Officer, and Chief Operating Officer	MD/2	EU/2
02 <sup>nd</sup> Nov 2011	Director and Head of the Portfolio Servicing	Director/3	EU/2
14 <sup>th</sup> Dec 2011	Vice President of the Portfolio Servicing	VP/4	EU/3
07 <sup>th</sup> Feb 2012	Director of Investment Management, Member of VC investment committee, and member of European investment committee	Director/5	EU/3
10 <sup>th</sup> Feb 2012	Associate, Investment Management	Associate/6	EU/3
21 <sup>st</sup> Feb 2012	Managing Director and Head of Investment Management Europe	MD/7	EU/3
21 <sup>st</sup> Feb 2012	Associate and Supervisor, Data Quality Management – Portfolio Servicing	Associate/8	EU/3
28 <sup>th</sup> Feb 2012	Managing Director and Co-head of Secondaries team, Member of the US buyout committee and Secondaries committee	MD/9	USA/1
02 <sup>nd</sup> Mar 2012	Vice President of Portfolio Servicing	VP/10	EU/3
06 <sup>th</sup> Mar 2012	Vice President of Investment Management – Secondaries team	VP/11	EU/2
20 <sup>th</sup> Mar 2012	Managing Director and Co-head of Co-investment	MD/12	EU/1
19 <sup>th</sup> Apr 2012	Director of Investment Management, Member of VC investment committee, and member of European investment committee	Director/5	EU/3
26 <sup>th</sup> Apr 2012	Vice President of Investment Management – Primaries team	VP/6	EU/3
04 <sup>th</sup> May 2012	Associate, Investment management	Associate/13	EU/1
13 <sup>th</sup> July 2012	Vice President of Investment Management – Secondaries team	VP/11	EU/2
13 <sup>th</sup> Nov 2012	Managing Director and Head of Investment Management Europe	MD/7	EU/3

## Appendix 6: Hierarchy within the investment management team at DG



## Appendix 7: Investment evaluation practices at DG



IC: Investment Committee

The company receives over 400-500 investment proposals from various GPs every year, which go through the rating exercise. Of these, around 60-70 proposals go through a full due diligence and the actual investments which the company makes [i.e., approved by the investment committee] are just 15-20 each year.

**Appendix 8: First part of the Investment Management template**

1.1. Investment Summary				
	Exceptional	Sound	Acceptable	Potentially weak
Manager				
Strategy				
Competitive advantage				
Track record				
Terms				
Corporate social responsibility				
1.2. Investment Merits and Concerns				
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-----				
1.3. Track record				
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Appendix 9: Illustration of DG's primaries and secondaries products

