PORTFOLIO COMPANY CEOS AS BOUNDARY SPANNERS IN PRIVATE EQUITY

AN INSTITUTIONAL LOGICS PERSPECTIVE ON INTER-ORGANIZATIONAL MANAGEMENT CONTROL

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Portfolio Company CEOs as Boundary Spanners in Private Equity: An Institutional Logics Perspective on Inter-Organizational Management Control

Abstract:

This paper responds to the call for further research into management control mechanisms (MCMs) used in inter-organizational relationships between private equity (PE) firms and portfolio companies (PCs). Drawing on a cross-sectional field study consisting of 10 PC CEOs of a large Nordic PE firm, this paper investigates how PC CEOs use inter-organizational MCMs to achieve a functional alignment between the different parties' institutional logics. By doing so, we contribute to four literatures: First, we contribute to PE management accounting (MA) literature providing evidence for two main institutional logics present in the PE-PC inter-organizational relationship: a PE logic and an operational logic. Further, expanding on previous findings, we show that the "Troika" is an MCM which provides an informal venue for inter-organizational interactions. Second, we contribute to inter-organizational literature by showing that the interplay between inter-organizational MCMs is integral to their functioning. Third, we contribute to the institutional logics literature by providing evidence that institutional complexity can be sustained across organizational boundaries. Further, we conceptualize boundary spanners as social actors who mediate between different institutional logics across organizational boundaries. Fourth, we contribute to the overall MA literature by sharing insights from multiple PC CEOs, who are considered to be a social elite group that is difficult to access.

Keywords:

Private Equity, Portfolio Company CEO, Inter-Organizational Management Control Mechanisms, Institutional Logics, Boundary Spanner

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Contents

1. Introduction

Private equity (PE) has become a significant component of global financial markets, with PE firms reporting USD 4.1 trillion in global assets as of 2020 (McKinsey, 2021). Since 2000, the PE industry has grown eight-fold, vastly outpacing other private market classes and public market equities (McKinsey, 2021). This has sparked a surge of academic interest in exploring how PE firms create alignment with their portfolio companies (PCs) (Wood & Wright, 2009; Gilligan & Wright, 2010). The prevailing research has been informed by agency theory, examining how PE firms enforce corporate governance structures and contractual arrangements to reduce agency costs and improve financial performance in PCs (Fenn et al., 1997; Kaplan & Strömberg, 2003, 2009; Wright et al., 2009). However, it has been generally recognized that PE firms adopt a far more active role in the management of their PCs (Bernstein & Sheen, 2016; Gompers et al., 2016). Surprisingly, this has largely escaped the attention of management accounting (MA) researchers. In a call for further research, scholars have investigated inter-organizational management control mechanisms (MCMs) that go beyond pure corporate governance structures and contractual arrangements. This stream has analyzed the design of such specific MCMs from a PE-level, as well as the adoption and use from a PC-level (Ditillo & Bedford, 2013; Dello Sbarba et al., 2020). However, none of the prior PE inter-organizational MCM studies have analyzed MCMs from the CEO perspective. A CEO perspective is interesting since, conceptually and structurally, the CEO is located between the PE firm and the PC (Ditillo & Bedford, 2013). Hence, researching inter-organizational MCMs from the point of view of the CEO could improve the overall understanding of inter-organizational MCMs in PE. This leads to the following research question:

How do PC CEOs use inter-organizational MCMs to achieve alignment in the inter-organizational relationship between the PE firm and the PC?

To answer the research question, we carry out a cross-sectional field study on 10 CEOs of PCs owned by NordCap, a Nordic PE firm. We analyze the empirics using an integrated framework inspired by institutional logics and inter-organizational theories. Created in the intersection between institutional and inter-organizational theories, Nicholls & Huybrechts (2016) developed five conditions for sustaining inter-organizational relationships under conflicting logics: 1) pre-hybridization of logics; 2) boundary-spanning discourse; 3) tolerance of dissonance; 4) co-creation of practices; 5) boundary objects. We have adapted Nicholls & Huybrechts' (2016) framework by first conceptualizing inter-organizational MCMs as boundary objects capable of bridging conflicting institutional logics, whilst adapting to their distinct needs. Further, we expand their framework by adding the boundary spanner as a sixth condition for sustaining inter-organizational relationships under conflicting logics. The boundary spanner is conceptualized as a social actor that uses inter-organizational MCMs as boundary objects to ensure a productive interplay between the prescriptions of inter-organizational institutional logics.

Answering the research question, the study contributes to four literatures: 1) PE MA; 2) Inter-organizational MCM; 3) Institutional logics; 4) Elite-group perspective on MA. First, we contribute to PE MA literature by providing evidence for two main institutional logics present in the PE-PC inter-organizational relationship: an PE logic and an operational logic. Additionally, expanding on the findings of Ditillo & Bedford (2013) and Dello Sbarba et al. (2020), we show that troika is an MCM which provides an informal venue for inter-organizational interactions. Second, whilst the predominant inter-organizational literature has studied inter-organizational MCMs in isolation (Caglio & Ditillo, 2008), we contribute to both PE MA literature and inter-organizational literature by finding evidence that it is important to analyze inter-organizational MCMs as part of a broader dynamic system. Third, we contribute to institutional logics literature by providing evidence that multiple logics can be sustained across organizational boundaries (Nicholls & Huybrechts, 2016). Further, building on a study by Nicholls & Huybrechts (2016), we contribute by conceptualizing the boundary spanner as an actor that plays a key role in ensuring productive interplay between incompatible prescriptions of different institutional logics. Fourth, the paper contributes to the overall MA literature by sharing MA insights from CEOs, who are considered to be an elite group that it is notoriously difficult to gain access to (Pettigrew, 1992).

The remainder of this paper is structured as follows: chapter 2 outlines the theoretical development and framework, followed by the research methodology in chapter 3 and our findings in chapter 4. Chapter 5 discusses the findings, chapter 6 presents our contributions and chapter 7 elaborates on limitations, implications and future research.

2. Theoretical Development

In this chapter, we first review the extant literature in the PE MA domain. Subsequently, we introduce the theories that we believe will facilitate the sensemaking of inter-organizational MCMs designed and used in PE-PC relationships. Finally, we integrate the theories into a framework that will guide the empirical analysis.

2.1. Private Equity Management Control Literature

A PE firm is defined as "a financial intermediary that invests only in private companies, taking an active role in monitoring and helping the companies in its portfolio with the primary goal of maximizing its financial return" (Metrick & Yasuda, 2011). The private market for equities includes several different types of investors, primarily buyout (BO) firms, venture capital (VC) firms and growth capital (GC) firms (McKinsey, 2021). Similar to previous literature on PE (e.g., Kaplan & Strömberg, 2009; Dello Sbarba et al., 2020) this report focuses on BO firms; PE and BO are therefore used interchangeably throughout this paper.

Literature on control in PE arrangements is dominated by research based on agency theory and is mainly focused on corporate governance structures and contractual arrangements (Wright et al., 2001). Examples of corporate governance structures and contractual arrangements are ownership concentration, level of debt financing (i.e., leverage) and management remuneration (Bernstein et al., 2017; Kaplan & Strömberg, 2009). The agency theorists typically compare PE ownership with public ownership and the notion is that the PE ownership model (with high ownership concentration, extensive leverage and generous managerial compensation) is superior at alleviating agency costs by reducing information asymmetries (Jensen, 1989). The agency theory PE MA literature consists of three major themes (Dello Sbarba et al., 2020): 1) ownership concentration and control over PCs (Jensen, 1986); 2) leverage and efficient financial management (Jensen, 1986); 3) rewards, incentives and alignment to shareholder value (Wright et al., 2009). Additionally, more recent agency theory research analyzes control through the lens of three categories of formal contractual arrangements: cash flow rights, control rights and liquidation rights (Ditillo & Bedford, 2013; Kaplan & Strömberg, 2003).

However, many authors argue that studies focused on contractual arrangements completely neglect other largely non-negotiable inter-organizational MCMs that go beyond governance structures and contractual arrangements (Ditillo & Bedford, 2013; Fenn et al., 1997; Nama & Lowe, 2014; Bottazzi et al., 2008; Dekker, 2004). Highlighting the importance of such MCMs, Wright et al. (2009), describe relational difficulties as a more pressing issue than the costs related to optimistic over-investment mitigated by governance structures. As a consequence, scholars have begun developing this segment of the PE MA literature. Although not as comprehensive as the agency theory domain, research on the characteristics, design and use of inter-organizational MCMs describes a range of formal and informal MCMs deployed by PE firms for the purpose of managing and controlling PCs (Dello Sbarba et al., 2020). Some acknowledged MCMs are joint business planning and goal-setting, risk and return metrics development, managerial appointments, formal and regular board meetings, frequent informal meetings and regular financial data communication (Rogers et al., 2002; Di Toma & Montanari, 2017). Ditillo & Bedford (2013) further classify the MCMs deployed by PE firms, in addition to financial contracting, according to outcome (formal), behavioral (formal) and social (informal) MCMs.

Some authors believe that the current state of the PE MA literature still only provides a partial understanding of PE inter-organizational controls. Dello Sbarba et al. (2020) and Wright et al. (2009) argue that the effectiveness of achieving control over PCs is not only dependent on the technical features of MCMs, but also on social aspects; for example, the social processes by which the MCMs are put in place and used. The importance of social processes for successful PE-PC relationships is supported by Ahlers et al. (2017), who underscore trust and goal congruence as critical drivers for deal success. Graebner & Eisenhardt (2004) build on this, as their findings suggest a high reliance on inter-organizational MCMs to deal with conflicts in PE-PC relationships, rather than relying on governance structures (e.g., board votes).

To address this knowledge gap, Dello Sbarba et al. (2020) perform a study guided by institutional theory into how PE partners act as change agents "with the aim [of] promoting and sustaining the shareholder focused frame and ensuring an effective alignment of PCs". Their findings suggest that PE firms "view MCMs as tools for supporting the frame alignment in inter-organizational relationships and generating consensus with their portfolio firms". Furthermore, they recognize that PE firms adjust the MCMs depending on the PC characteristics (e.g., prior ownership) and this might lead to a frame blending instead of the preferred frame shifting. Albeit an immensely valuable contribution to PE MA literature, Dello Sbarba et al. (2020) focus solely on the PE firm level and do not elaborate on the social processes surrounding MCMs from the PC's point of view, nor how they influence the use of MCMs in PCs. To conclude, we recognize that there is a call for further research into MCMs used in inter-organizational relationships between PE firms and PCs. In particular, based on the findings of Dello Sbarba et al. (2020), there is evidence that the PE-PC relationship is strongly influenced by each party's unique demands and pressures. These influence the social processes by which inter-organizational MCMs are designed and used in the inter-organizational relationships, and thus are important to analyze.

2.2. Theoretical Framework

2.2.1. Institutional Logics and Institutional Complexity

As argued above, organizations do not operate in isolation and often face pressures to adhere to the demands of diverse stakeholders (Pache & Santos, 2013; Carlsson-Wall et al., 2016). Institutional theory categorizes these sets of demands into institutional logics (Friedland & Alford, 1991; Tolbert et al., 2011). Institutional logics are groups of taken-for-granted social prescriptions that specify legitimate organizational goals, templates for how these goals should be achieved, and more broadly serve as belief systems to guide organizational decision-making (Friedland & Alford, 1991; Tolbert et al., 2011; Pahnke et al., 2015; Carlsson-Wall et al., 2016). The research into institutional logics has identified a variety of logics which organizations are subject to, including a sports logic in football clubs (Carlsson-Wall et al., 2016), a professional logic in public schools (Ezzamel et al., 2012) and a shareholder-value logic in public firms (Ezzamel et al., 2008). Whereas early research found that organizations adopted a single dominant logic (DiMaggio, 1983), later research suggests that individuals and organizations constantly face internal and external pressure to enact multiple logics (Lounsbury, 2007; Smets & Jarzabkowski, 2013).

Organizations are continually confronted with the challenge of institutional complexity; namely, dealing with tensions from multiple institutional logics (Smets & Jarzabkowski, 2013). First, organizations face external tensions which stem from a need to gain legitimacy from different stakeholders that hold different institutional logics (Busco et al., 2017). Second, organizations must work with internal tensions that emerge from organizational members sustaining different logics (Battilana & Dorado, 2010). Existing research on the implications of multiple institutional logics on organizations has been contradictory. Some studies find co-existence between multiple logics (McPherson & Sauder, 2013) whilst others find inherent clashes and conflict (Battilana & Dorado, 2010; Schäffer et al., 2015), and some studies have found the emergence of synergies, such as innovation and endurance (Jay, 2013; Pahnke et al., 2015). According to Raynard & Greenwood (2014) different organizational outcomes in response to institutional complexity can be explained by the degree of incompatibility between the demands of multiple logics, whether a common prioritization of logics exists within a field, and the level of overlap across the jurisdictional claims of multiple logics. The current analytic focus on institutional complexity has predominantly focused on how actors within a single organization, from a micro or field perspective, handle the presence of multiple and potentially conflicting institutional logics (Guston, 2001; Thornton, 2004; Murray, 2010; Schäffer et al., 2015). In contrast, very little literature has used institutional logics theory to explore the "dynamics of the interactions between organizations that embody opposing or contradictory institutional logics" (Nicholls & Huybrechts, 2016).

2.2.2. Inter-Organizational Relationships

As mentioned above, what has been less clear in current institutional logics theory is the impact of institutional complexity on inter-organizational relationships. Earlier research has theorized that institutional complexity across inter-organizational relationships leads to the dominance of one of the logics at the field level (Ostrom 1990). The prevailing assumption is that inter-organizational relationships reflect underlying power dynamics, with the resource-rich actor imposing the "rules" of the relationship and marginalizing the logic of the other actor (Nicholls & Huybrechts, 2016). Consequently, there is little literature on how conflicting logics can persist and be managed within inter-organizational relationships. This is surprising, since inter-organizational relationships often reflect different institutional arrangements, as they depend on coordination between the rules, goals and resources of the two organizations (Phillips et al., 2000). This is particularly relevant in the PE setting since the PE-PC relationship can be seen as an interdependent partnership where each party contributes unique and valuable resources (Ditillo & Bedford, 2013; Graebner & Eisenhardt, 2004). Evidence does, however, exist that conflicting logics can persist in an inter-organizational relationship (Huybrechts & Nicholls, 2013).

Recently, Nicholls & Huybrechts (2016) outlined five propositions that are necessary for functional asymmetric and cross-logic relationships. First, it is essential that there already exists a *pre-hybridization* of each organization's logic, priming it to collaborate with the other logic. Second, it is integral that *boundary-spanning discourses* are available that appeal to both logics. Third, there should be a degree of *tolerance* in both organizations for conflict and power asymmetry in the relationship. This is possible when both partners can justify the inter-organizational relationship in the "context of higher-end objectives." Fourth, there must exist the possibility for each partner to *co-create rules and practices at the boundary*. Fifth, instrumental to the possibility of the first four propositions, is the establishment of *boundary objects*. Boundary objects provide a venue in which power relations can be enacted. Furthermore, they allow the reading of alternative meanings between groups rooted in different institutional logics, which promotes collaborative work (Busco et al., 2017).

Inter-organizational theory has researched boundary spanners, i.e., actors that define and manage activities that span the boundary between firms (Anacona, 1990; Thambar et al., 2019). Interestingly enough, very little literature has focused on how such actors may play a key role in ensuring the productive interplay between the incompatible prescriptions of different institutional logics across organizations (Nederhand, 2019). There is no general consensus on what qualifies an organizational actor to be a boundary spanner (Nederhand, 2019). Building on current literature, their unique role as mediators of institutional complexity may be enabled by their timely access to diverse information and power to enact strategic change (Burt, 2004; Shi et al., 2009; Glaser et al., 2015). The majority of authors argue that the primary determinant is the actor's structural position within the organizational structure (Fernandez & Gould, 1994; Tushman & Scanlan, 1981). However, some define boundary spanning as an activity that is not confined to a specific organizational position (Levina & Vaast, 2005; Quick & Feldman, 2014). Factors that influence the effectiveness of boundary-spanning include the extent to which the actor identifies with both organizations and the degree of inter-organizational contact that the actor has (Thambar et al., 2019). Overall, previous literature suggests that an actor's ability to be a boundary spanner is contingent on the following factors: 1) Degree of identification with both organizations; 2) Structural position in the inter-organizational relationship; 3) Degree of inter-organizational contact; 4) Power to enact strategic change; 5) Timely access to diverse information from both organizations.

2.2.3. PC CEOs as Boundary Spanners

In this section, we integrate institutional logics and inter-organizational theory. First, we integrate Nicholls & Huybrechts' (2016) five propositions as conditions by which conflicting logics can persist across inter-organizational relationships. Their five conditions for boundary-spanning are: 1) pre-hybridization; 2) boundary-spanning discourse; 3) tolerance of dissonance; 4) co-creation of practices; 5) boundary objects, venues in which power relations can be enacted. As part of this integration, we conceptualize inter-organizational MCMs as boundary objects, through which the other four conditions can be achieved (pre-hybridization, boundary-spanning discourse, tolerance of dissonance, co-creation of practices). Boundary objects are characterized by their ability to bring together different institutional logics whilst adapting to their distinct and sometimes conflicting needs (Busco et al., 2017). Whilst some previous literature in PE has focused on inter-organizational MCMs (Ditillo & Bedford, 2013; Dello Sbarba et al., 2020), there has been a gap in understanding how such mechanisms are designed and used in order to appeal to institutional complexity in the inter-organizational relationship. Second, we introduce a sixth condition to Nicholls & Huybrechts' (2016) framework, the presence of a boundary spanner. Boundary spanners are conceptualized as actors that play a key role in ensuring the productive interplay between the incompatible prescriptions of different institutional logics that span the boundary between firms. We conceptualize PC CEOs as possible boundary spanners and evaluate their compatibility to the theory based on five factors: 1) Degree of identification with both organizations; 2) Structural position in the inter-organizational relationship; 3) Degree of inter-organizational contact; 4) Power to enact strategic change; 5) Timely access to diverse information from both organizations. See below for a graphical illustration of our integrated theoretical framework.

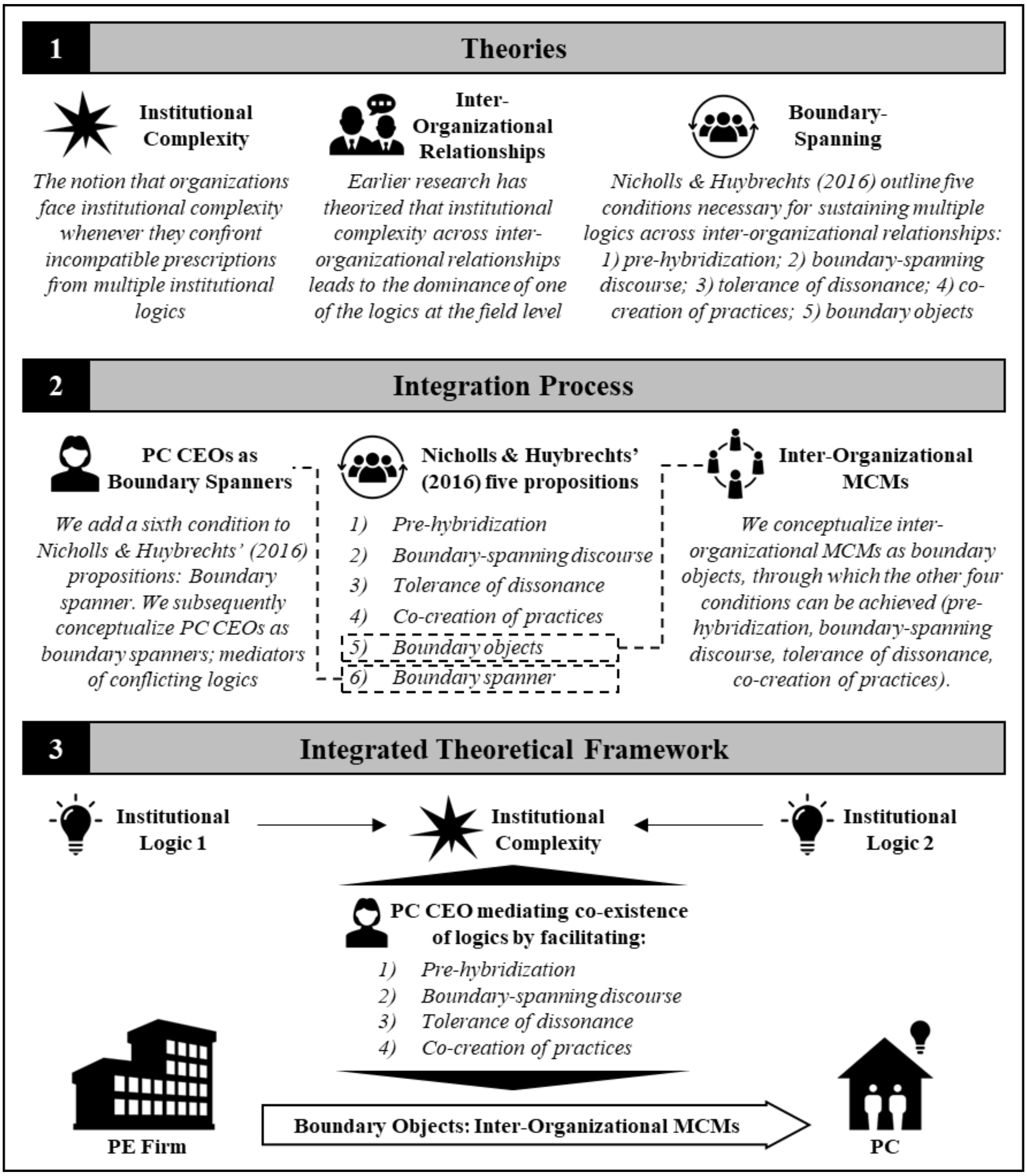

Figure 1. Illustration of integrated theoretical framework together with the integration process, authors' creation.

3. Methodology

This chapter describes the applied research methodology. Section 3.1 introduces and motivates the choice of research design, whereas section 3.2 and 3.3 present and reflect on the processes of collecting and analyzing data. Finally, section 3.4 elaborates on the research quality.

3.1. Research Design

This research paper is carried out as a cross-sectional field study on CEOs in PE PCs. The majority of MA literature has focused on single-case studies, since such studies allow for in-depth research (Dyer & Wilkins, 1991). However, by focusing on a large sample of participants, a cross-sectional field study enables us to use the insights of different comparable participants to confirm or disconfirm insights produced by other participants (Cooper & Morgan, 2008; Yin, 2009; Caglio & Ditillo, 2017). As such, this improves the reliability of our results and allows us to move beyond the practices of a single participant and produce more generalizable results (Lillis & Mundy, 2005). A multiple-case study was considered but was rejected on the grounds of accessibility and data quality concerns. All of the CEOs requested anonymity and a promise not to involve PE partners. Building on that, we also reasoned that involving other relevant stakeholders could constrain the level of outspokenness of the participants.

The empirical focus for this study is PC CEOs under the ownership of a large Nordic BO firm. Our motivation for focusing on a Nordic BO firm was made for four reasons. First, the majority ownership element in the leveraged buyout model allows the BO investors to exert more direct control over the inter-organizational MCMs, possibly amplifying the tensions in the PE-PC relationship. Indeed, PE firms with a controlling stake typically take on a more interventionist approach with respect to their PCs (Ditillo & Bedford, 2013). Second, focusing on one large Nordic PE firm naturally controls certain factors such as PC size, investment focus and geographical context. Third, the predominant literature on PE is on BOs (e.g., Kaplan & Strömberg, 2009; Dello Sbarba et al., 2020) and thus focusing on BOs facilitates comparison and discussion vis-à-vis existing literature.

3.2. Data Collection

The primary data source consisted of 10 semi-structured interviews with current and past CEOs in current and divested PCs under a Nordic PE firm. As a starting point to our empirical collection, a list of Nordic PE firms with funds greater than EUR 1bn was compiled. Thereafter, a dataset was made of current and divested (at the earliest 2015) portfolio companies for each PE firm. Subsequently, we made a list of current and past

CEOs in each portfolio company, including relevant contact information, such as phone number, email, and LinkedIn profiles. We then approached CEOs randomly and, upon gaining traction with CEOs in PCs owned by a particular PE firm, focus was shifted to this firm. In order to ensure the likelihood of a CEO accepting an interview, the CEOs were approached without direct contact with the PE firm and full anonymity was promised for the CEO including the portfolio company and PE firm.

The semi-structured approach was chosen to give CEOs maximum flexibility to express themselves according to their own interpretative schemes (Barlow, 2010). Our interviews addressed four main themes: the role of the CEO, differences between the PE and PC, PE-designed MCMs and CEO use of designed MCMs. The first theme investigates the role the CEO plays in the PC, as well as in the relationship with the PE firm. The second theme explores the differences in norms, objectives, and values between the PE firm and PC in order to ascertain the institutional logics of each party. The third theme analyzes, on the basis of the identified logics, the inter-organizational MCMs that are designed by the PE firm. Finally, the fourth theme is concerned with understanding how the CEO uses the designed inter-organizational MCMs in order to act as a boundary spanner. Consistent with a semi-structured approach, our interview subjects were allowed to discuss each theme extensively, while we asked occasional questions based on the flow of their thoughts. All interviews were conducted in English and notes were taken during the interview. No recordings were made, at the interviewees' behest. On average, an interview lasted between 45 and 70 min. To complement the primary data, we collected insights from the PE firm's website regarding investment strategy and PC characteristics. For a full list of interview participants, see Appendix 1 (section 9.1).

3.3. Data Analysis

We applied an abductive research approach, where data collection, analysis and theoretical development were continuously developed and iterated throughout the research period (Ahrens & Chapman, 2006; Dubois & Gadde, 2002; Lukka, 2014; Lukka & Modell, 2010). According to many scholars, this is the preferred approach when pragmatically researching a new phenomenon with limited extant research or readily available theoretical frameworks (Lukka & Modell, 2010; Mitchell, 2018). According to Mitchell (2018), abductive reasoning is the process of "taking incomplete observations from experience and reality that may then lead to a best prediction of the truth, and perhaps even to a new theory." The other two common methodologies, deductive and inductive approaches, were deemed inappropriate, since they would not allow for the same flexibility, i.e., to move back and forth between data and theory (Jørgensen & Messner, 2010). The abductive approach is essentially a mix between the deductive and inductive approaches. The inductive approach starts with a data set, with the purpose of creating a new theory, and the deductive approach applies an existing theoretical framework to a new data set (Iredahl & Wiklund, 2016).

The empirical data was manually transcribed, transferred into Excel and subsequently analyzed and categorized with the support of the theoretical framework. Each interview was analyzed and coded in terms of inter-organizational MCM data (design, use and boundary-spanning activities) and institutional logics data using the framework by Thornton et al. (2005). The data was then thematically grouped, which enabled observations of different institutional logics, and comparative analysis of inter-organizational MCM practices across different PCs and CEOs. The basis for the analysis was sections of text, rather than single keywords or phrases. Consequently, discretion-based classification was necessary but was preceded by thoughtful discussions, guided by the theoretical framework. Furthermore, the coding procedure was done iteratively and new classifications, especially inter-organizational MCM practices, emerged throughout the interview and analysis process. Emergent findings were also constantly compared to the extant literature, which enabled an analysis with greater theoretical support and awareness of potential contributions, as suggested by Lukka & Modell (2010).

3.4. Research Quality

Traditionally, scholars have evaluated research quality based on validity, reliability and generalizability (Dubois & Gadde, 2014). However, the criteria were first developed for the purpose of evaluating quantitative research, and a large number of researchers have therefore elaborated on other criteria better suited for qualitative research (Lincoln & Guba, 2000; Ahrens & Chapman, 2006; Lukka & Modell, 2010, Lukka, 2014). Following these calls for better tools for assessing the quality of qualitative research, authenticity and plausibility emerged as more appropriate evaluation criteria (Lukka & Modell, 2010). Authenticity refers to the trustworthiness of the findings, whereas plausibility refers to the perceived likelihood and accuracy of the findings. Authenticity can be increased by conveying the realities of multiple interviewees. Conversely, plausibility can be improved by sensibly illuminating the most likely explanations. As such, there is a tension between the two quality assessment criteria (Iredahl & Wiklund, 2016).

We took certain measures, in line with the guidelines of Lukka & Modell (2010), to achieve a healthy balance between the criteria while ensuring the overall integrity of our findings. First, by using the abductive approach, together with a well-documented analysis process, we enable both a rich description of the empirics and a sensibly condensed explanation. Second, to improve authenticity in particular, we include a large number of long quotes from most of our interviewees, sometimes contradictory to one another, thereby allowing the reader to form his or her own interpretation of the data. Finally, to enhance plausibility we conduct the analysis according to a transparent, documented and structured process, thus enabling the reader to challenge our conclusions.

4. Findings

4.1. Case Companies

NordCap (a fictitious name) is a Nordic PE firm specialized in BOs of large and medium-sized companies in diverse industries, primarily across Western Europe. Acting under a broad investment mandate, NordCap performs many different types of BOs, including public-to-private-, divisional-, succession- and secondary BOs. Furthermore, the company is organized according to the limited partnership model, meaning that it raises and manages external capital through PE funds and, in return, earns management and performance fees. NordCap's most recent fund exceeds EUR 1bn in committed capital and its investor base is primarily made up of institutional investors, of which pension funds account for around 50% of the committed capital. Another implication of the limited partnership model is that NordCap has a fairly short holding period, whereby it typically owns companies for three to seven years before exiting the investment. During the ownership period, NordCap takes an active ownership role with the strategy of increasing the value of PCs by structural and operational improvement, mergers and acquisitions (M&A), geographic expansion and strategic repositioning. As part of its investment team, NordCap employs over 100 investment professionals. Each of its partners and senior employees has a background in either investment banking (c. 70%) or management consulting (c. 30%), and, apart from a few engineers, all have degrees from elite Nordic business schools.

The 10 PCs in this study are former and current PCs of NordCap, active in a range of different sectors, such as consumer goods and services, financial services and healthcare. NordCap's investment rationale for acquiring the PCs is very similar among the companies, emphasizing growth by M&A, strategic repositioning and operational excellence as key focus areas. To illustrate the size of the PCs, most firms have revenues of around EUR 2-500m and 500 to 3,500 employees, with a couple of larger outliers. In line with NordCap's geographical focus area, most PCs are headquartered in the Nordic region, but often with operations spanning large parts of Europe and sometimes beyond. The majority of the PCs were acquired by other PE firms, so called secondary BOs. However, three of the PCs were acquired through succession-, divisional- and public-to-private BOs. In all cases, NordCap obtained a controlling stake in the PC. For a more detailed overview of the different PCs' characteristics, please see Appendix 2 (section 9.2).

4.2. Evidence of Conflicting Institutional Logics

This section investigates the potentially conflicting institutional logics that CEOs face within the PE-PC inter-organizational relationship. We structure the analysis according to three categories inspired by Thornton et al. (2012), Ocasio (1997) and Glynn (2008): basis of norms, basis of strategy and basis of attention.

The interviewed CEOs unanimously describe very different and distinct norms between NordCap and the PCs. NordCap is described as an organization where an elite business school degree, together with prior experience in investment banking or management consulting, is required to become a member, whereas industrial and commercial experience are most highly recognized as membership criteria for the PCs. As emphasized by CEO B:

> "The typical PE path is to study at SSE and then work in consulting or investment banking. Once you are in PE, it takes you 8-10 years to be a partner. What do you do in those 8-10 years? You evaluate investment opportunities and you have dialogues with banks in relation to the new acquisitions and are involved in exit processes. But you have not been taught to see a company beyond an Excel spreadsheet. For us [the PC], it is completely different: we hire because of certain skills or knowledge." (CEO B)

Similarly, CEOs also emphasize different bases of legitimacy for NordCap and for the PCs. The PE partners obtain legitimacy through their reputation from successful investments, whereas PC employees are more likely to obtain legitimacy from operational and commercial success, as illustrated by the following quote:

> "PE is about managing other people's money. PE partners are driven by a fear of losing face with investors, since they are dependent on a continuous inflow of external capital for their bread and butter. On the contrary, our [PC J] worst nightmare would be to not meet clients' needs or to be overtaken [in terms of performance] by other competitors." (CEO J)

Regarding the basis of strategy, the CEOs continue to describe differences between the NordCap and the PCs. NordCap and its PE partners are described as financial experts with a lot of accessible resources in terms of advisors and capital.

> "NordCap makes sophisticated models that help you understand the business much better. They're also experts in M&A and do all of the due-diligence, price negotiations, and the legal and boring stuff. Furthermore, they professionalize the finance function in the PC. General reporting, prediction, and cash flow optimization increased greatly under their ownership." (CEO C)

Conversely, CEOs describe the PCs as more skilled at operating the company, since they are more knowledgeable of the industry and the PC in particular:

> "PE tends to be financial specialists but do not have any industrial or operational experience. They trust that we [PC H] will bring the relevant operational experience to the table." (CEO H)

Similar to norms and strategy, the CEOs describe different bases of attention. One important aspect frequently mentioned is the time horizon. NordCap appears to recognize fast shareholder value appreciation as the definition of success, while long-term operational success is the general definition among PCs.

> "The PE is fully focused on generating shareholder value by the exit in 3-7 years. I focus on the long-term operations beyond the exit date." (CEO C)

Furthermore, when investigating where the different parties focus their efforts, it becomes apparent that PE partners take a more financial and academic approach, according to the CEOs, emphasizing financial KPIs, number crunching in Excel and conceptualizing strategic initiatives in PowerPoint.

> "Being schooled in investment banking and management consulting, PE measures everything in financial terms. They get insecure if something is not being measured, and try to make all their strategic decisions through Microsoft Excel or consulting slides." (CEO A)

On the other hand, CEOs promote operational metrics, human capital and execution of strategy as the main success factors for PCs.

> "Leadership is the number one focus. It means getting people to follow you by buying in and feeling engaged with the company and the business-plan. It also involves simpler aspects, such as turning up on time, insisting that meetings have agendas and structures, having a clear moral compass and integrity, and being open to change." (CEO D)

Altogether, two distinct and conflicting logics are observed in the inter-organizational relationship between NordCap and the PCs, henceforth called PE logic and Operational logic.

	Attributes	PE Logic	Operational Logic
Basis of Norms	Membership Criteria	Degree from elite business school and experience from management consulting or investment banking	Experience running companies and industrial and technical competence
	Legitimacy	Reputation from successful investment track record	Reputation from commercial and technical success
	Authority Structure	Small hierarchical partnership structure with high autonomy in decision-making	Different organizational forms with top management as the highest executive power
Basis of Strategy	Identity	Highly committed investment professional	Business developer
	Strengths	Experts at finance, formalizing processes and professionalizing PCs, access to a large network of external advisors / professionals	Technical and industrial expertise, extensive familiarity with the business
Basis of Attention	How to Succeed	Increase shareholder value of PC over limited investment period	Enhance operational performance over the long term
	Where to Focus	Financial metrics, number crunching (Excel), conceptualizing business initiatives (PowerPoint)	Operational metrics, execution of business initiatives, human capital

Table 1. Overview of observed institutional logics.

4.3. PC CEOs' Ability to Act as Boundary Spanners

In this section, we detail evidence for PC CEOs' ability to act as boundary spanners in the inter-organizational relationship between NordCap and PCs. The analysis is structured according to the five conditions outlined in the theoretical framework: 1) Degree of identification with both organizations; 2) Structural position in the inter-organizational relationship; 3) Degree of inter-organizational contact; 4) Power to enact strategic change; 5) Timely access to diverse information from both organizations.

The CEO is appointed by the board of directors, and indirectly by the shareholders who elect the board of directors (Ditillo & Bedford, 2013). Although elected by the board of directors and the owners, the CEO is expected to exercise operational integrity when managing the company, as expressed by CEO B:

> "NordCap hired me execute their strategy which I support. But when it comes to operations, I am in charge and know what is best for the company." (CEO B)

Hence, CEOs seem to identify with both organizations, although more with the PC than the NordCap. Furthermore, by contract, the CEO is the highest-ranking executive officer in a company, and one main function of the CEO is to be the main point of contact between the board of directors and the owners (Ditillo & Bedford, 2013). This implies that the PC CEO role is located between the PE firm and the PC, and that the role involves significant inter-organizational contact. Other PC CEO responsibilities include taking major decisions and managing the company's operations and resources (Ditillo & Bedford, 2013). A prerequisite for doing this is unlimited access to relevant data from both the PE firms and the PC, as emphasized by CEO I:

> "Every decision has to be supported by data, and our reporting and communication has significantly improved with NordCap as owner." (CEO I)

Hence, the empirics also support the principle that CEOs have the power to enact strategic change and have access to timely data from both organizations. Following this analysis, it becomes clear that the PC CEO satisfies all the parameters outlined in the previous literature as conditions for a social actor to act as a boundary spanner.

4.4. Boundary Objects: PE Inter-Organizational MCMs Design

In this section, we detail the PE inter-organizational MCMs design based on three main inter-organizational MCMs that were apparent across all case companies; joint business planning, performance reporting and troika meetings. These MCMs were confirmed by the CEOs to be designed by NordCap.

4.4.1. Boundary Object 1: Joint Business Planning

The joint business planning MCM involves a series of meetings between key stakeholders, which occur both prior to and directly after the acquisition of the PC (initial joint business planning), as well as regularly during the ownership period (continuous joint business planning). The preliminary stage of the initial joint business planning consists of clarifying the investment thesis for the main actors, in order to ensure that all parties have a shared understanding of the company's direction. This is followed by relationship-building activities, in which the personal styles of the main actors are matched. Subsequently, a five-year business plan is developed which clearly defines the strategic objectives and the means for reaching these objectives.

> "We [CEO and PE partners] formed the business plan prior to the acquisition. We all knew what we had to do and how we were going to do it. The plan incorporated many different things including strategy, budget, investments, employees and other organizational topics." (CEO H)

During the ownership period, continuous joint planning is used to revise the business plan on the basis of changing internal and external conditions.

> "The business plan is a living document. Several revisions are made as we gain experience and as the business landscape changes." (CEO C)

The purpose of the activities within this MCM seems to be to formulate a commitment to shared-objectives for the two logics as a core-value. This may be intended to serve as a basis for trust and cooperation across the NordCap and PCs throughout the ownership period. The five-year business plan also delineates boundaries for the operational and PE logics by clarifying what is and is not allowed, which is intended to reduce institutional clashes.

4.4.2. Boundary Object 2: Performance Reporting

After establishing consensus between the different logics through business planning, NordCap imposes comprehensive financial reporting requirements on the PC, a practice described by CEO F as a "managing-by-numbers approach". The financial reporting is relatively standardized across the PCs, focusing on KPIs related to several measures that are important to the PE logic, such as profitability, cash flow, and working capital.

> "NordCap is typically very good at evaluating performance and they have a lot of demands for KPIs." (CEO E)

Integral to the functioning of the extensive financial reporting system in the PCs are financial incentives. We observed that incentives were tied to both short-term and long-term key-financial metrics, such as annual turnover, profit and cash flow.

> "Nordcap tied the management incentives to key financial indicators such as EBITDA, a key cash-creating measure for them" (CEO D)

The purpose of imposing a financially driven reporting system is possibly to transmit the PE logic into the inter-organizational relationship, and have it serve as the basis for decision making. Furthermore, having incentives tied to the financial KPIs may serve as a "constraint" on the CEOs to ensure that they act in line with the PE logic, and do not focus exclusively on the operational logic. CEO B, for example, emphasized:

> "The NordCap's financial incentive scheme gives us a sense of having skin in the game, definitely meant to ensure that we are aligned with their financial objectives." (CEO B)

4.4.3. Boundary Object 3: Troika Meetings

The final component of the MCM design is the "troika", which is intended to play a unique role in managing the inter-organizational institutional complexity. The troika is composed of three main actors: The Chairman, a partner from NordCap, and the CEO of the PC. The troika is designed to be a forum where the CEO, the Chairman, and the PE Partner have regular informal conversations about the business.

> "The troika model consists of the CEO, chairman of the board, and the investment partners. I like to call it a mini-board that can be agile, question assumptions of the PC's strategy, and make big decisions flexibly." (CEO I)

Purposely, it has no specific agenda and thus, presumably, it is not intended that a single logic should dominate or lead a compromise between the logics in the inter-organizational relationship. Instead, it is intended to serve as a medium in which the logics can be leveraged and exploited depending on unique situations that arise during the ownership period. As CEO E said, which was confirmed by other CEOs:

> "The troika meetings occurred on 6 occasions between each board-meeting. These meetings were extremely dynamic, where both the NordCap partner and I bounced ideas off each other." (CEO E)

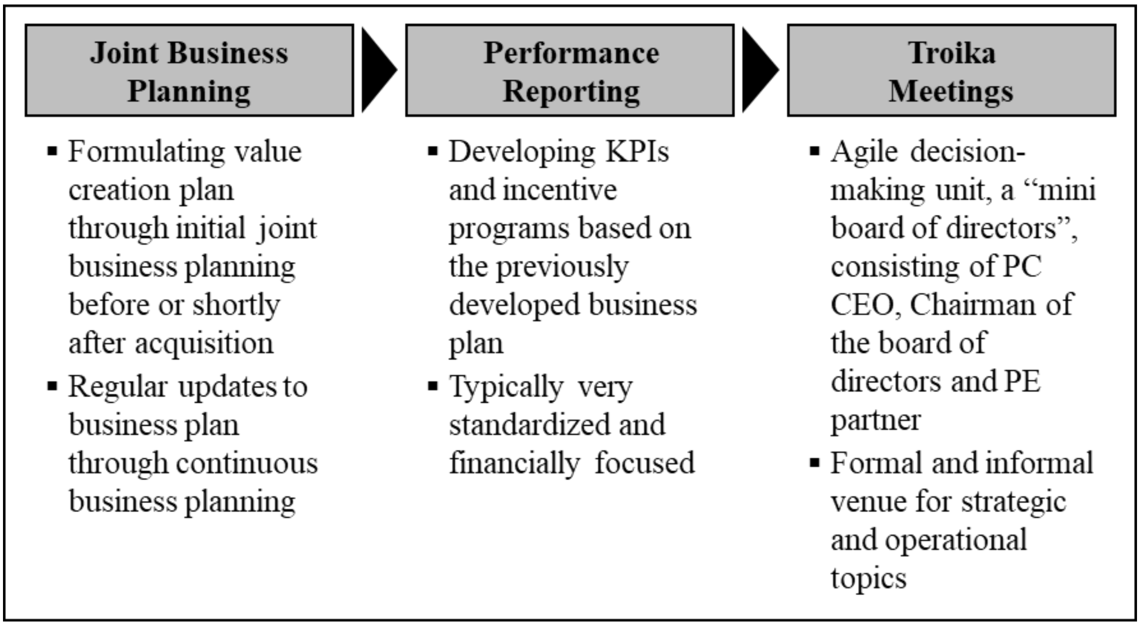

Figure 2. Illustration of PE design of key inter-organizational MCMs, authors' creation.

4.5. CEO Boundary-Spanning: Alignment in PE-PC Relationship

The current section investigates how the PC CEOs use the previously described inter-organizational MCMs to achieve alignment between the PE and operational logic in the inter-organizational relationship. The analysis is done according to Nicholls & Huybrechts' (2016) five propositions. This section is based on empirics collected from nine of the ten CEOs (CEO B, C, D, E, F, G, H, I, J) as the CEOs achieved an alignment in the PE-PC relationship. In section 4.6, we expand on a case (CEO A) where misalignment occurred in the PE-PC relationship.

4.5.1. Pre-Hybridization: Initial Joint Business Planning

Nicholls & Huybrechts (2016) suggest that the first condition for the persistence of conflicting logics in inter-organizational relationships is pre-existing hybridization of each party's logic. The description closely resembles the objectives emphasized by CEOs in relation to the initial joint business planning, taking place before or shortly after NordCap acquires a new PC. The CEOs describe the initial joint business planning as the first meeting of the operational and PE logics, in which both institutional actors "share information, get to know each other and align ambitions" (CEO C). NordCap partners tended to rely on "spreadsheets and consulting slides" as rationales for strategic objectives, reflecting their background within the investment banking and management consulting professions. Hence, they were sometimes insensitive to the operational trade-offs required to realize these objectives:

> "After the acquisition, NordCap made an Excel model that is highly theoretical and often pragmatically challenging. They missed the operations and human capital side required to achieve the objectives." (CEO G)

Another source of tension between the logics were the differing time horizons. NordCap often had a short-term focus:

> "Their models expect everything to develop linearly and quickly. They can be afraid of taking measures that negatively impact cash flows in the short run but that can create value in the long run." (CEO J)

On the other hand, the CEOs used the forum to leverage their knowledge about the "PCs business model, market conditions, and the stakeholders" (CEO B) as a counterpoint to the PE logic. As such, the joint business planning involved a push and pull process between the CEO and the PE partners in order to ensure the influence of each actor's logic in the inter-organizational relationship. Overall, most CEOs had positive experiences of the initial joint planning phase and underscored that a key factor for alignment was the adoption of a broader lens:

> "Initially, we were quite far from each other, both in terms of culture, ambition and the way we worked. But as time went on, we started to form an understanding of each other and were able to find ways of working that appealed to both sides. [...] NordCap started to talk more in terms of the business and the customers and we adopted a more financial discourse in our interaction, since we realized that was what appealed to them. This levelled the playing field, which enabled us to reach a common ground." (CEO I)

Furthermore, the initial joint business planning, by aligning ambitions and objectives, impacted the performance reporting.

4.5.2. Boundary-Spanning Discourse: Performance Reporting

The second condition suggested by Nicholls & Huybrechts (2016) is the prevalence of boundary-spanning discourse, i.e., discourse that appeals to both logics. We observed boundary-spanning discourse in all the three inter-organizational MCMs, but the CEO's influence was most apparent in the performance reporting MCM. The general consensus across the majority of interviewed PC CEOs was that NordCap's performance reporting system was over-extensive. As concisely put by one of the interviewees:

> "NordCap gives you a burner phone so they can always hunt you down and request performance updates - it is just part of the PE game." (CEO D)

An initial reaction by the CEOs to working under NordCap was that many of its KPIs were often based on theoretical notions that did not necessarily align with the operational reality of the PC. This pressured the PC CEOs to focus extensively on reporting and chasing what they perceived to be valueless initiatives.

> "When the owner is not knowledgeable about the industry it is easy to focus only on the numbers and request unreasonable amounts of data. It does not add any value, just contributes to more reporting." (CEO H)

Furthermore, KPIs designed within the MCM were predominantly financial in nature and consequently did not reflect an operational logic. As such, these KPIs were often perceived as "lagging", namely used to assess the PC's current position, rather than being "leading" and consequently measuring initiatives that could create value.

The CEO as a boundary spanner, therefore, has to manage the resultant tensions to ensure an optimal balance between the two logics within the PE-PC relationship. A frequently observed reaction was to demand a simplification of the performance reporting system such that it only focused on the main financial targets.

> "I made it so that the reporting system used during the joint-meetings focused only on the most important financial KPIs, such as EBITDA (cash-creating measure). This minimized the reporting time, allowed us to focus more on the operations, and kept the owners happy, as they were able to be continually updated on their most cherished targets." (CEO H)

Furthermore, all of the CEOs balanced the financial indicators with both operational and leading indicators. As one interviewee stated:

> "We need leading indicators to ensure that we are taking the right steps to achieve what the PC needs." (CEO B)

The purpose of this was to ensure that the PC was being guided by the operational initiatives set in the business plan. By tempering the performance reporting system, and ensuring that an operational logic was reflected in it, the CEO was able to mitigate an over-dominant focus on "financial numbers" pervading the inter-organizational relationship to the detriment of an operational focus. Furthermore, it allowed the CEO to leverage the performance-reporting MCM to facilitate boundary-spanning discourse during the subsequent and frequent troika meetings.

4.5.3. Tolerance of Dissonance & Co-Creation of Practices: Troika Meetings

The final conditions for sustaining conflicting logics in inter-organizational relationships are tolerance of dissonance, i.e., conflict and power asymmetries, and co-creation of rules and practices. While we observed such measures across all inter-organizational MCMs, it was most prominent in the troika meetings MCM. The troika meetings were perceived positively by the majority of CEOs. They were used as "a venue where I (CEO) could talk with the chairman and the PE partner and freely discuss the direction of the company" (CEO E). Whilst the intended design does not position the troika as a replacement of the board, many of the CEOs confirmed that they turned it into the "main executive power which enabled making quick changes without going through long processes" (CEO C).

The Troika meetings also frequently occurred as informal hour-long weekly phone conversations between the CEO, PE partners, and the chairman of the board. These recurring interactions served to improve the relationship between the different institutional actors, thereby facilitating co-decision making between the different logics. A prime example of such co-decision making drawn from the empirics was discussions regarding making adjustments to the business plan. As one CEO explained:

> "The business plan set by the management team and NordCap was based on a whole set of assumptions. Later, we found that some of the assumptions were either too conservative or too ambitious." (CEO F)

The troika meeting, via continuous joint business planning, allows the business plan to be a "living-document." This means that the business plan's core assumptions are up for debate during the troika meetings, giving the CEO and the PE partners a forum to freely enact their logics together to influence the business-plan, and thereby also influence the performance reporting system (e.g., targets).

4.5.4. Summary Analysis

Our findings support that the CEO, indeed, acts as a boundary spanner. The findings suggest that CEOs use the three observed MCMs as boundary objects. They use them to achieve the remaining four conditions outlined by Nicholls & Huybrechts (2016) as critical for aligning the inter-organizational relationships in the context of institutional complexity. First, the CEO compromises with NordCap partners during the initial joint business planning phase to reach pre-hybridization of the different logics. Second, the financially focused performance reporting designed by NordCap is typically influenced by the CEO to become more operationally focused to facilitate a discourse appealing to both logics. Third, the troika meetings allow the CEO to formally and informally solve conflicts and impact the continuous business planning, thus achieving the two last conditions of tolerance of dissonance and co-creation of rules and practices. Furthermore, we also find evidence of an interplay between the different MCMs. The initial joint planning phase creates a consensus between the logics, which sets the agenda for boundary-spanning discourse through performance reporting. The performance reporting then becomes the foundation for discussions during troika meetings and subsequent updates to the business plan through continuous joint business planning. The nine CEOs described above managed to use the inter-organizational MCMs to achieve alignment between the two logics. However, we found one case (case A) where the PE logic came to dominate the inter-organizational relationship. The following section will elaborate on this situation.

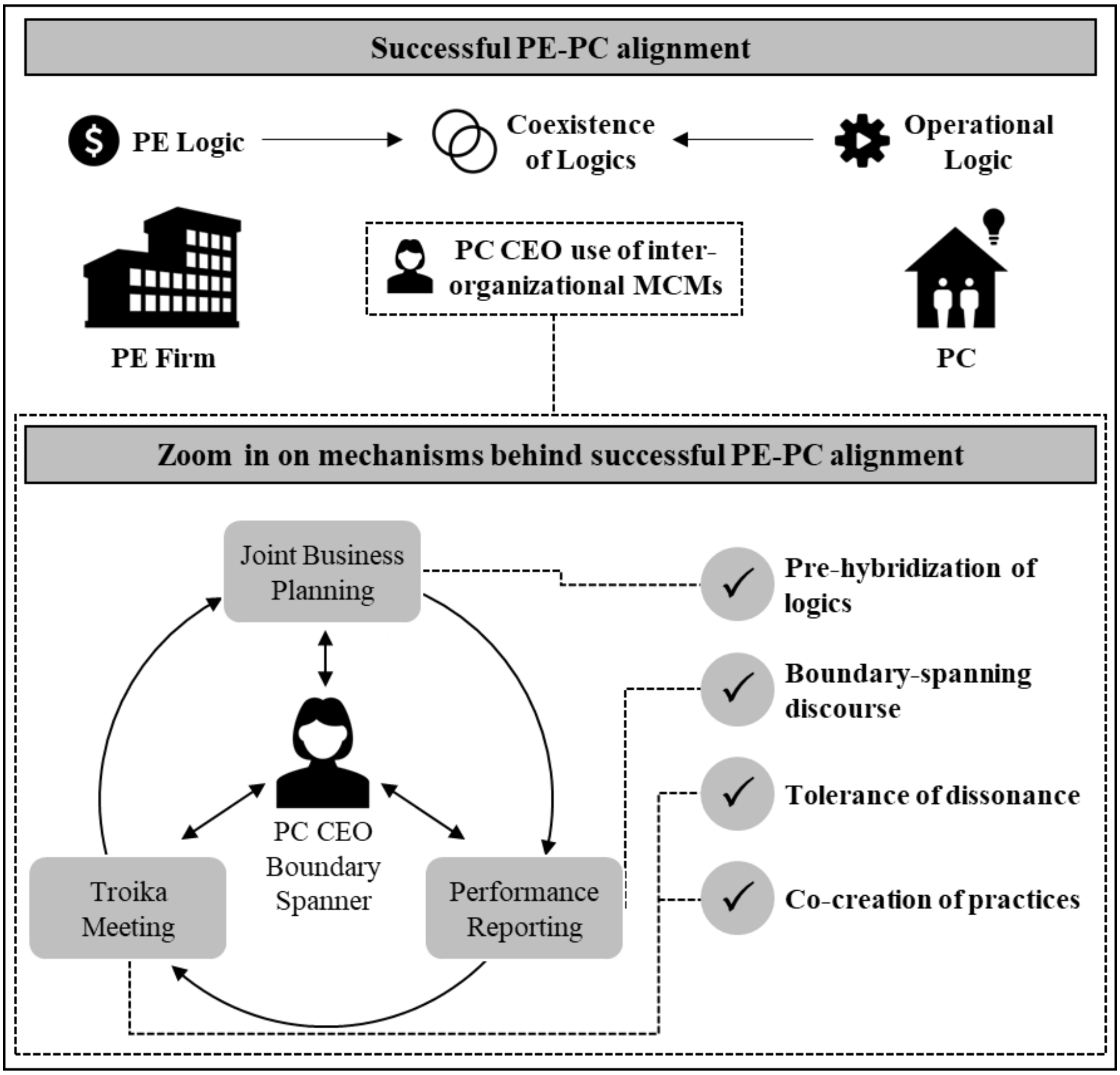

Figure 3. Illustration of successful PE-PC alignment, authors' creation.

4.6. CEO Boundary-Spanning: Misalignment in PE-PC Relationship

In the 9 cases described in section 4.5 the CEOs as boundary spanners were able to align the PE and operational logics in the inter-organizational relationship with NordCap. However, in one case (CEO A) we observed an inter-organizational dynamic in which the PE logic came to dominate the relationship. We analyze this case based on Nicholls & Huybrechts' (2016) five propositions, and show that in this case, several of the propositions do not hold, leading to a dominance of one of the logics in the inter-organizational relationship.

CEO A found his role as boundary spanner to be very difficult and describes the PE-PC partnership as dominated by NordCap. As any other BO, the partnership started by initial joint business planning where the key stakeholders negotiated on the PC's value creation plan. However, problems arose during this process and the CEO perceived NordCap to have a completely unrealistic investment rationale regarding PC A:

> “NordCap bought the firm on a completely unrealistic business plan, extremely ambitious. The company was viewed as a growth case but the fundamental support for that growth was not there.” (CEO A)

Although CEO A tried to mediate between NordCap’s over-optimistic objectives and his and the PC’s more realistic opinions, NordCap would not budge. According to CEO A, NordCap had bought the company at a valuation that would not allow for a less optimistic business plan. Consequently, the CEO felt like NordCap dominated the relationship and did not give much room for negotiations in the joint business planning MCM. As such, it became increasingly difficult for the CEO to ensure a balanced pre-hybridization of the inter-organizational logics. Furthermore, it became difficult for the CEO and PE partners to use the initial-joint business planning as an occasion to foster a personal relationship.

> “NordCap were dead set on their investment rationale, and felt pressured to set sky-high targets to meet their initial valuation of the company. They were not receptive to our ideas and the ignorance we experienced amplified as we started to fall short of the KPIs.” (CEO A)

As the discrepancy between the business plan targets and the actual performance increased, NordCap’s focus on financial steering became more pronounced:

> “The more insecure they felt about how things were going the more KPIs they implemented which further damaged the business. I tried to make them do the opposite, to give the PC some room for improvement and to form realistic operational expectations, but with no success.” (CEO A)

With what the CEO perceived to be exorbitantly high financial targets, the reporting material in the performance reporting system was much less effective as a boundary spanning discourse. Whilst NordCap’s partners could leverage the material to justify their decisions and future valuation of PC A, CEO A could not as it was completely incongruent with how they perceived PC A through an operational logic.

> “We had plenty of formal and informal troika meetings to try to solve the situation and update the business plan, but with little success. I didn’t feel like NordCap was sensitive to our opinions nor were they interested in reforming a business plan built on our mutual understanding of the PC.” (CEO A)

The troika plays an important role in the PE inter-organizational MCM design, intended to be a venue in which the CEO and the PE partners can make required changes to the business plan based on changing information. However, since the PE partners had zero-tolerance with regards to changing their future valuation of the company, the MCM was not used by the CEO to change the initial business plan.

In summary, Case A describes a situation in which the CEO could not achieve an alignment between a PE logic and an operational logic in the inter-organizational relationship. What distinguishes case A from the 9 other cases was a failure to achieve a pre-hybridization of the two logics during the initial joint-business planning phase. This was because in the CEO A's eyes, NordCap was unwilling to change their valuation of PC A, despite the CEO A's insistence that it was unrealistic given PC A's capabilities and the overall market conditions. Due to their relatively high valuation of PC A, NordCap set what the CEO found to be high financial targets in the performance reporting system. Therefore, the material in the performance reporting system was less effective as a boundary-spanning discourse. This case does not only support our framework's conditions as necessary for co-existence of conflicting logics, it also illuminates the interdependence of the different inter-organizational MCMs.

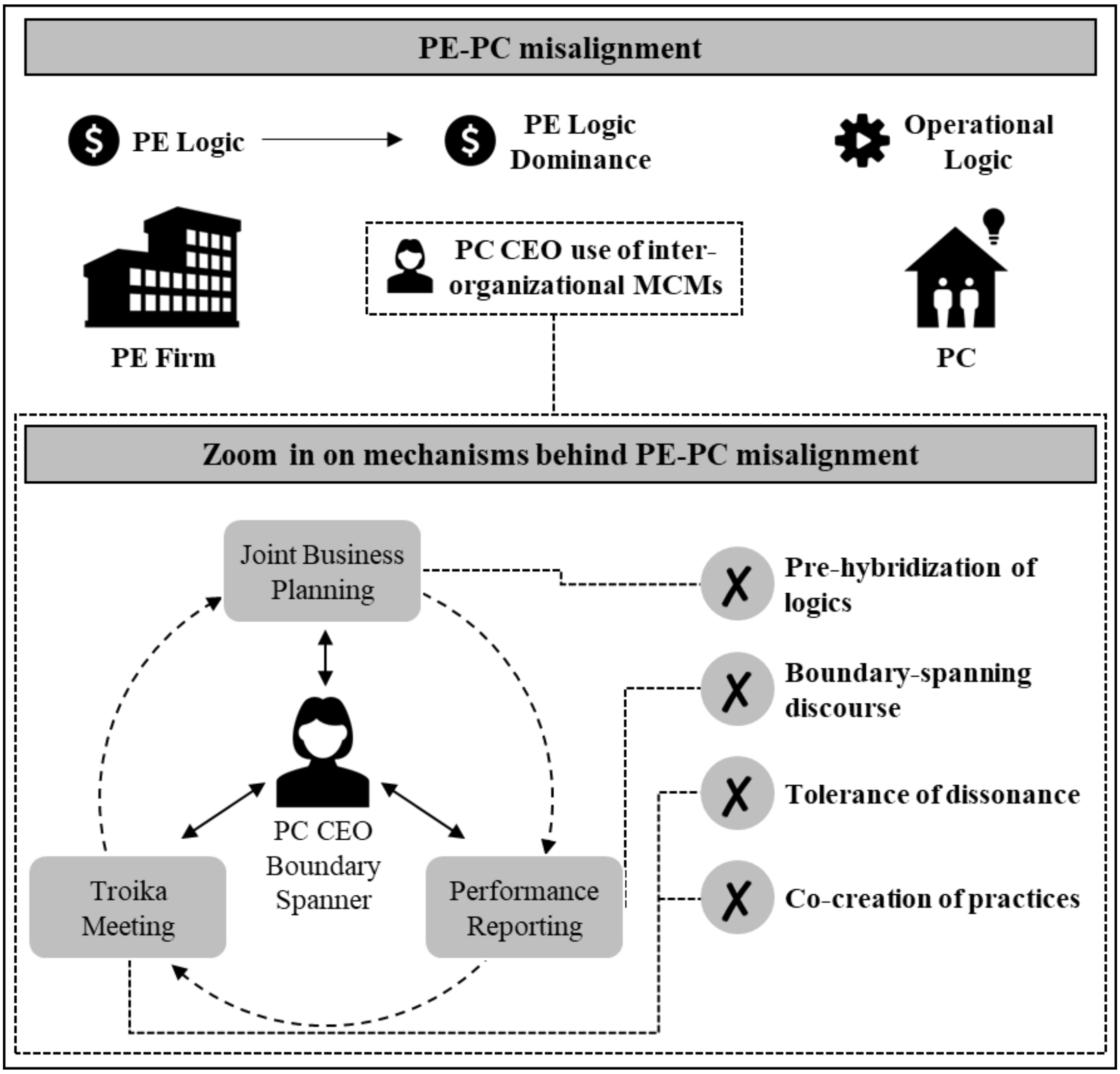

Figure 4. Illustration of PE-PC misalignment, authors' creation.

5. Discussion

5.1. PE Management Accounting

5.1.1. Institutional Logics in PE

Our cross-sectional field study of 10 CEOs in PCs finds two conflicting logics present in the inter-organizational relationship: a PE logic in the PE firm and an operational logic in the PCs. Doing so was deemed important because the underlying logics of both the PE firm and the PC represent their broader belief systems. As such, on a more concrete level, the alignment of the PE-PC inter-organizational relationship occurs through the alignment of the two organization's logics. To these authors' knowledge, no paper has identified the distinct logics which both PE firms and PCs subscribe to. Dello Sbarba et al. (2020), in the most recent study on PE in MA research, assumed that PE firms have a shareholder-value focus, but did not account for the main institutional logics prevalent in the PCs. Our findings support that PE firms have a shareholder-value focus, and this is reflected in a dominant focus on financial indicators and a relatively short-term focus on value-creation in their inter-organizational MCM design. However, our findings stop short of confirming a shareholder-value logic as the dominant logic in the PE firm. We argue, instead, equating PE with a shareholder value focus provides a reductive understanding of the institutional logic a PE firm has. Using three categories: basis of norms, basis of strategy, and basis of attention (Thorton et al., 2012; Ocasio, 1997; Glynn; 2008), we conceptualize an institutional logic that may be distinct to the PE industry. An integral aspect of this logic is the membership criteria for consideration as a legitimate member. We find that the vast majority of partners in PE have an elite business school background, with extensive prior experience in investment banking or management consulting. Whilst other studies have applied institutional logics theory to PCs (e.g., Bruining et al., 2005; Bacon et al., 2008, 2012; Dello Sbarba et al., 2020), none have conceptualized the distinct logic driving PCs. Our findings show that membership in such a logic is contingent upon industrial and commercial experience. The actors within the logic achieve legitimacy through operational achievements, and their primary focus is on achieving long-term operational success. Overall, the PE logic and operational logics are strongly distinct, which results in fairly pronounced institutional clashes with the PE firm and the PCs. As an example, the PC CEOs often based their decisions on their extensive business and market knowledge, whereas the PE partners, often lacking experience running actual companies, made decisions rooted in conceptual Excel models and consulting slides. Hence, taking an institutional logics perspective on the inter-organizational relationship helped clarify the micro-differences in the belief systems (logics) of the PCs and PE firm, why there is a need to achieve alignment between the logics, and what specific aspects need to be aligned for there to be a functional relationship.

5.1.2. Inter-Organizational MCMs

In this study we conceptualized inter-organizational MCMs as “boundary-objects”, building on studies by Nicholls & Huybrechts (2016) and Busco et al. (2017). This allowed for a more-in depth analysis of how the logics of the inter-organizational actors impacted their interpretation and use of the inter-organizational MCMs. Whilst a previous study looked at the social processes behind the implementation of inter-organizational MCMs in the PE setting (Dello Sbarba et al., 2020), they examined it exclusively from a shareholder-value “logic”, thereby ignoring the role the PCs’ logic plays in the process. We confirm several of the inter-organizational mechanisms reported in previous literature (Ditillo & Bedford 2013; Dello Sbarba et al. 2020), including joint-business planning and performance reporting systems. On a more general level, we find that the PE firm designs its inter-organizational mechanisms with institutional complexity in mind, although it is difficult to say if their overall goal is to achieve a dominance of the PE logic or a compromise between the logics. The initial-joint business planning MCM is positioned as a venue by which compromise can occur between the CEO and the PE partners. Furthermore, we identify the “troika” as an important MCM designed by the PE firm which has not been researched in previous literature. The troika is described as an informal venue by which the CEO, chairman of the board, and the PE partners can freely enact their logics and question strategic uncertainty and influence the other MCMs. On the other hand, the performance reporting system is designed to focus mostly on financial indicators, possibly because the evaluation and meeting of financial targets is integral to the PE logic.

Diverging from current literature (Ditillo & Bedford 2013; Dello Sbarba et al. 2020), we go further than focusing on PE designed inter-organizational MCMs, and look at how CEOs use them in order to achieve a functional alignment in the inter-organizational relationship. What we find is that the CEO views the initially designed inter-organizational MCMs as possible boundary-objects, attempting to modify them to reflect their operational logic, and thereby achieve an alignment between the PE and the PC. In nine of our ten cases, we find that they are able to use inter-organizational mechanisms as boundary-objects. The CEOs leverage their business acumen and leadership experience to ensure that the five-year strategic plan is adapted to an operational logic in the joint-business planning MCM. Furthermore, the CEOs push back against the dominant financial focus in the performance reporting system, implementing operational and leading indicators in the performance reporting system. Interestingly enough, the troika moves beyond its genesis, and becomes a primary decision-making unit in the inter-organizational relationship, possibly amplifying the CEOs power, and thereby enhancing the operational logic in the inter-organizational relationship.

Additionally, what was missing from the two aforementioned studies is a focus on the interplay and interactions of the MCMs as part of a dynamic management control system. This is unsurprising, since the predominant focus on inter-organizational control mechanisms, apart from Dekker (2004), tends to analyze mechanisms in isolation, rather than the interactions between the mechanisms (Caglio & Ditillo, 2008). However, this study finds evidence that an important aspect of inter-organizational MCMs, at least in the PE setting, is the interplay between the mechanisms. Our empirics show that initial joint business planning at the outset of the relationship is an inter-organizational MCM where a five-year business plan clearly defines the strategic objectives and targets for reaching these objectives. As such, it lays the foundations for the KPIs in the performance reporting system. In turn, the performance reporting system plays an important role as decision material for both organizations during troika meetings. Both organizations leverage the performance reporting material to make decisions that may affect the continuous joint business planning, and subsequently also affect the targets in the performance reporting system. Consequently, our observations indicate that the three main MCMs are interdependent.

5.2. Institutional Logics at the Inter-Organizational Level

Our research question asks how PC CEOs use inter-organizational MCMs in order to align the PE-PC inter-organizational relationship. Our findings confirm that the CEO as a boundary spanner uses several mechanisms to achieve this.

As mentioned in section 4.2, the PE firms and PC have two distinct and conflicting institutional logics. Previous literature has documented that multiple institutional logics across organizations are difficult to sustain, and often lead to the dominance of a single logic (Ostrom, 1990). Recent literature by Nicholls & Huybrechts (2016) questioned this assumption, suggesting five propositions under which conflicting logics can persist across inter-organizational relationships. Our study confirms that, in the PE setting, an alignment of the institutional logics is achieved as long as the five-propositions hold. In one case, in which pre-hybridization of the two logics could not be achieved, one of the logics came to dominate, affirming the explanatory power of Nicholls & Huybrechts (2016) five propositions. Moving beyond these five propositions, we have evidence for an additional factor that seems to be key in aligning inter-organizational relationships characterized by institutional complexity: boundary spanners.

Traditional inter-organizational theory has positioned boundary spanners as actors that define and manage activities that span the boundary between firms (Anacona, 1990; Thambar et al., 2019). However, our empirics show that such actors are integral in mediating several of Nicholls & Huybrechts' (2016) other propositions, and thereby ensuring the productive interplay between the "incompatible" prescriptions of different institutional logics. First, the boundary spanner directly influences the pre-hybridization of the organization's institutional logic, using boundary objects. Our study showed that the CEO worked with the PE partners using the initial joint business planning MCM to build consensus around both logics. Secondly, the boundary spanner is responsible, using boundary-objects, for co-creating the discourses that allow multiple interpretations to arise from both parties rooted in different logics. For example, our analysis shows how PC CEOs adapt the PE firm's performance reporting system such that it also reflects their operational logic. They implemented operational indicators to balance financial indicators within the system. This facilitates the use of the reporting material as a basis for co-decision-making during joint-business planning and Troika meetings. Third, the boundary spanner, by virtue of their position, is an actor that can use boundary objects to influence the parties' tolerance for conflict and co-create rules that inform the organizational relationship. The CEOs, as the main executive authority of the PC, were responsible for representing and accounting for the operational logic in the inter-organizational relationship.

6. Contribution

6.1. PE Management Accounting

First, we contribute to PE MA by providing evidence for the two main institutional logics that are present in the PE-PC inter-organizational relationship: a PE logic in the PE firm and an operational logic in the PC. This provides a rich foundation for future scholars to analyze and understand the PE setting. Second, expanding on the findings of Ditillo & Bedford (2013) and Dello Sbarba et al. (2020), we provide evidence for the importance of the "troika" as an informal venue by which the CEO, chairman of the board, and the PE partners can question strategic uncertainty, and influence the other inter-organizational MCMs. Furthermore, we conceptualize inter-organizational MCMs as boundary objects, building on studies by Nicholls & Huybrechts (2016) and Busco et al. (2017). We believe that this is more conducive to studies on the social processes behind implementation and use of inter-organizational MCMs, as the interpretations and use of both the PE and PC actors are accounted for.

6.2. Inter-Organizational MCMs

Whilst the predominant inter-organizational literature has studied inter-organizational MCMs in isolation (Caglio & Ditillo, 2008), we contribute to both PE MA literature and inter-organizational literature by finding evidence that it is important to analyze inter-organizational MCMs as part of a broader dynamic system. Our findings show that key to the functioning of the inter-organizational mechanisms was their interplay with other MCMs.

6.3. Institutional Logics at the Inter-Organizational Level

First, we contribute to institutional logics and interorganizational theory by providing evidence that multiple logics can be sustained across organizational boundaries (Nicholls & Huybrechts, 2016). Second, we contribute by conceptualizing the boundary spanner as an actor that plays a key role in ensuring the productive interplay between the incompatible prescriptions of different institutional logics across organizational boundaries. As such, we suggest that, in addition to Nicholls & Huybrechts' (2016) five propositions for the sustenance of institutional complexity across organizational boundaries, the boundary spanner is an additional condition.

6.4. Elite-Group Management Accounting Insights

In the early 1990s, Pettigrew (1992) claimed that managerial elites are one of the most important areas of social science research, yet they have been severely neglected, including in management accounting (MA) research. Several MA models, such as Simons' (1995) LOC framework, take a top-management perspective, in part because they can exert the largest influence on management controls. As such, there has been a significant need to enrichen the MA literature with insights from managerial elites. We help fill this gap by providing managerial insights from 10 CEOs in PCs owned by a Nordic PE firm.

7. Limitations, Implications and Future Research

7.1. Limitations

There are several limitations to our study. First, the generalizability of our results is limited by our focus on a Nordic PE firm. For example, the relationship between the PE and PC may differ depending on characteristics of the PE firm including geographic origin and ownership strategy. Additionally, it may be that our identified “PE logic” is only specific to Nordcap but inconsistent with other PE firms. Second, all of our primary empirical data was collected from PC CEOs. While this focus enabled us to draw generalizable conclusions about the CEO role as part of the inter-organizational relationship, it is possible that the inclusion of other social actors (e.g., NordCap partners or other PC employees) could have enriched the analysis. Third, by focusing only on PC CEOs through a cross-sectional field study, we sacrificed the detailed analysis which would have been possible in a single-case or multiple-case study. Fourth, whilst we look at the CEOs, we do not account for the personal traits of the CEO which may be a factor that influences their ability to act as boundary spanners and work together with the PE firm.

7.2. Implications

The conclusions in this paper may have implications for CEOs in private-equity-owned companies. By interviewing 10 CEOs across a broad base of portfolio companies, our results to some degree showcase best-practices that CEOs may use to succeed in the private equity context. CEOs of portfolio companies should be aware of the PE firm’s logic, including its financial and numerical focus, and be ready to assert their authority over the operations of the portfolio companies. Otherwise, there is a risk that a PE firm comes to dominate the relationship, and consequently the CEO’s overall control over the operations in the PC will be diminished. Furthermore, it seems to be necessary for both the CEO and the PE firm to engage in intensive formal and informal meetings at the outset of their relationship in order to align personalities, values, and ambitions to set the stage for a subsequent collaborative partnership. A general implication for future research is that our identified PE and operational logics of the PE and PC respectively can be used as a foundation to analyze e the PE setting.

7.3. Future Research

A rich avenue for future research is to do a single-case study on PE's perspective on the design phase of inter-organizational MCMs, implementation of these MCMs in the portfolio companies, and the subsequent use of these MCMs. Another possible avenue is to look at other potential boundary spanners in the PC-PE relationships, including the chairman of the board, who is often referred to as the filter between the PC CEO and the partners of the PE firm. Furthermore, future research can focus on other contextual factors that influence the CEO's ability to be a boundary spanner, including the specific traits of the CEO and the investment rationale from the PE's perspective, e.g., turnaround vs buy-and-build strategy. Additionally, it could be interesting to study other potential institutional logics that are important in the PE-PC inter-organizational relationship. Lastly, it could be interesting to see if our results are replicable with another PE firm with different characteristics (e.g., geographical origin and ownership strategy).

8. References

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9. Appendix

9.1. List of Conducted Interviews

PC CEO	Interviews	Date of Interview	Interview Length
CEO A	1	2021-03-25	60 min
CEO B	1	2021-03-26	48 min
CEO C	1	2021-03-29	69 min
CEO D	1	2021-03-31	58 min
CEO E	1	2021-04-08	47 min
CEO F	1	2021-04-09	63 min
CEO G	1	2021-04-09	49 min
CEO H	1	2021-04-15	54 min
CEO I	1	2021-04-20	58 min
CEO J	1	2021-04-23	41 min
Total Interviews	**10**		

9.2. PC Case Companies Overview

PC	Key Investment Rationale	Approx. Size	Industry	Prior Ownership
PC A	Accelerate growth, strategic repositioning	Sales: €200m FTEs: 2,000	Consumer goods & services	Family
PC B	Create Pan-European leader, buy-and-build	Sales: €2,000m FTEs: 10,000	Financial services	PE
PC C	Create global leader, structural & operational improvement	Sales: €200m FTEs: 2,000	Industrial / business goods & services	Corporation
PC D	Create Pan-European leader, buy-and-build	Sales: €300m FTEs: 500	Industrial / business goods & services	PE
PC E	Geographic expansion, operational improvement	Sales: €500m FTEs: 1,000	Consumer goods & services	PE
PC F	Geographic expansion, operational improvement	Sales: €1,000m FTEs: 20,000	Healthcare	PE
PC G	Create Pan-European leader, buy-and-build	Sales: €400m FTEs: 3,500	Healthcare	PE
PC H	Buy-and-build, operational improvement	Sales: €200m FTEs: 1,000	Industrial / business goods & services	Public
PC I	Operational improvement	Sales: €300m FTEs: 2,000	Healthcare	PE
PC J	Geographic expansion	Sales: €500m FTEs: 2,000	Healthcare	PE

Note: Full-time employees (FTEs)