

PRIVATE EQUITY OWNERSHIP IN PRACTICE

**A QUALITATIVE STUDY ON MANAGEMENT CONTROL
PRACTICES IN A PRIVATE EQUITY OWNED COMPANY**

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Abstract

In this thesis, we examine how Private Equity ownership affects management control. Using a comparative qualitative field study, drawing on Schatzki's 'site ontology', we provide findings on how Private Equity firms use management control in their portfolio companies. We identify multiple factors influencing management control in a Private Equity company. Firstly, this thesis finds that Private equity-owned firms prioritize quick decision-making over flexibility. This is achieved through two means: 1) the use of a strategy document and 2) a reconfiguration of the governance structure. Secondly, we expand on the concept of time to exit and its effects on management control. In this thesis, time to exit is identified to have a limited impact on practices when utilizing financial value creation, indicating long-termism. Lastly, we identify the importance of the troika and how it affects the governance structure and management control. The reconfiguration of the governance structure inherently enables quick decision-making at the cost of increased complexity and friction. This governance structure induces the importance of increased financial incentives to strengthen trust and align the practices of employees. This thesis contributes to the understanding of Private Equity as an owner and its effect on management control while expanding on the use of practice theory in management control research.

Keywords:

Private Equity, Ownership, Management Control, Governance, Troika

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1. Introduction

Since the end of the 20th century, Private Equity has grown from a smaller niche industry to a notable actor in the global market (Acharya et al., 2013; Bedford & Ditillo, 2022; Jensen, 1999; Kaplan & Strömberg, 2009; McKinsey & Company, 2024). However, from a management control perspective, there is a significant lack of academic understanding about this form of institutional investor. Private Equity firms, due to their nature, are notoriously restrictive about their operations (Fraser-Sampson, 2010), leading to a gap in the literature regarding their operations and investments. This research gap is crucial to develop as Private Equity firms exert control over an increasing share of the economy (McKinsey & Company, 2024). Therefore, it is essential to understand how these firms operate their portfolio companies. This thesis aims to fill this gap by examining how Private Equity firms exercise management control over their subsidiaries while bridging the gap between management control and ‘practice theory’ using Schatzki’s ‘site ontology’ (Schatzki, 2001, 2002, 2005, 2012). The thesis provides insights into the effects of the perceived time to exit, leverage, and commercial due diligence, among other typical characteristics of PE firms relevant to understanding management control in Private Equity-owned companies and their practices in the social world.

Private Equity (PE) activity, although dependent on interest rates (Kaplan & Strömberg, 2009), has consistently raised over \$1 trillion per year since 2017 (McKinsey & Company, 2024) with a steady growth rate since 2012 (Bain & Company, 2023). As of 2023, PE had total assets under management of \$13.1 trillion (McKinsey & Company, 2024). This trend underscores the increasing importance of PE firms as essential actors and owners within many economies. With their significant holdings and widespread employment within their portfolios, they play an ever more prominent role as stakeholders in our society (Wright et al., 2000). Compared to more typical ownership structures, the PE firm is often highly involved with day-to-day operations and strategy (Acharya et al., 2013; Bloom et al., 2015; Dello Sbarba et al., 2020; Kaplan & Strömberg, 2009; Nama & Lowe, 2014). This growing influence of PE firms highlights the value of understanding PE in management control research.

Typically, PE companies have majority control in mature portfolio companies compared to venture capital (VC) and smaller investment firms (Kaplan & Strömberg, 2009). Thus, drawing on Bedford & Ditillo's (2022) study on how the degree of control affects PE-owned companies, we elaborate on management control when there is majority control, with a distinct focus on social practices. This thesis answers a call for research on this subject by delving into the context (i.e., contingency) of PE as an industry and owner (Messner, 2016).

The issue of access and lack of insight in the PE industry undermines the overall trust in the ownership style, both from a societal and investment perspective. Recently, more research has been published but is still partially restricted by access (Fraser-Sampson, 2010). Because of this, previous research on management control in PE has focused on two broad areas with more accessible data. Researchers have mainly studied the PE firm *itself* (e.g., Gompers et al., 2016; Nama & Lowe, 2014) or studied the PE firm from a *quantitative* approach (e.g., Acharya et al., 2013; Bloom et al., 2015; Cornelli & Karakas, 2008).

As PE ownership is to be studied, a ‘benchmark’ company is used for comparative purposes to highlight differences (Scapens, 1990). This company should have a ‘typical’ ownership structure. We argue that the best representation of a benchmark firm is a public firm of similar size, operations, business model, hierarchy type, and values (Otley, 1999, p. 425) to isolate the private equity component. The benchmark company serves as a reference point for comparison, allowing us to analyze the specific effects of private equity ownership on management control practices. Messner (2016) highlighted the importance of understanding of how the industry context affects the firm's management control, which we wish to emphasize in this thesis. For PE, this becomes even more relevant as they are effectively active in multiple separate industries, for example, the ‘PE industry’ and the portfolio company’s industry. Thus, this thesis will focus on the context of the ‘PE industry’ as an owner and subsequent management control in the portfolio firm.

The purpose of this master thesis is to understand and explore how private equity ownership affects managerial control practices by comparing and contrasting two similar firms with different ownership structures. To analyze the empirical findings, this thesis will utilize Schatzki’s ‘practice theory’, a theoretical framework that emphasizes the role of social practices in shaping human behavior. Specifically, we will apply Schatzki's theory on ‘site ontology’, which focuses on the interplay between social practices and the physical and social environments in which they occur (Schatzki, 2005).

The thesis will be structured as follows: Section 2 will delve into the existing literature and establish a theoretical framework for our analysis. Section 3 will describe the research methodology, and section 4 will present the empirical findings. Section 5 presents an analysis of the empirics, and section 6 discusses the implications of the findings. The final section, Part 7, will conclude the thesis and describe its limitations, along with suggested future research.

2. Literature Review

In section 2.1, we commence by describing the Private Equity business model. 2.2 presents relevant literature on Private Equity practices, and 2.3 describes Schatzki's practice theory, which will be used as the theoretical framework.

2.1. Understanding Private Equity

Although a widely known subject, this section will briefly introduce how Private Equity firms operate. PE firms are typically carried out as limited partnerships where the firm, through a fund, serves as a general partner (GP), which is provided with capital from limited partners (LP), typically institutional investors and wealthy families (Kaplan & Strömberg, 2009). The timeframe of the committed capital is then agreed upon between the GP and LPs. When the fund is established, the PE firm expresses a target IRR (Internal rate of return). The PE firm is incentivized to have the IRR as high as possible in order to reach the wanted committed capital (Kaplan & Strömberg, 2009). However, this is countervailed by PE firms' need for future funding, and hence, they do not want to disappoint their LPs through exaggerated IRRs (Gompers et al., 2016).

The investing period is usually around five years and the return on the committed capital is traditionally received after seven to ten years when all portfolio firms are sold (Kaplan & Schoar, 2005). A PE firm can have many funds active simultaneously, and the GP generally represents at least one percent of the total commitment to a fund. When the capital has been committed, the LP has little power over the fund's investments and the subsequent management and governance, given that all covenants are followed (e.g., the amount of leverage) (Kaplan & Schoar, 2005). This leads to the leveraged buyout aspect of the transaction when the PE fund takes on a relatively large amount of debt to finance the purchase. Even if the amount of leverage in transactions has reduced significantly since the 1980s (with 70 to 90 percent debt), the leverage results in principal payments and interest that pressure the cash flows generated by the portfolio firm (Jensen, 1986; Kaplan & Strömberg, 2009).

As an investment method, PE has, on average, yielded positive abnormal returns when controlling for leverage and sector returns (e.g., Acharya et al., 2013; Harris et al., 2014). Whether or not this can be expressed with certainty is questionable concerning the additional riskiness of private firms (Døskeland & Strömberg, 2018). Nevertheless, the median IRR is approximately 25 percent in PE funds, where smaller PE firms typically yield even higher returns (Gompers et al., 2016).

The PE firm is generally compensated in three ways, partially during the investment period and finally when portfolio companies are sold and the fund closes. Firstly, the firm gets a certain percentage of the committed capital, usually 1-2 percent per year, to handle the operational expenses of the fund. Secondly, the firm generates a carried interest when selling the portfolio firm, which generally constitutes 20 percent of the profit from the deal, with possible deductions based on a previously set IRR. Thirdly, some GPs charge a deal and monitoring fee for the companies they invest in (Kaplan & Strömberg, 2009). Consequently, depending on the deal's profit, the fees for the LPs can be as high as 6-7 percent per year of the committed capital. This is motivated by the firm being active within the portfolio firm, thus requiring additional compensation (Døskeland & Strömberg, 2018).

The activities performed by the PE firm in the portfolio company reflect the background of the partners who work with value creation. These people can be categorized into two camps (Acharya et al., 2013; Gompers et al., 2016). Firstly, there are ex-consultants or ex-industry managers who work with internal value creation through organic activities (i.e., operational engineering) within the portfolio firm, and secondly, ex-bankers or ex-accountants who direct inorganic activities with mergers and acquisitions at the portfolio company along with aggressive capital structures, such as high leverage (i.e., financial engineering) (Acharya et al., 2013; Gompers et al., 2016). Thus, the background of the 'deal team', those responsible for the portfolio company at the PE firm, affects the type of value creation method. Defining value creation is broad and ambiguous, but is, for example, increasing revenue and incentives, improving the capital structure, replacing management, reducing cost, and improving governance (Gompers et al., 2016). PE-owned companies typically focus more on efficiency and cost-cutting than growth, which is partially connected to leverage (Phan & Hill, 1995). However, in recent times, growth has become a more prominent part of value creation (Gompers et al., 2016). Private Equity can be argued to be less about financial engineering from a historical context (as leverage decreases) and more about driving operational performance, although this depends on the type of PE firm (Acharya et al., 2009, 2013; Bernstein & Sheen, 2016; Cornelli & Karakas, 2012; Gompers et al., 2016). Within the scope of this thesis, value creation is simply the result of subsequent practices that affect the portfolio firm's exit value.

Private equity firms typically buy majority control in mature companies. This differs from venture capital, which generally acquires young and emerging companies without obtaining a controlling stake (Kaplan & Strömberg, 2009). Hence, it allows the PE firm to be more involved in monitoring and governing the portfolio firm (Gompers et al., 2016). The type of transaction within the scope of PE can be divided into three types: public-to-private, private-to-public, and private-to-private. Historically, the dominating

acquiring type has been public-to-private, but this has decreased. Now, private-to-private is more common, encapsulating secondary buyouts, i.e., the PE firms selling companies to each other (Kaplan & Strömberg, 2009).

When acquiring a company, PE firms generally have four crucial factors they look at; (1) the company's business model, (2) the management team, (3) PE's ability to add value, and (4) the valuation (Gompers et al., 2016). Thus, the PE firm already has a preconceived notion of what practices will be implemented to reach the necessary IRR before the transaction. This notion can be formalized into a strategy document, such as a commercial due diligence (CDD) document. This preconceived notion enables the owners to be more operational and active in the portfolio company based on these initiatives. The PE firm works closely with the board and focuses on operations and strategies rather than compliance and external reporting, as often seen in publicly owned companies (Acharya et al., 2009). A public firm cannot operate in the same way because of the laws and regulations required for listed companies, unless the owners restrict their investment liquidity by becoming insiders (Bhide, 1993). Within public companies, the board acts as the 'middleman' between owners and the operations of the firm, which results in the owners being at an 'arm's length' distance from the daily activities of the business. In comparison, PE firms can directly be involved in the company, as there are no laws forbidding 'insiders' (Bhide, 1993); thus, they often, if not always, have people directly on the board (Cornelli & Karakas, 2008, 2012).

2.2. Previous Research on Private Equity Practices

Operational Improvements and Leverage

One of the earlier studies on PE firms and their operational improvement provides three factors that affect changes implemented by the PE firm: (1) constraints imposed by the leverage, (2) changes in the way managers are compensated, and (3) changes in the ways top managers are monitored and advised (Baker & Wruck, 1989). The constraints imposed by the leverage, primarily attributed to the covenants of the debt, create pressure to generate an adequate cash flow, which can come at the expense of the exit value of the portfolio company (Baker & Wruck, 1989; Jensen, 1986). The focus on cash flow increases the importance of cash management through, for example, initiatives to monitor and decrease the net working capital. By doing this, managers have a more significant cash flow focus and more decision-making freedom, but with checks to guard against value-destroying actions (Baker & Wruck, 1989). Moreover, leverage induces increased monitoring while decreasing short-termism and ensuring termination of 'bad managers', in contrast to other less effective mechanisms (e.g., dividends) (Edmans, 2011). With the bad managers terminated, 'good' managers can invest in long-term projects, enabling a

long-term view (Edmans, 2011). With this, leverage decreases the tension between the firm's long-term and short-term practices and allows a focus on long-term performance (Edmans, 2011).

Performance in Private Equity

From a quantitative approach, Bloom et al. (2015) conducted a comparative double-blinded survey of private equity and non-private equity-owned firms. The authors applied a management score and concluded that private equity-owned firms are typically well-managed. In the study, two types of ownership stand out with higher management scores: private equity and dispersed ownership, where the latter refers to public ownership. Private equity ownership was particularly linked with improved control and operational practices and stronger performance-related incentives. This can be explained by the modification of organizational structure and the overall attitude of employees (Jones, 1992; Phan & Hill, 1995). Furthermore, Bloom et al. (2015) found that private equity-owned companies are typically more decentralized than other ownership types. In smaller PE firms, bolt-on acquisitions are important, and increasing revenues are more common due to room for expansion in the market (Gompers et al., 2016).

To measure improvements, performance indicators are used by employees and managers in PE-owned companies to identify critical initiatives (Acharya et al., 2009; Clark, 2013; Jones, 1992). These metrics are often different between publicly- and PE-owned firms, where PE use metrics such as IRR and multiples, which are not as common in public firms (Cronqvist & Fahlenbrach, 2013; Dello Sbarba et al., 2020; Gompers et al., 2016). Adding to this, managers in the portfolio firm are often evaluated on metrics centered on cash flow, such as EBITDA, instead of more accrual-based accounting numbers, such as net income (Cronqvist & Fahlenbrach, 2013).

The Effect of Equity Arrangement

A large part of the value creation within PE's portfolio companies is the implementation of control practices. Management control within PE's portfolio companies can be formal and informal (Bedford & Ditillo, 2022). Moreover, social control enables other mechanisms in the relationship between the portfolio company and the PE firm (Bedford & Ditillo, 2022). However, the management control is also a result of the equity arrangement, where minority ownership decreases the extent of the formal control. This does, however, not imply an absence of control, since legal clauses and board seats can result in influence over the portfolio company (Bedford & Ditillo, 2022).

In addition, the more control and influence a PE firm has over its subsidiary, the more likely it is that new practices will be implemented (Bernstein & Sheen, 2016). Many

earlier studies within private equity have largely disregarded such equity arrangements and assumed ‘control’ of the portfolio firm in their studies without dissecting its effect (e.g., Acharya et al., 2009; Kaplan & Strömberg, 2009; Nama & Lowe, 2014). In addition to the equity arrangement, the portfolio’s management team's perceived cognition style can be divided into entrepreneurial and managerial (Bedford & Ditillo, 2022). The entrepreneurial scheme relies upon mutual trust while using the entrepreneur's competencies, whereas a managerial system is based on aligning incentives through formal contacts and control. This implies two ways of controlling and managing the practices within the portfolio firm, partially attributed to the equity arrangement and subsequent influence over the portfolio firm (Bedford, 2020; Bruining et al., 2004; Wright et al., 2000).

Short-termism and Incentives

Private equity actors are sometimes considered short-term investors due to the fund's fixed period (Cronqvist & Fahlenbrach, 2013). In the 1990s, the median holding period for private equity firms was less than five years. In a study by Kaplan & Strömberg (2009), firms had a median holding period of six years, indicating an increasing trend (see also Joenväärä et al., 2022).

PE firms often emphasize the importance of the top executive team given the set holding period (Cronqvist & Fahlenbrach, 2013). The study by Acharya et al. (2009) found that 39 percent of CEOs and 33 percent of CFOs were changed within the first 100 days or even before the deal was closed in the portfolio company. The executive teams in the 66 case companies that were studied had highly geared incentive programs, with explicit Key Performance Indicators (KPIs) closely related to the equity component at the exit, which in turn strengthens the long-term (i.e., going concern) view, depending on the perceived time to exit. At the same time, the PE firm wants to be perceived as friendly when pursuing a transaction (Gompers et al., 2016). Even though the CFO seemingly is replaced less, they have a lot of responsibility towards the PE firms and are vital for financial engineering (Døskeland & Strömberg, 2018).

In the study by Baker & Wruck (1989), the PE firm insisted that managers from the portfolio company should have an equity interest in the company to align the incentives. Managerial ownership in the portfolio company is often around 15 percent (Døskeland & Strömberg, 2018). This enables managers, through their personal liability, to focus on two aspects: avoiding default while maximizing the company's exit value. In short, this incentivizes managers to align their practices to the covenants of the debt while increasing the exit value and, thus, their personal gain (Baker & Wruck, 1989). Consequently, this decreases the issues associated with distanced ownership and enables a long-term view, at least until the exit. Moreover, strong managerial incentives will also foster new

practices within strategy and innovation in the portfolio firm (Bruining et al., 2004; Wright et al., 2000) and increase the exit value (Gompers et al., 2016).

When conducting an LBO analysis, PE firms typically forecast approximately five years of financial statements. They then calculate the investment's exit value based on a desired exit multiple that reflects the fund IRR (Gompers et al., 2016). Hence, the long-term view PE companies strive for in these articles can be assumed to equal this period. (Bacon et al., 2012; Kaplan & Strömberg, 2009). Generally, the exit value is not calculated through perpetuity cash flows but through comparable transactions or publicly listed firms. By doing this, PE firms' pre-investment expects to create value in financial and operational engineering. This analysis is conducted by a deal team, operating partners, and often consultancy firms (Gompers et al., 2016). Historically, PE funds have become less generalistic and now focus more on specific sectors (Gompers et al., 2016). Compared to institutional investors' average holding period of listed equities, which is shorter, managers in PE-owned firms are argued to be less affected by short-term expectations (Gompers et al., 2016).

Furthermore, time to exit can induce short-termism. Investing and implementing new practices in the portfolio firm can be time-consuming and costly; consequently, the shorter until the anticipated exit, the less likely it is that new practices will be implemented (Bacon et al., 2012). However, suppose there is a short time to exit. In that case, it is unlikely that previously implemented practices will be removed before the exit (i.e., slimming down is less likely) (Bacon et al., 2012). The implementation of practices varies depending on the type of value the PE firms aim to create (Acharya et al., 2013). For example, an Merger and Acquisition (M&A) focus leads to a more extensive implementation of practices than a cost-cutting method (Bacon et al., 2012). Notable, the higher your revenue growth, the shorter the perceived time to exit (Joenväärä et al., 2022).

Further, short-termism and holding periods can vary depending on the region. Bacon et al. (2012) discussed an increase in practices in Europe when firms became private equity-owned. The authors concluded that the perceived timescale to exit is an essential determinant for integrating new practices in the portfolio company, with geographical region across Europe as a less determining factor. However, the country's origin of the private equity actor did matter, especially regarding financial incentives that were more prominent in Anglo-Saxon firms.

Governance in Private Equity

Corporate governance is vital to ensure that operations are run in the interest of the shareholders by aligning the managers' incentives (Gompers et al., 2016). The board of directors (BoD) is essential to the governance structure, especially in PE-owned

companies (Cornelli & Karakas, 2008). The portfolio company's board is usually smaller than that of listed companies and is often more engaged in the firm's operations (Cornelli & Karakas, 2008, 2012). This is especially prominent in cases of uncertainty where monitoring and expertise are needed (Cornelli & Karakas, 2008, 2012). The portfolio company board often constitutes personnel from the PE firm, and outsiders are uncommon, but this depends on the type of PE firm (Cornelli & Karakas, 2008, 2012).

Moreover, the turnover among the board of directors, as with the management (Acharya et al., 2009), is significantly higher in PE-owned companies compared to other firms (Cornelli & Karakas, 2008). Consequently, this can be argued not to support the view of PE firms having a long-term view. However, it does indicate that board stability is less critical in a PE-owned firm (Cornelli & Karakas, 2008, 2012). Moreover, the importance of short-term performance and CEO turnover decreases with increased board presence from the PE firm due to direct insight into operations (Cornelli & Karakas, 2012). In addition, the presence of PE personnel on the portfolio firm's board decreases when there is higher leverage. This indicates that financial engineering is more significant when leverage is high (Cornelli & Karakas, 2012).

Public firms' distance between shareholders and management can create issues. This issue is less prevalent within the PE industry (Jones, 1992; Phan & Hill, 1995). By having high leverage, managers do not have the same freedom, in the free cash flow, in choosing between payouts (e.g., dividends and share buyback) or investments because of the principal and interest payments, thus reducing the issues of weaker relationship with owners (Jensen, 1986). Moreover, PE-owned companies tend to increase efficiency through decentralization and reduced hierarchical complexity (e.g., reduce the overhead expenditure) (Jones, 1992; Phan & Hill, 1995). With these changes, the goals, strategy, and structure will change when the companies become owned by PE firms, along with a better alignment between managers and shareholders (Bruining et al., 2004).

2.3. Practice Theory

Practice theory is a sociological and philosophical way to think about and study social behavior. It has been developed since the mid-1990s and recently gained popularity in the study of management accounting (e.g., Ahrens & Chapman, 2007; Jørgensen & Messner, 2010; Nama & Lowe, 2014). Despite principally having a shared way of thinking about the concept of practices, there are multiple ways to utilize practice theory for the study of social phenomena such as organizations.

Practice theory builds on the concept of practices. Most academics view practices as an array of activities, more specifically, human activities (Schatzki et al., 2001, p. 11).

Recently, some post-humanist thinkers have also begun to include non-human activities, such as those of machines or objects, in practices (Schatzki et al., 2001). Schatzki refers to these as *material arrangements*, including more than just inanimate objects.

By material arrangements, meanwhile, I simply mean set-ups of material objects. Whenever someone acts and therewith carries on a practice, she does so in a setting that is composed of material entities. The material arrangements amid which humans carry on embrace four types of entity: human beings, artifacts, other organisms, and things. (ibid. p. 472)

In that sense, practice theorists join a view of a materialist approach where human activities can intertwine with non-human entities and activities (i.e., material arrangements). However, despite some discrepancies with definitions, all practice theorists are joined in the belief that, as Schatzki et al. (2001) state:

[...] such phenomena as knowledge, meaning, human activity, science, power, language, social institutions, and historical transformation occur within and are aspects or components of the *field of practices*. (Schatzki et al., 2001, p. 11, italics in original)

2.3.1. Schatzki's Site Ontology

Although practice theory inherently includes the concept of context, Schatzki (2005) further developed his theory and framework to analyze the implications of context. Schatzki's 'site ontology' is derived as a variation to social ontologies 'individualism' and 'collectivism' in the sense that neither the individual nor a collective controls practice. Practices are instead controlled by the 'site' in which they occur. In this case, the site can be referred to as the context of human practices and material arrangements. This approach proposes that social life, or human coexistence, is inherently tied to the context from which it emerges. From an organizational standpoint, the site "[...] can be understood as an arena or phenomena that surrounds or immerses something and enjoys powers of determination with respect to it" (Schatzki, 2005, p. 468). In turn, this implies that the context is, for example, the ownership structure of an organization. The context also constitutes an individual's and other people's actions, emotions, relations, and mental state (Schatzki, 2005).

According to Schatzki, the practices in the site are governed by four aspects: 1) practical understandings, 2) rules, 3) teleoaffective structures, and 4) general understandings (Schatzki, 2002, 2005). *Practical understanding* refers to how things are done. *Rules* are instructions, requirements, or specific formulations that people need to follow. *Teleoaffective structures* (teleology) are merely the end goal of these practices, whether a finished product, a diploma, profit, or emotional satisfaction. Finally, *general understanding* refers to how the previous aspects correlate to the specific site, i.e., not the end goal but the sense of worth and value, among other things. As Schatzki (2012) states:

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, 2012, p. 16).

Often, these aspects interact and overlap with other sites and practices in close approximation to the one studied. As Schatzki (2005) states:

The site of the social is a mesh of practices and material arrangements. This implies that human coexistence inherently transpires as part of practice-arrangement bundles. (ibid., p. 472)

Schatzki also refers to these bundles as meshes or nexuses of practices. In an organization, these bundles and meshes can intertwine into a larger 'web' encompassing the operations and everything around them. Understanding these four aspects, in addition to 'material arrangements' and the concept of 'site ontology' thus enables a deep analysis of social interaction and how it is connected. A site can be physical, like a meeting room or a building, or non-physical, such as a project or designated group of people. It is important to note that human practices occur as *part of* material arrangements. Hence, the meshes and webs of practices also encompass these material arrangements. In line with this, the context is something "[...] beholden to for its character and existence, the sum-total of everything other than itself that determines these." (Schatzki, 2002, p. 60).

2.3.2. Site Ontology in Management Control

Above, Schatzki's site ontology has been presented from a theoretical perspective and subsequent assumptions. This theory can be implemented in organizations by the guidance of Schatzki (2005), where the latter half explains how to use practice theory and site ontology to study organizations. Although Schatzki himself is no accounting theorist, previous authors who implemented Schatzki's version of practice theory have noted that the theory is applicable to the study of organizations (Ahrens & Chapman, 2007; Jørgensen & Messner, 2010; Nama & Lowe, 2014). Using Schatzki's site ontology allows us to analyze practices in an organization as 'open-ended' and able to change (Schatzki, 2005).

However, a distinction between teleoaffective structure and general understanding was not prominent in some studies (see Ahrens & Chapman, 2007; Jørgensen & Messner, 2010), as Nama & Lowe (2014) noted. Because of this, Nama & Lowe (2014) discussed a clear distinction between the two concepts, based on Schatzki's literature. They argued that 'general understanding' rather constitutes the organization's vision, values, and worth. However, they emphasize that teleology and general understanding can be ambiguous, closely related, and, to an extent, mutually constitutive. The implications of this will be further discussed from a methodology perspective in 3.4.1.

3. Research Methodology

This section delves into the thesis's methodology. Section 3.1 introduces the general research design that guides the thesis. Section 3.2 presents the case companies and the reasons behind the selection criteria. Section 3.3 covers the data collection, followed by data analysis in section 3.4. Finally, we conclude the methodology by discussing the reliability and validity in section 3.5.

3.1. Research Design

The selection of a comparative ‘qualitative field study’ as our research design (Scapens, 1990), developed abductively, is not just a methodological choice but also ensures that our theoretical discussion enables a re-assessment of validity and reliability (Ahrens & Chapman, 2006). This approach, employed in previous studies (e.g., Bedford & Ditillo, 2022), particularly in comparing management control practices, is instrumental in this interpretative thesis as it allows us to provide evidence for variations in practices. It enables us to identify the unique management control practices within a private equity-owned firm, effectively addressing our research question. The research design, rooted in Schatzki's ‘site ontology’, dissects the specific management control practices and their origins, shedding light on the influence of ownership. With this theoretical framework, the existing practices in an organization are viewed as a result of its context, thus accepting practices as a structure of intentionality (Ahrens & Chapman, 2007). Consequently, our thesis is not simply empirical but also a theoretical venture where there is no empirical objective reality but rather aspects of recorded activity (Ahrens & Chapman, 2006).

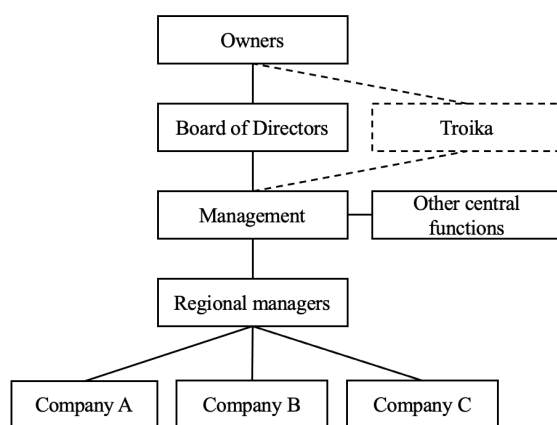
From our purpose and research design, we derive the following research question:
How does ownership affect management control practices in a private-equity-owned firm?

3.2. Selection of Case Companies

The selection of case companies for our thesis aimed to isolate the differences in ownership. We sought to find two companies that were almost identical in all aspects except for the ownership structure. To ensure the validity of our findings, we examined four key categories: industry, organizational structure, size, and geography. Because of the inherent challenges in accessing PE firms for research, we initially focused on gaining access to a suitable PE firm with a portfolio company relevant to our thesis. Once identified, we applied the four categories mentioned above, and with these criteria, we

identified a public company listed for more than five years on the Stockholm OMX stock exchange.

Both companies are active within the same professional service industry (Messner, 2016). Importantly, they are competitors in multiple business areas and regions. However, the specific companies, sectors, and interviewees are anonymized to protect their privacy. Furthermore, both companies are organized in a decentralized manner, with numerous subsidiaries operating independently. Both firms have a smaller central organization structured similarly, except for the PE-specific troika (See chart 3.1). Size-wise, these firms are roughly in the same category, within the SEK 5-20 billion revenue range. Furthermore, both firms operate within the Nordics, have similar geographic spreads, and are mainly growing inorganically through acquisitions. These aspects, in combination with the industry, are essential contexts that can influence management control if not controlled for (Messner, 2016).



Note: Dashed lines refer to PECO specifically.

Figure 3.1. Simplified organizational chart for PubCo and PECO.

The publicly-owned company is designated *PubCo*, and the PE-owned company is designated *PECo*. PECO was acquired by a PE firm in a private-to-private transaction and later sold to another PE firm in a secondary buyout. The first PE owner, who has exited PECO, is referred to as the ‘first PE firm’, and the owner of PECO right now is referred to as the ‘second PE firm’. With this, the thesis can examine the management control over the entire holding period of the first PE owner.

3.3. Data Collection

Schatzki suggests that the most effective way to analyze a firm using ‘practice theory’ is to observe activities and practices or to be actively involved in the practices. Given the intricate nature of management control within these firms, we opted for Schatzki’s second-best data collection method: interviews. This method has been extensively employed in previous articles, serving as their primary or secondary source of data (e.g., Ahrens & Chapman, 2007; Jørgensen & Messner, 2010; Nama & Lowe, 2014). In addition to the 19 semi-structured interviews (see Appendix A & B), other documents were utilized as data points to identify specific practices, a method also observed in previous studies (e.g., Bedford & Ditillo, 2022). These documents were analyzed in a manner similar to the interviews. The interview questions were designed following Schatzki’s ‘site ontology’ to identify specific practices, their ‘practical understanding’, ‘rules’, ‘teleoaffective structure’, and ‘general understanding’. Through the interviews, we were also able to identify the specific ‘sites’ in the companies (Schatzki, 2005). However, following our literature review, we also tailored the questions to cover relevant PE areas.

Moreover, the interviews were conducted in a semi-structured manner. This approach allowed for flexibility, with the interviews following the guide (see Appendix B) while incorporating adaptable follow-up questions to encourage the interviewee to elaborate on specific areas of interest (Gioia et al., 2013). All interviews were recorded and transcribed. The semi-structured interviews and structured documents allowed for linkages between the two data types (Ahrens & Chapman, 2006).

Although Schatzki’s site ontology guided the interviews, the interview guide did not strictly follow practice theory. The interviews only followed practice to the extent it was suitable; otherwise, they followed relevant management and PE theory formulated in simple, understandable language, similar to Nama & Lowe (2014). From the interviews and documents, we could deduce the specific practices within each firm, as demonstrated by Schatzki’s study of Nasdaq and Shaker’s (Schatzki, 2002).

3.4. Analysis of Data

A coding system was implemented to analyze the data collected, as presented by Gioia et al. (2013). They demonstrate a 3-step hierarchy to code interviews. First, each quote was designated a 1st order concept. These were then ordered into 2nd order themes and aggregate dimensions. Along with this coding, each quote and data point were designated a specific category of ‘site ontology’ (Schatzki, 2005). This lens enables sensemaking of the social reality in which these firms operate while at the same time simplifying its

complexity (Ahrens & Chapman, 2006; Schatzki, 2005). Our analysis is based on 2nd order themes, and the discussion delves into the aggregate dimensions found in our analysis.

Notably, our 3-step coding system offered flexibility, ensuring a comprehensive analysis. The process begins with identifying relevant 1st order concepts. We then added or removed additional concepts to avoid overlap or fix discrepancies. With the 1st order aligned, we delved into the 2nd order themes and worked on identifying theory-centric themes. The themes were then adjusted and confined until they were suitable for further analysis. Critically, these 2nd level themes were further distilled into theory-centric dimensions, which finally was our starting point for analysis in section 5. With the 1st and 2nd levels clearly defined, we identified the overlapping aggregate dimensions that are dissected in the discussion. Through this method, we could structurally identify all the different parts of our data while maintaining a flexible research methodology (Gioia et al., 2013).

3.4.1. Defining General Understanding

Although Schatzki's framework used for analysis within this thesis can be seen as simple in principle, it comes with some vague definitions. For one, Nama & Lowe (2014) identified multiple articles that used Schatzki's 'site ontology' but defined the term 'general understanding' very differently. They found that even Schatzki's articles were incoherent with the definition of 'general understanding', often overlapping with 'teleoaffective structure'. Compared to other articles, there will be some unavoidable differences in the use of 'general understanding' in this thesis. However, to avoid confusion, we use a simplified application of 'general understanding', supported by Nama & Lowe's (2014) findings and discussion. However, we emphasize the complexity of practice theory and the use of 'general understanding' as Schatzki envisioned.

In this thesis, we define 'general understanding' strictly as *generalized* (e.g., as seen by multiple people at the same 'site') thoughts, understandings, or feelings within a 'site' that do not fit the definition of 'teleoaffective structure'. Although there can arguably be overlap between 'teleology' and 'general understanding,' we note that any understanding that has a goal or otherwise fits the definition of 'teleology is just that, not 'general understanding.' For example, a 'general understanding' might be a *generalized* feeling of working hard. The *generalized* sense of 'becoming the best company in the industry' is instead a 'teleoaffective structure'. Hence, *generalized* thought does not necessarily entail a 'general understanding' but is necessary to define something as 'general understanding'.

3.5. Reliability and Validity

Due to a lack of qualitative field studies within the scope of management control in PE, much of the literature review is based on articles using other methods and methodologies, namely, a positivistic approach (Ahrens & Chapman, 2006). This questions the validity and reliability of the integration of subsequent studies in this thesis since it can be argued as favorable to match the theoretical view to the overall purpose and standpoint of this thesis (Ahrens & Chapman, 2006). While this can be argued, Ahrens and Chapman (2006) state that a good study does not necessarily spring from this matching principle. Integrating positivistic literature with qualitative field studies can even improve the research field as a whole:

Without the specifics of qualitative studies, the general assertions of positivistic research would be hollow. Likewise, the specific investigations of qualitative research question and refine the general statements of positivistic studies. (Ahrens & Chapman, 2006, p. 837)

With this background, this thesis considered these methodological differences in the analysis and discussion. Moreover, qualitative field studies are inappropriate to replicate, and our thesis contains a mix of structured and unstructured data. With this, reliability and validity can not justifiably be distinguished. However, this should not be viewed as a neglect of causality (Ahrens & Chapman, 2006). Moreover, because of our interpretive view and semi-structured data collection, we are exposed to, for example, observer bias and complexities and limitations of the human mind (McKinnon, 1988). In terms of trustworthiness, we have no personal interest in either of the companies which can affect this thesis.

4. Empirical Findings

This section presents the empirical findings of the two case companies. The empirical findings are dissected into two parts: first, the empirics of PECo and then PubCo. Each section is sub-sectioned into governance, operational, and financial to examine different parts of the management control practices in each firm.

4.1. PECo

In PECo, two groupings make decisions in addition to traditional organizational structures. Firstly, there is the deal team, which solely consists of employees of the PE firm. In this case, they are one to two partners, one investment manager, and one to two associates, depending on the subsequent holding period. Secondly, there is the troika, which comprises PECo's chair and CEO, and the two partners from the PE firm. After a few years, the CFO and Head of M&A also became a part of the troika.

4.1.1. Governance

Vision and Commercial Due Diligence

Before the formation of PECo, the PE firm, and future subsidiaries had a vision to disrupt the industry. To reach this goal, it was vital that like-minded entrepreneurs ran the acquired firms.

The group of entrepreneurs and co-owners in this constellation all ran in the same direction. No one was tired, wanted to sell their company, and leave out the door. Everyone realized that we do this together and that we create something new. – Associate, PE firm

A combined commercial due diligence (CDD) and strategy document was established, in this thesis referred to as 'CDD', to further align and define the shared vision and value creation plan. This document was created by an external strategy consultancy firm in cooperation with the deal team and the dozens of CEOs of the local firms who were the first to join the group. The document's creation was subject to a workshop where key areas were discussed and agreed upon and then revised based on the workshop discussion but was mainly based on the ideas of the first PE firm. The strategy states that the group is to be decentralized and that local entrepreneurship must be maintained while three central functions are to be implemented. Additionally, an organizational triangle was created to distinguish the structure of PECo (see Figure 4.1).

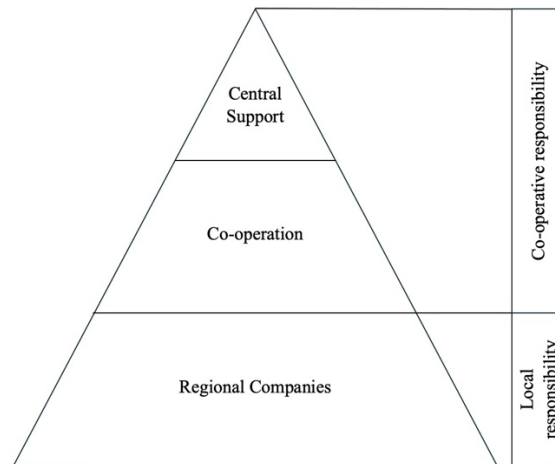


Figure 4.1. Organizational triangle recreated from CDD document.

Deviations from this document are generally seen as unwanted for multiple reasons, such as quickness and efficiency, but also because everyone in the group gets a preconceived notion of how the firm will operate.

A strategy document was presented to all the companies we acquired, which pointed to where PECo was going. We tried to follow it as much as possible because it was something that the companies themselves had agreed upon [...] If there was a need for deviation from that document, we brought it up on the board and discussed it. – Previous CEO, PECo

Some deviations from the CDD document occurred, but the document was generally held tightly. For example, central management created a new central function. This function was costly and undesirable from the PE firm’s and the BoD’s perspective, which was a deviation from the CDD and was stated to be unwanted.

We don’t see the need for [specific central function] in a decentralized organization. It was unnecessary and not included in the CDD, but it happened anyway. [...] It slipped out of our hands, and we should have been even more aligned with the CDD. – Managing Partner, PE firm

However, although the CDD document was necessary to align the whole firm, the local firms did not express explicit loyalty to PECo. Instead, they had stronger loyalty towards their own subsidiary, at least in terms of what brand they represent. Although new subsidiaries received the CDD document at acquisition, and the first firms assisted in its creation, this document did not affect local firms' operations.

The biggest loyalty lies in the subsidiary, and only partly in PECo. – Local CEO, PECo.

The general reflection among the subsidiaries is that they have kept their operations the same. The vision created centrally, partially through the CDD, was already in effect.

No, we haven't changed anything. We've always had this drive to grow and simultaneously be a profitable company. We retain this idea of being very goal-oriented. That we should stand out and be a little extra, compared to other companies in our industry, and that we're flexible. – Local CEO, PECo

Although the local firms partially disregarded the document, it was vital for the central organization. The document states initiatives where each is prioritized in order of importance and timeliness. The CDD also noted that clear goals, expectations, and boundaries must be set centrally. In turn, the document sets rules for what is to be done, in what order, and when. Interviewees described the CDD as a document that allows quick decision-making and a defined strategic direction for PECo. Hence, when PECo expands to a new country, discussions and analyses have already been made and decided upon. Although this quickness was part of the strategy, a reflection that PE firms are too much in a hurry is argued.

I think that PE companies may sometimes be a bit too much in a hurry. – Board Member (Previous Chair), PECo

Further, according to the then-CEO, this document also became restrictive. It enabled quickness but at the cost of being controlling. As such, if flexible decision-making was necessary due to unpredictable events, some friction could occur.

Sometimes it is a little too theoretical of a document [...]. These governing documents are controlling, if I am straightforward. – Previous CEO, PECo

Because of all the changes and the fast-moving pace, a senior manager stated that managing was initially more like a game of whack-a-mole than 'normal' management.

It felt like whack-a-mole, where problems pop up, and you stand there to club them down. That was life for the first 3-4 months from when people called or texted and asked absolutely everything. – Senior Manager, PECo

Moreover, in the CDD, there is something referred to as 'core business,' a specific business line that PECo should focus on. Straying too far from this business line is seen as unwanted as it demands more discussion within the board and deal team. The CDD also enabled the troika to make decisions regarding new acquisitions more easily without involving the BoD.

We have a common direction where we want to continue to acquire within the core business area. [...] We know that the work we have already done (CDD) will enable us to move quite quickly. – Head of M&A, PECo

Further, it was essential for everyone within PECo to be aligned with the new acquisitions. A large part of the CDD document was to align all the companies, and new acquisitions were central to this. Hence, firms were only acquired if they were a complete fit with every other company in the group.

These acquisitions were made when everyone wanted to make them. The companies we talked about that did not fit in were not acquired. Everyone was 100 percent aligned in the acquisition strategy and the companies that actually came in. – Associate, PE firm

No matter the document's importance, interviewees did not describe the CDD as an 'operational bible'. Instead, it enabled strategic and visionary direction in decision-making. The CDD document was continued and slightly developed when PECo was acquired by the second PE firm. Due to a shared view within PECo, the value creation practices and strategy were very similar after the secondary buyout.

There is nothing that distinguishes the strategy that [Second PE firm] uses (in PECo) from when we owned [PECo]. – Associate, PE firm

In addition to the CDD, a 100-day plan was set up with a shorter time horizon than the CDD but was partially included in the document. The 100-day plan stated that increasing sales was the top priority to avoid losing momentum. However, with this purpose of expanding quickly, no fundamental structure was set up, and the top management was small in the early periods, with a handful of personnel.

Multiple Decision-making Units Within PECo

The PE firm has a decision-making structure that is not traditionally used in other firms. Like always, the primary legal decision-making body within PECo is the board of directors. However, in practice, the troika is the de facto main decision-making body. Although the legal power remains with the board, the PE firm is the majority owner; hence, they can mandate most decisions towards the troika. In principle, the investors of the PE fund are described as having extremely limited influence over the investments, allowing the PE firm, through the troika and BoD, to have freedom of decisions in PECo.

You still must have a clear division of labor and that the board is updated and informed, but the earlier you are in the process, the more it is [PE firm] that is the decision-making body, and the board signs off if they don't have any strong opinions on the matter [...]. So it's more about obtaining an OK from the board, so most of the decisions presented to the board have already been discussed and handled internally. – Associate, PE firm

While the board holds the formal power, mandating decision-making to the troika enabled the desired effectiveness.

There needs to be a function (troika) within the company, regardless of who is the owner. [...] We can make rapid decisions if it is below a certain enterprise value and the business acquired is core. If not, you need to go to the board, like if it's in a new country. – Head of M&A, PECo

Furthermore, at the start of PECo, the PE firm decided to internalize the M&A activity. This decision was based on the fact that M&A was central to value creation within PECo. Hence, they wanted to ensure it was done according to their specific criteria, hence keeping within the PE firm. This also made the decision process with the troika and the deal team quicker, as they were involved in all the acquisitions. When it was time to sell

to the second PE firm, an internal M&A department was developed in PECo, as it was now relevant to let the company continue with what the PE firm had started.

Some structural capital came from there (the initial platform company), but they did not have an M&A department, and even if they had, I would say that the M&A journey was so important during the start-up phase and the first year that we don't want to outsource it. But then, like all groupings created over time, it is natural in a company's maturation process that it is a function that also comes in-house and that you strengthen the central function. – Associate, PE firm

At the start of the first holding period, the troika consisted of Partners from the PE firm, the Chair, and the newly appointed CEO. This was the main decision-making body. However, with the troika sometimes 'splitting', problems arise where not all parties are fully informed about current situations. This was especially important when the CEO was sometimes partially outside of the information loop regarding, for example, new acquisitions.

It's important that you as a board don't run past the CEO, but you have a dialogue with him or her. You don't talk to so many others without the CEO unless the CEO thinks it's okay. – Board Member (Previous Chair), PECo

For PECo, the troika was essential for acquisitions, but they also discussed operational issues and decisions. However, these decisions were often brought to the board for further discussion to ensure that not too much was decided outside of the BoD.

The troika is where decisions are made about investments. [...]. However, you don't overthrow the board on big issues, it's more for when you need to reason about certain things. – Board Member (Previous Chair), PECo

Notably, the boards' chair always held the agenda within the troika. Even though the troika had a mandate outside the board, it was essential not to undermine the chair's authority.

It is the chair who holds the baton during the board meetings and the troika. [Chair] is the one who holds control and manages these groups. – Managing Partner, PE firm

Although many decisions were made quickly within the troika, the troika and board had little knowledge of the sector. Instead, most board members knew how to build firms and groups similar to PECo. Knowledge about building such firms and their financing was considered more important than specific sector knowledge.

I'm not good at [sector], but I can build companies. I'm good at strategy, and I'm good at finance; that's my part. – Board Member (Previous Chair), PECo

The PE firm had multiple local CEOs on the board to solve the issue of specific sector knowledge. However, these positions decreased over time as local CEOs expressed a lack of time for the position.

We wanted to have three seats on the board, and we had that from the beginning. Then it was down to two, and right now, it's only [a local CEO] who is on the board. – Local CEO, PECo

Further, the first CEO of PECo also had sector experience. He was also experienced with companies in a similar development phase, making him an ideal candidate for the role at the start of the holding period.

But I think I had an advantage from having worked in that type of organization with that type of owner before, so maybe I knew a little more. – Previous CEO, PECo

Value Creation and Time to Exit

From the start, the firm was heavily focused on growth through M&A, whereas other initiatives in the CDD partially fell behind. For PECo to truly disrupt the market, it was essential to quickly gain market share at the cost of different operational aspects. Further, as the PE firm had operational insight, setting up a reporting structure was not initially considered critical.

Most of them (PE firms) are extremely dependent on the fact that the reporting structures and processes are in place. But from our perspective, it was secondary, and the growth and creation of this huge organization quickly were the primary things. – Previous CEO, PECo

Growth initiatives were also prominent in the more organic practices. With this, the subsidiaries were encouraged to take on more risk, to a certain extent, and look at new markets in their vicinity outside the scope of M&A. By doing this, the firms were allowed to lower their margins from the top management perspective. This partially follows the view of the local CEOs. However, they still had a strong focus on their margins.

Our goal is just to maintain the profitability that we have now and hopefully be able to grow. And if we are to be able to grow more, we may have to enter other segments or maybe form branches and go to other places in the country where PECo has blind spots. – Local CEO, PECo

PECo's acquisition strategy showed no hesitation in decreasing the intensity based on the perceived time to exit. The PE firm saw a clear way forward for the firm, regardless of the owner, and therefore continued with acquisitions even if an exit was likely in the short term.

[...] We always went at the same pace, regardless of exit or not, because this particular growth journey was extremely acquisition-driven. [...] You always had to keep up the acquisition because it is such an important part. – Associate, PE firm

The chair further confirmed this, who saw a shared interest in PECo's vision regardless of who owned it. However, it was clear from the start that there would be a secondary buyout, partially due to the time of an initial public offering (IPO), which negatively affects the IRR, and also due to the lack of 'structural capital' (e.g., reporting structure,

processes, and compliance) required in the public markets, which was not prevalent in PECO.

They went for it, just like us. So, we went with the plan we had. It was, of course, to grow and to make money, and that's also what [Second PE firm] was interested in. – Board Member (Previous Chair), PECO

The possibility of an early exit was addressed, but given the scenario with PECO, there was no intention to slow down. However, when PECO was about to be sold, the firm ensured that profitability was stable, as this is the source of exit value.

It was obviously an important factor that you looked at what EBITA you needed to be at to be able to reach a certain EV. Of course, these factors come into play after a while, but they are more important in the final phase of a project than in the beginning. – Associate, PE firm

At an early stage, however, the PE firm knew there was interest from other financial investment firms, making an early exit more likely. The PE fund also had a relatively short ownership period of 3 years, and it was suspected to be even shorter in the case of PECO. Further, the fund has a certain amount of capital to be allocated. With the acquisition strategy, accessible capital became a limitation, and they had no viable options for raising more capital (e.g., co-investment, reallocating fund capital, debt).

If we had had a fund with a longer life cycle and had significantly more capital in that fund, we might have been able to hold on and continue to run [PECO] in the same way. It might even have been preferable in some respects. – Associate, PE firm

The reason for selling PECO was motivated by the fact that it was best for PECO's own development. Even if the fund could have gained a higher return if they kept it, the PE firm chose to sell it for the best of PECO.

[PECO] would never have been as big as it is today without [second PE firm]. When our capital ran out, we could have kept [PECO] and made [number] times the invested capital, but we were happy with [lower number] in a shorter time period. [...] Further, keeping [PECO] would not have been the best for [PECO's] progress due to the limitations of the capital. – Managing Partner, PE firm

4.1.2. Operational

Structural Capital

With the limited structural capital gained from the first acquisition, PECO needed to establish processes and structures. This was especially the case in the group's first year, as this was explicitly included in the CDD.

But the big work was to put together the overall flow of [PECO], to get the structures and processes in place. – Previous CEO, PECO

Moreover, at the local subsidiaries, there was a lot of focus on establishing horizontal relationships. This is also reflected among the local CEOs, who cooperate with their

colleagues in other internal firms. Although local CEOs express that nothing has changed since the acquisition, meetings with other local CEOs have become a common practice. Through these meetings, the CEOs are able to exchange best practices.

We do a lot of internal work. If you come across something that you haven't seen before, you can always ask a question to the whole group, and then it's someone who has been on it before, and then you can get help from there, so that's one of the strengths. – Local CEO, PECo

This is further strengthened by the fact that multiple firms cooperate and do business with each other. For example, they can share employees if needed or send projects and customers to each other. Although this can create an asymmetry where revenue gets shifted to another subsidiary, the local CEOs understand that it is better for the group and, hence, better for themselves as owners.

I don't want to send my staff up to Stockholm and spend the night there if I don't have to. Then I give the job to [another subsidiary] [...]. I could have chosen to say no, thinking selfishly, 'We'll take those projects ourselves and put [number] million more in turnover'. – Local CEO, PECo

The CEOs of the subsidiaries are described as having an essential role in PECo. Thus, when acquiring firms, PECo tries to understand the motives and motivations of the CEO and the owners. PECo aims to buy firms where the owners are operational and will continue to be so if they become part of the group. This is an important part of the M&A process, where they account for the subsidiaries' thoughts and motivation.

It's probably one of the earliest trade-offs we make when we go into a process. Is it an entrepreneur who wants to go to the retirement home and hand in the key, or is it someone who wants to go for it? [...] This is no Florida retirement, you're going to keep working. – Head of M&A, PECo

Although PECo ensures they have the right local CEO, deviations can occur with time. If the local CEO does not sufficiently perform, PECo will consider possible replacements. However, this is quite rare and is instead a worst-case approach. Most of the time, the firms perform well, and there is no need to change the CEO.

No, but we've had a couple of companies that have had a management problem, that we've changed CEOs. Maybe two times in the last three years. – Senior Manager, PECo

Reporting Within PECo

Creating an appropriate reporting structure was an explicit priority in the CDD. However, as many of these firms previously were small and accustomed to simpler annual reports, the increased frequency and detail of reports increased accounting complexity. The reporting structure works both upwards and downwards. Every month, there is a call for all the subsidiaries to join and share information about PECo. The monthly reporting of the subsidiaries is discussed in meetings between senior managers and top management

of PECo and funnels down to different business units. The reporting is also the basis for the discussion on the board, who meet every month.

We had a written report where we wrote a little bit about what had happened lately, how we looked at the future, the outcome, and so on. Changes in the company. We take care of ourselves as we did before. We then report upwards. There is a lot of strain on the finance department as things that weren't so precise and frequent before. – Local CEO, PECo

This allows management to follow up with each firm and proactively solve problems. Moreover, each subsidiary's reporting is visible horizontally throughout the organization. Therefore, a subsidiary can see how it performed compared to other subsidiaries, which results in additional competitiveness. Many local CEOs actively follow up on their performance compared to other subsidiaries.

We have monthly reconciliations with the companies. Then you can see that the company that earns the most in the group or that earns the worst, so it's completely transparent, and it also means that no one thinks it's fun to be on the shitlist. – Senior Manager, PECo

4.1.3. Financial

When PECo acquires companies, approximately 30 percent of the purchasing price is mandatory for reinvestment into central ownership of PECo. This aims to align the incentives in the organization further and create a joint interest in profits as a group, not per subsidiary.

Because all the local CEOs are owners at the top, everyone has an interest in us making money. – Senior Manager, PECo.

Consequently, the second PE firm has majority ownership of PECo but not to a large extent. During the first holding period, with the first PE firm, there was only 40 percent ownership, and the local entrepreneurs thus had the majority of the capital. However, the PE firm has approximately 90 percent voting rights during both holding periods.

Of course, there is a great deal of co-ownership. Approximately 60% of us are owned by the (second) PE firm, and 40% are the entrepreneurs and management (of PECo). [...] It's more fun to let my colleague [name] do a project if we're both partners in the same entity. – Head of M&A, PECo.

Having these incentives together with the decentralized organization ensured that operational issues solved themselves.

If you have it as a principle of an organization with widespread ownership, a lot will be solved by itself. – Head of M&A, PECo

Certain key personnel can participate in incentive programs at acquisition and during the holding period to align purposes on an individual level. These people are identified as central to the performance of each subsidiary and can invest in PECo with favorable agreements.

Sometimes, there were one or two, or three, or four that we considered key people in local companies. Today, we have more than three hundred partners in the group. – Senior Manager, PECO

For acquisitions, PECO does not take any internal loans from the PE firm or the fund but rather from an external lender. The leverage ratio is decided by the troika and the board of directors to be aligned with the PE firm's objective. With the debt, there are certain covenants and agreements for future loans. The banks also require quarterly reporting where, for example, the debt-to-equity level is reported, during which the covenants are followed up. The leverage is also described to put pressure on maintaining cash flows to pay principal and interest, hence creating a focus on specific KPIs.

4.2. PubCo

PubCo, in contrast to PECO, adheres to a governance structure typical for a public company. The owners select the board and chair, who determine the CEO. Hence, a clear hierarchical structure exists for PubCo's governance. For PubCo, the external owners do not have direct insight into the company's operations, relying instead on quarterly and yearly reports for information. It's important to note that the internal management, including the board's chair, holds stocks. However, this group of owners remains a minority regarding capital and voting rights, with the majority being held by external institutions or private individuals on the public market.

4.2.1. Governance

Decentralization and Central Management

PubCo is built on a sense of decentralization and high independence. Subsidiaries within PubCo continue as before the acquisition and make most of their operational decisions themselves. Like PECO, PubCo focuses heavily on its decentralized model as a business success factor. Although PubCo has centralized functions, it does not want to direct or 'steer' its subsidiaries too much.

[...] All of them are decentralized organizations, all the companies, they are the ones who run the business. We don't want to stifle their entrepreneurship, they are their own companies. We are here for security, support, to bounce ideas off. – Senior Manager, PubCo

A large part of not being too involved in the businesses is focusing on acquiring the best companies on the market. Hence, as the senior manager said in the beginning, the subsidiaries are highly autonomous, which is why they are a part of PubCo. This is further reflected in the M&A strategy, as this is one of the most important steps to ensure that acquisitions will improve the whole organization. This is also why PubCo does not do turn-around cases where they acquire a 'bad' company with future potential. PubCo only

acquires historically well-maintained and well-performing companies with solid future outlooks.

This strategy also aligns well with the subsidiaries within PubCo. They reflect the idea of decentralization and the values the board and management proposed. They want their companies to continue thriving in safe hands while securing the firm's value. By selling to PubCo, these companies can 'cash out' while continuing to run their business as-is.

You are selling a piece of yourself by selling a part of your company when you have worked it up from scratch, you've spent many thousands of hours in this, and then someone will come in and say, 'But you're completely unimportant', from being the most important person in the company. So I think this model is absolutely superb. As I said, you can live on and feel that you are still fully involved. – Local CEO, PubCo

Moreover, a key point of PubCo's central organization is its personnel. PubCo is built from the ground up of people who come from subsidiaries. These people know the business inside and out and understand what being a part of the company is like.

I've only been here for a year, and previously built up a company that became part of [PubCo] three years ago. [...] Everyone with the type of role I have has come from subsidiaries, only a few have come in as external recruitments. – Senior Manager, PubCo

According to the interviewees, the key to success is having the right people in the right positions. They built an organization and ensured they found the right people for the roles. An external professional is sometimes relevant for roles, while internal recruitment is valuable for other positions.

We say: you shouldn't make an organization after the people you have, but you make organizations and then you try to put the right people there. – Chair, PubCo

PubCo's decentralization hurdles are reflected through its balancing act of trust and partial centralization. It is central that you trust all the subsidiaries to fulfill their duties now that they are a part of the larger organization. As we saw above, a large part of this selection process already happens during acquisition. However, it is crucial for PubCo to continue this work after the acquisition. But some things are forced now that you are within this larger group. As the Chair and former CEO put it:

At [PubCo], we have set the table, and it's called the 'smorgasbord'. [...] And then subsidiaries take some of what they think is good [...]. As such, there are some key things that can't be chosen, [e.g.,] code of conduct. It's one of those things where you stay in the middle of the road. When it comes to business, I usually say, 'don't be out and wobble in the left lane or in the ditch'. Instead, you have to keep the business on the road, and that is very easy to explain. No one says 'I don't want to be involved' and 'I don't want to do good business'. – Chair, PubCo

Although some specific policies are associated with being a public company, most of the governing is done through a well-established business model. This business model is reflected throughout the organization, from the top of the board to the local businesses. For example, the M&A team has a clear direction of where to go and what investments

to make. They do not need a specific document or policy for making decisions. The business model and the underlying idea of the company instead guide it. However, there is no particular policy document restricting decisions. Hence, there is ‘room’ to move around with decisions, such as expanding to new business lines and countries.

I would say that the whole [business] model is so grounded in the fact that we know where we want to go. We know what kind of company we're looking for, and we've never wavered at it like it's been since the start. So we're looking for the same type of companies, and then, of course, we're looking at new ones. We've gone to Norway, we've been to Finland, we've started to invest in new business lines. We spread out all the time, but we kind of spread out gradually like rings on the water rather than just sprawling. – M&A, PubCo

However, the board of directors plays a central role in deciding what to explore and do. In many ways, the board acts as a risk assessment function for the entrepreneurial ideas that come from the organization.

That's the role of the board of directors, besides supporting the CEO, it's also to put a stop to some too-crazy ideas, and it's easy to do that when you're on a board if you're thinking about what we should do next. – Chair, PubCo

This is also important with PubCo's start-up investments, where the firm recruits new personnel and creates a new subsidiary without acquiring an existing firm. Culture plays such a significant role in the business that everyone must know it in these start-ups. From this, the companies become ‘self-propelled’ in a sense. Thus, only slight nudges are needed in certain situations to ensure that the core culture remains and that sound decisions are made. However, even though this is important for the subsidiaries, it primarily affects decisions on a higher organizational level.

You set a culture. Then, this happens automatically. Then you need to be there and nudge a little sometimes. [...] I've got the CEO and feel like a team as well as like your own little family. Like supporting each other, and we meet quite often and so on, and it's a good atmosphere, and that, it's a good group of people, that's why we want to help each other. – Senior Manager, PubCo

The responsibility within PubCo also comes with some surveillance through reporting. If everything goes according to plan and the company has a good margin and stable growth, the central organization does not involve itself much. However, if the company suddenly underperforms or something happens, PubCo gets more involved. Still, PubCo focuses on assisting and counseling rather than direct involvement in the operations. Yet, this is mainly to aid local management with problem-solving and to find solutions.

Of course, if it worsens, I'll bump into it more. It's also that I'm there for them regarding issues where they need me, but when I see that it's a little tougher, I get closer and am more present to help. In my role, it is also important to maintain that constant balance. To have that overhead role, but do not go in and control. – Senior Manager, PubCo

Surprisingly, even though local leadership is central to the business model and culture plays a significant role, PubCo is okay with allowing local CEOs to ‘exit’, i.e., take the money and leave. Given that the acquired firm fulfills the terms of the acquisition and has

a clear succession order in place, they do not force management in the subsidiaries to stay. Transparency is essential, and as long as the subsidiary is transparent from the start, if there is to be an exit, they do not mind. However, this is also a rare occurrence, as most companies sell to PubCo because of their business model and because it entails that they can remain in the company just as before.

An exit doesn't have to be bad either. It's just that it's not the main goal, but is there a succession in place, and is it transparent? That's kind of the key to everything. [...] They can get paid better elsewhere, and there is no denying it. After all, we are not the ones who pay the best, and there is a reason for that. Because we are also the ones who grow our companies the most, I wouldn't say there's any secret sauce in that, but it's more about transparency. If someone wants to exit, there are also opportunities for that. If the succession is in place, that can be great. – M&A, PubCo

As the acquired firms are often very well aware of the business model of PubCo, there is seldom any friction once they are acquired. As stated above, although top management tries to be as distant as possible, they sometimes need to come in with advice and support. The subsidiaries receive this assistance positively, even though the feedback might be seen as critical or controlling. They understand that it is in everyone's best interest to improve the issue that they are having. Hence, when PubCo management comes with requirements or assistance, they are often okay with following these.

So many of our acquisitions demonstrate that the company's seller or CEO is very happy about [PubCo], and they follow our directives very clearly. It's not so rebellious. I've noticed that they buy what we say. 'Yes, if you say so, you're right', or 'we understand this'. Also, I think there's a very healthy balance in that distinction between the subsidiary and the group, actually. – Controller, PubCo

Policies and Rules

One of PubCo's most considerable requirements is quarterly reports. These reports bring many further requirements, such as budgeting, internal reporting, and controlling. This change is especially noticeable for newly acquired companies, who are often used to yearly reports. Although PubCo only reports quarterly, it requires numbers from its subsidiaries every month.

Of course, there was an assumption in connection with the IPO that a lot of policies and structures needed to be implemented. We did need to have more structure and track the quarterly reporting. You have to really implement the code of conduct, and at the same time, you have to implement budgets. – Chair, PubCo

And it is not only the reporting. Once the companies become a part of PubCo, they must have forecasts. The subsidiaries make these forecasts with the help of PubCo controllers. These forecasts act as a milestone to aim towards and ensure the firm does not drift off completely. The forecasts also act as a goal for the companies. Once the companies become part of PubCo, there is a risk that they stop improving. To counteract this, PubCo

implements clear goals and visions, per firm. Then, it is up to the companies themselves to reach these goals.

And of course, the risk is that they think, 'Thanks for the coffee. Yes, it's fun to be here. But now I have so much money, I don't know what to do with it.' As I see it, as a leader, that was perhaps the biggest challenge I had besides the fact that I made a lot of acquisitions. It was to keep everyone happy. Setting new goals, try to look around the corner at what's coming next? What can we broaden our horizons towards? – Chair, PubCo

The goals of the companies are often closely aligned with the financials. The base for all companies is to reach or maintain a specific margin level. This level is discretionary for all companies, but all companies have goals and are compared. A business plan is set up based on this goal. This plan is formed from a ready-made PubCo template that each company fills out with their activities. Because each company is unique, they can reach their goals however they see fit. Most notably, the goals for each subsidiary are most often related to margins rather than growth. One misunderstanding highlighted multiple times through the interviews was the focus on growth. The owners and the market usually focus on organic growth, but PubCo sees the margins as more essential and pushes for acquisition growth instead.

Not all companies need to grow. It's nothing like that. People talk quite a lot about growth and that it should be extremely attractive. [...] You don't always have to chase growth, but you want to chase good projects and good customers, and then the rest will come by itself. – M&A, PubCo

The core to all of this is trust. PubCo views trust as a central pillar ensuring this decentralized structure works. Even more, they see trust and decentralization as structures that enable growth and success for the whole group.

It's possible to write many rules, limitations, and things like that. But at least, in my philosophy, it's very much dependent on whether you trust people; they feel that you trust them. Then they dare to take initiative. – Chair, PubCo

4.2.2. Operational

Regarding PubCo's operations, the general idea is that all decisions are made locally by the CEOs of the subsidiaries, with support from central management when needed.

I don't control anything. It's the CEO who makes the choices, I can say that straight up. Then I can say, OK, these projects have this margin, these other projects for this customer have that margin, but the CEO does the rest. – Controller, PubCo

Above all, the subsidiaries compete a lot when it comes to margins. This is demonstrated at each subsidiary's board meetings and in the company's monthly reports. These reports show companies in different margin groups and act as an incentive to work upward in each group. The subsidiaries compete and help each other. They do not want to show bad results because they have to present these numbers to their bosses, friends, and colleagues.

Hence, seeing that you are in a lower margin group incentivizes local management to step up and fix it, even before it is a problem, just because they want to be on top of these lists.

It's not fun when you're at the bottom of the list, for example. If you're a competitive person, you will be comparing your firm to others, that's for sure. –
Local CEO, PubCo

To activate all these companies and ensure that synergies are fulfilled, PubCo sees it as essential to be out and meet their subsidiaries. Going out to the companies can ensure that they are operating efficiently, that their questions and thoughts are answered, and that there is a good relationship within the organization. Hence, a large part of a central manager's job is to remain in good contact with the subsidiaries and meet them consistently.

Yes, it's extremely important to be out in the company. That's like the be-all and end-all, and we're talking a lot about it in the management team of [PubCo] as well. We need to be close to the companies. It's part of the role, we can't sit in our chamber and control the companies because we don't know what will happen then. Rather, you have to be out in the organization to get to know the companies because there, you get indications of how things are. Are we getting projects? How do we work with customers? What are the customer relationships? Not that I'm going to go in and control, but I get a feeling. – Senior Manager, PubCo

This is especially important for the senior manager as even though the organization is decentralized, the senior managers are assessed on results and margins. As long as the subsidiaries are performing well and according to the business plan, no more action is needed. The main focus is to keep good contact and then let the companies run themselves. And even if things worsen, PubCo tries to get involved as little as possible.

[...] It's not like we arrive in suits and control; it's more like OK. Now we're standing here, and they want to move forward too. They think it's hard to see themselves on the list down there. –
Controller, PubCo

From the subsidiaries' point of view, when things go awry, they have to explain the context and reasons behind them. Most often, the feedback comes from the subsidiaries themselves. In this way, they are not caught 'with their pants down'. Although the responsibility as a CEO is quite similar when a part of PubCo as when they were stand-alone, the act of everything, especially if something goes wrong, puts pressure on the CEOs.

If it goes badly, then they get in touch more, then we sit, and they have a sensible explanation of why. Why has this month gone down, and so on? Then I'll have a better explanation for it. –
Local CEO, PubCo

The problem can, however, be the opposite. Now that these companies are part of PubCo, they have started to rely heavily on them. To minimize this, the controllers have, for example, established a financial handbook. According to interviewees, the handbook is less of a 'requirement' and more of a guiding document. These sorts of documents are

meant to minimize questions of how to do things to central management so that they can focus more on value-adding activities.

Moreover, incentives will not be received if subsidiaries consistently fail to meet targets. For one, most acquired companies have an earn-out period that spans some years. If the company fails to reach the goal, often connected with its EBITA, it risks not receiving its earn-out, which can be a substantial part of the transaction value. Further, the subsidiary CEO also has bonuses associated with the company's results besides the earn-out. This bonus also acts as an incentive. If things continue to go wrong, which may be out of the hands of the CEO, PubCo has an internal best practice consulting organization that aids companies come back on their feet.

There will be no bonus for them, that's one thing, or there will be no earn-out. But if it actually goes bad for real, or over a longer period of time, then we kind of have our [best practice] organization. [...] Now we have a model for mapping and building up, as well as actions for the companies that do not really deliver as they want. – Controller, PubCo

According to both PubCo management and local management, requests for help often come from the subsidiaries themselves. They are the operational part of the organization and will see firsthand if something is not going according to plan.

4.2.3. Financial

The debt level is central to the public market's valuation and risk assessment. Hence, many of the owners' and analysts' questions concern debt. This affects some decisions within the company, mainly regarding M&A and start-up investments. Because of their advertised net debt to EBITA (ND/EBITA) ratio to the market, they are inclined to take on projects at that level, or lower.

But it is clear that if you have a number of KPIs that say, for example, you have promised a maximum of 2.5x to the market. Of course, if you're going to make an investment that would make the leverage level go up 3x, then you would rethink two, three, or four times because then I do not believe it will be received well. [...] Of course, consideration is given to the other shareholders, and that is the way it is. – Chair, PubCo

This fact affects current owners and the kind of owners the company has. Because of its debt level, the company is only exposed to a certain type of investor who accepts slightly higher debt levels.

Because we have a Q4 ratio of [lower than target], and Q3 was [higher than target]. And a lot of investors say they don't want to meet us. Everything over 2x goes away because they have a little panic. They are terrified themselves. – Investor Relations, PubCo

This is also reflected in the questions that are received from the owners and the market as a whole. However, many aspects are important in the public market, and PubCo often gets a lot of different questions, mostly related to growth or margins. But at the end of the day, PubCo sees margins as most important.

The most common question right now is perhaps mainly about market development and our debt levels. But that's probably mostly because that's where there are question marks. Regarding the most important thing, there are many parameters: Acquisition rate, organic development, and, above all, margin. – Investor Relations, PubCo

However, PubCo tries not to be too affected by the market and its owners. For example, PubCo gave examples of times when there was a need for more professional workers. Now, more questions concern how they can lay off people the easiest as interest rates have increased.

Some days, I'm really frustrated, and the stock market is a diva because it goes up and down and trades very short-term at the same time as they trade on news that will affect a year ahead. You should definitely keep an eye on what they say, but as I said, don't stare blindly at what they think right now. A few years ago, I learned that the most common question they got was: How will you find staff? There is a staff shortage throughout the industry and so many growth opportunities. But this is a bottleneck. Now, we get asked how quickly we can make layoffs if the market turns. They are not always long-term, and it is up to the management and board to have a balance. - Investor Relations, PubCo

This also affects PubCo's main value driver, keeping up with acquisitions. Some smaller owners might question the acquisition rate during a period of higher interest rates. However, PubCo argues this is so central that they cannot compromise because the market is in a temporary downturn.

That is when you have an M&A-driven company - should we take a break? It's easy to say that we're taking a break and consolidating, but then you have to remember that the valuation of a company like [PubCo] is based on growth. So we have bought for [billions] every year. We've grown by double digits yearly, reflecting the valuation. – Chair, PubCo

However, although the stock price is integral to the business, PubCo tries to discuss it internally as little as possible. They want subsidiaries to focus on the core business rather than think about the stock.

Sometimes, we've added some commentary to the share price performance, but we try to avoid that so that it isn't all about the share price. We're going to talk about the business, what the vision is, and what we're doing together. It's not just these little tickers. – Investor Relations, PubCo

The stock price will be important, as bonuses are often paid as employee options. Moreover, as many previous owners reinvested some of their purchase price into PubCo, they will be thinking about the stock price and how the firm works to maximize it. But this also works as an incentive to ensure that people work together. At the end of the day, it is the success of the whole organization that improves your payout, not just your local subsidiary.

5. Analysis

This section analyzes the empirical findings. Section 5.1 takes a stance on the vision, culture, and rules applied and used in PECo and PubCo. Section 5.2 focuses on decision-making itself and the decision-making structure, while section 5.3 delves into incentives and leverage. Lastly, section 5.4 discusses leverage and its implications for management control.

5.1. Vision, Culture, and Rules

Looking at PubCo and PECo through the lens of Shatzki's Practice Theory, one significant difference is the 'general understanding' associated with the firms' culture. PECo is characterized by the 'rules' and 'teleologies' set out by the CDD document (i.e., a material arrangement). At the same time, PubCo has a culture based on a general vision (i.e., general understandings and teleologies) rather than a document. PECo uses the CDD to ensure that the central organization and local firms are aligned with the 'general understanding' of values and norms. However, it is hard to propose that a document, like the CDD, can generalize (e.g., as seen by multiple people at the same 'site') this sense but could, to some extent, contribute to it. Moreover, the CDD document was created before the complete acquisition and creation of the group. Gompers (2016) noted that these PE firms have *some* insight into the business even before the acquisition. However, since the CDD was created before the transaction was complete, this was arguably before the PE firm *fully* understood the company and sector. Further, the CDD document is seen as theoretical, built on preconceived notions. Therefore, it can be challenging to adhere to since central management builds their own 'practical understanding' of the social reality as a manager within the 'site' of the firm. This can create deviations from the document when management acts on new circumstances within the changing reality (Schatzki, 2005).

PECo's vision has been set since day one and continues to be the same today, while PubCo's culture organically evolves within the firm to fit the industry's changing climate. Hence, PubCo is more flexible in its decision-making and strategy, as the 'general understanding' and 'teleology' are more fluid than PECo's CDD document allows. An example is the recent establishment of a new business line within PubCo, initially outside the core business. However, when they saw a business opportunity, they were willing and able to pursue it due to their flexibility and, by coincidence, finding the appropriate manager. Had PECo been exposed to a similar opportunity, it is unlikely that they would consider it, according to the interviewees and the CDD document. In the cases where

there were deviations from the CDD, it was retroactively generally seen as the wrong decision, as was the case with the additional central function that was created.

Furthermore, differences can be noticed further down in the firm hierarchies. For the local subsidiaries of PubCo and PECO, the relationship and loyalty to the group brand differ significantly. For one, interviewees from subsidiaries of PubCo have a greater understanding of the PubCo brand and express loyalty towards it. At the same time, they still operate under their local brand. However, the opposite is true for PECO's subsidiaries and subsequent loyalty. PECO subsidiaries do, to a larger extent, not demonstrate specific loyalty towards the brand of PECO; instead, they still see themselves as independent as a brand. Hence, we see a discrepancy in the 'general understanding' at the 'site' of the subsidiaries regarding the relationship towards the group, regardless of the 'rules' or 'practical understanding' of their reporting structures, as these are relatively similar.

An explanation could be the decoupling between the 'site' of the firms' operations and the 'site' of the central organization. Although both firms have a similar organizational structure and small central management, they differ regarding the vertical relationship between management and operating units. PubCo is more actively involved with its subsidiaries than PECO. Even though they highlight the importance of their independence, central management has a 'practical understanding' of the operations at the 'site' of the subsidiary due to strong personal connections (Schatzki, 2005). Hence, this indicates a more interlinked 'web' of practices within PubCo. From the local perspective, this has seemingly created a greater sense of community while still being decentralized. Another explanation is that *financial belonging*, through incentives, acts as a substitute for brand loyalty (i.e., community) and aligns the 'teleology' of the owners and employees, which will be discussed further in 5.3. Although PECO's subsidiaries do not feel as intensely about the group brand, this has not hindered a 'general understanding' of cooperation with other PECO subsidiaries as supported by the aligned 'teleologies'. However, what is affected is the 'general understanding' of the brand. Hence, the 'sites' within PECO have become more dispersed than those within PubCo.

What is further emphasized by this weak connection is the management's lack of 'practical understanding' of the local operations. For PECO, management interviewees demonstrated one view of the company, while local CEOs demonstrated a slightly different view. There is a broken link between the 'practical understanding' and 'general understanding' of management and local subsidiaries. This is further emphasized by a board member of PECO, where much of the BoD also lacks specific industry knowledge compared to PubCo. Although we do not state that one direction is better than the other, it is evident that PECO strategically focuses more on business growth expertise than operations.

On the other hand, industry knowledge was prominent during the creation of the CDD. However, PECo focuses primarily on reaching its preconceived ‘teleology’ set by the CDD. In turn, the choice of personnel (i.e., the sites material arrangements), based on their knowledge and experience, as a reflection of the ‘teleology’, affect which practices are carried out in PECo and PubCo. This indicates a three-way effect between practices, material arrangements and teleology (Schatzki, 2005).

5.2. Decision-making

The existence of the troika inherently changes the governance structure within PECo, compared to PubCo. Because of the troika, the mandates for decision-making are moved from the ‘site’ of the organization (e.g., BoD, CEO, CFO) to a ‘site’ between the PE firm and PECo with personnel from both organizations. In turn, the traditional governance structure is reconfigured in PECo. What further complicates the matter is that the troika itself contains multiple ‘sites’ for decision-making due to the group sometimes splitting into new formations for decision-making. As seen in the interviews, sometimes the troika includes the CEO and Chair, while other times, only one or the other is included, and the only coherent party is the representation from the PE firm. In a practical sense, these thus constitute two different ‘sites’ defined by different understandings, both ‘practical’ and ‘general’, of how decisions are to be made. Hence, some decisions are mandated and made outside the power of the CEO and outside of the board, consequently complicating the relationship between these different ‘sites’. For PubCo, the governance structure is not reconfigured, hence keeping the ‘sites’ of decision-making and the relationships between these ‘sites’ clearly defined. This also enables more accessible practices between the ‘sites’, making the ‘general understanding’ more coherent throughout the wider ‘site’ of the company.

PECo can reconfigure the governance structure and have a close relationship between the owners and the operations, which is restricted in PubCo due to regulations. The owner’s involvement minimizes the misalignment of the ‘teleologies’ of practices, which can be a problem in public firms. Moreover, as PECo does not have this issue, they are free to mandate decisions outside of the standard governance structure without any issues. Arguably, this has been valuable for the fast-growing PECo, where decisions must be made quickly rather than thoroughly. Existing literature indicates that governance complexity decreases while reducing overhead expenditure with PE ownership (Jones, 1992; Phan & Hill, 1995). However, PECo instead demonstrates an increased governance complexity, with many different ‘sites’ for decision-making, which partially opposes this theory while also inducing friction within PECo.

This separation of decision-making also ensures that PECO can make quicker decisions with, for example, new acquisitions. Even though decisions are made fast through the troika, PECO still demonstrates strong retentiveness to the CDD document. Hence, they cannot make decisions outside this document's scope unless the BoD approves. In practice, decisions outside the CDD document rarely reach the BoD, and PECO is, therefore, less flexible in its decision-making than expected.

On the contrary, PubCo demonstrates more flexibility regarding the 'practical understanding' of decision-making. Although they follow a more traditional governance structure, where the board decides on the most significant decisions, they are not 'restricted' by any document created by the owners. The 'general understanding' of the values and business model within PubCo is what guides and directs decisions. For example, when PubCo established its new business line, this decision could be made without breaking the 'general understanding' or 'practical understanding' of PubCo's strategy and vision. They could step outside their regular business lines by coincidence and timing, whereas PECO probably could not.

For one, the reconfigured governance structure does create some friction within PECO. For example, the previous CEO highlighted the problem of leading a company while not being fully aware of the decisions being made. This was especially prominent when PECO did not have an internal M&A function, and this essential function was handled by the deal team within the PE firm, constituting another 'site'. From the CEO's point of view, new firms could pop up suddenly, with scarce pre-warning and little information beforehand. Hence, being a CEO handling these situations was a constant act of problem-solving instead of being proactive in their work. A senior manager made a likeness to the game of 'whack a mole', which was especially the case in the early parts of the holding period for the first PE firm.

As the PE firm is highly engaged as an owner in PECO, they are also more involved in recruiting management personnel for the 'site' of the central organization. Generally, the PE firm was okay with changing management to fit the current situation. In the start-up days of PECO, they employed a suitable group CEO for a new, fast-growing organization. However, as the organization quickly became larger and more stable, they needed a CEO with experience in this new situation. If PECO needed to change management personnel, they did so without hesitation. The same goes for the BoD, CFO, M&A, and other key management personnel in PECO. Notable is also the deprioritization of industry knowledge when recruiting personnel. PECO often employed people with backgrounds in strategy consulting, investment banking, financial due diligence, or general business management rather than people from PECO's specific industry. This contrasts with PubCo, which almost solely employs people from their industry and often works with

internal recruiting. For example, this can be said for the CEO, local CEO, and multiple senior managers, with some exceptions. The difference in recruiting between the two firms could be explained by the differences in value creation practices. I.e., the ‘practical understandings’ and ‘teleologies’ differ, hence they recruit different personnel.

5.3. Ownership and Incentives

To align the ‘teleology’ of the employee’s practices, the incentive structures of the two firms are set up differently. Both of the firm's subsidiaries have reinvestments into the group at acquisition. Although PECO has a ‘rule’ enforcing reinvestments, PubCo employs it voluntarily. Both firms implement individual incentives for key personnel. For PECO’s personnel, this bonus is indirectly tied to the time to exit for the PE firm because of the reinvestments and stock options, except for typical annual bonuses as seen in both firms. PubCo, on the other hand, has incentives tied to bonuses and stock option programs, which have a clear timeline, as the vesting period is explicitly defined.

Because of PubCo's options program, the investor relations team receives many internal questions regarding the stock price. This indicates the importance of the stock incentive program and that the stock price acts as a clearly defined ‘teleology’ for PubCo employees, which is not as evident in PECO. Although important for the personnel, PubCo management avoids discussing stock price when possible and instead tries to facilitate a focus on the ‘teleology’ of practices at subsequent subsidiaries’ ‘sites’.

The rationale behind the implementation of incentives also differs between PECO and PubCo. By Bedford & Ditillo’s (2022) definition, PECO employs a managerial control system by focusing on incentives to align practices. PubCo, on the other hand, utilizes entrepreneurial control by trusting the ‘general understanding’ of the employees. By focusing on incentives, the ‘teleology’ of managers in PECO becomes aligned with the owners, essentially removing a necessity for a strong ‘general understanding’. Still, it can, at times, be perceived as abstract compared to the real-time stock price that PubCo incentives are based on.

The different degrees of incentives between the two firms are not surprising since previous literature has pointed out similar findings (Baker & Wruck, 1989; Gompers et al., 2016). The reason for the PECO incentive structure can be partially explained by the group's acquisition strategy and constant growth. However, both firms have an intense acquisition strategy and should, therefore, have similar control systems.

PECO’s high management turnover limits the amount of trust within the firm; hence, another control system is needed. While brand loyalty for PECO is weaker, these incentives enable a stronger financial belonging to the group. This ‘teleology’ aligns with

the ‘general understanding’ that subsidiaries should support each other. PubCo’s brand loyalty rather enforces trust within the firm. The incentive’s purpose is to increase the likelihood that issues will be solved by themselves lower down in the organization, as explicitly reflected by an employee of the M&A department in PECO. This, in turn, will free up time for management and time to focus on practices that work towards the group’s common ‘teleologies’.

Moreover, the incentives increase the perception of a long-term view within PECO. The more prominent and long-term incentive structure is one part. However, PECO’s focus on its long-term vision and strategy further disproves the generally considered short-termism of PE-owned companies (Cronqvist & Fahlenbrach, 2013). Exemplifying this is the lack of experienced personnel in the industry. With this issue, investors and analysts of PubCo focus on this problem with an arguably short-term view, changing depending on the current market climate. While PubCo tries to ignore these short-term worries and focus on the long-term issues as much as possible, they sometimes have to answer to the market’s short-term expectations. As a private company, PECO can largely ignore these short-term worries and instead focus practices on the long-term issue of securing personnel, regardless of market actuality. From this perspective, the main difference between the firms is the priority of the ‘teleologies’ from a time perspective and the implications of the market’s opinion and ‘rules’ on practices.

While there is a relatively dispersed ownership in PECO, with 40 to 60 percent of the capital being owned by management and subsidiaries, compared to the 15 percent found in Døskeland & Strömberg (2018), there are multiple share classes with different voting rights, securing the PE firm’s substantial control over PECO. While the literature argues, from a governance perspective, that more control (i.e., voting rights) leads to more implementation of practices (Bernstein & Sheen, 2016) and more voting rights lead to increased formal control (Bedford & Ditillo, 2022), we find that it partially does not hold in this case. The PE firm has complete control over PECO, with approximately 90 percent of the votes. The question is whether it matters if they control 100 percent of the votes, or 51 percent. Arguably, as long as the PE firm has a distinct voting majority, this should not matter. Although they have the last word, the PE firm proposes that they do not implement decisions unless there is uniformity of thoughts. Thus, they do not explicitly use their formal power. However, the board members have a ‘practical understanding’ that the PE firm, in principle, has the final word and, therefore, would be hesitant to disagree outright or face the risk of being replaced (Acharya et al., 2009). Thus, the degree of voting rights the PE firm possesses should not affect decision-making in a significant manner. In terms of formal control, understanding the PE firm’s majority inherently makes the need to exercise formal control unlikely. Hence, the PE firm primarily uses a

form of informal, ‘social control’ over the board, which is implicitly backed up by the underlying formal control through a ‘practical understanding’ within the board.

5.4. Leverage

The firms’s leverage differs significantly between the two. PECO and PubCo mainly refer to leverage as the ratio between net debt and EBITA, where PubCo has approximately half of what PECO has. Although PE-owned firms usually have higher leverage (Jensen, 1999; Kaplan & Strömberg, 2009), which is consistent with the differences between PECO and PubCo, the goal (i.e., ‘teleology’) for PECO is not necessarily to raise a lot of leverage. Instead, it is a consequence of the financial engineering and M&A agenda set by the ‘teleologies’ in the CDD, where acquisitions require debt. This is further strengthened by the fund’s limited capital, where debt is needed to finance the growth. Hence, leverage is merely a result of the method of maximizing the exit value.

PubCo, on the contrary, does not have the same freedom in deciding debt levels. Equity research firms and institutional investors are described in this case as having a leverage ceiling for investments, normally around 2x ND/EBITA. Because of this, PubCo establishes a target leverage level based on the market expectation and, at the same time, the internal need. This target level consequently enacts a ‘rule’ that limits the investments that PubCo can pursue. Even if PubCo were to identify a favorable acquisition, it would be less able to take on more debt due to the market's strictness regarding debt levels. This affects PubCo’s ability to pursue wanted practices depending on present debt levels and profitability, which can be cyclical. This is further proven by using start-ups for growth, which requires less debt to get started.

However, PECO, compared to PubCo, is also limited to an extent by the covenants enacted by the lender due to the increased leverage. These covenants pressure PECO’s leverage ratio, but not to the same extent as the public market for PubCo. The limitation of the covenants aligns with what Kaplan and Strömberg (2009) argue for. However, the degree of the implications imposed by the covenants in PECO are challenging to define precisely, but they do not impact the practices significantly. With additional leverage taken on by PECO, there is an increased focus on working capital, which is explicitly reflected by a board member, and aligns with Baker & Wruck’s (1989) study. However, neither the interviewees of PubCo nor PECO reflected on the importance of cash conversion. This might result from the type of firm and the industry; both firms aim to lease equipment and do not have significant capital expenditures. If the situation had been the opposite, there could have been an increased cash conversion focus in PECO, where the effects of leverage on management control would have been more prominent.

Regarding the two types of value creation (Acharya et al., 2013; Gompers et al., 2016), PECo mainly focuses on financial engineering, especially in the early stages of its PE holding period. With the financial engineering in PECo, there is higher leverage, which puts more pressure on having short-term stable cash flows for principal and interest payments, as also seen in Cornelli & Karakas (2012). In turn, PECo does not focus on the stability of the income statement but rather the cash flow statement from a leverage perspective. In contrast, PubCo wants to be perceived as stable from an income statement perspective.

Whether the increased leverage taken by PECo decreases short-termism (Edmans, 2011) is difficult to argue for, even though the company is perceived as more long-term than PubCo. As argued earlier, other mechanisms in PECo enable long-term views. Increased termination of managers due to higher leverage, argued by (Edmans, 2011), is not profoundly visible in PECo, which could be based on the organization's widespread ownership, making terminations less favorable due to conditions in the incentive contracts. However, the increased debt level has previously been seen to result in fewer opportunities for payouts to shareholders or fewer investments with free cash flow (Jensen, 1986). For PECo, this has small implications due to the funds committed capital. However, for PECo, the preconceived vision and CDD outweigh the debt regarding restricting investments. I.e., the effect of the debt, if any, cannot be seen in this case.

6. Discussion

This section will discuss the empirical findings and analysis, emphasizing generalization. Section 6.1 discusses flexibility and quickness, while section 6.2 focuses on the time to exit and the effect of the holding period. In Section 6.3, we give further insight into the governance structure of a PE-owned firm and the importance of incentives.

6.1. Quickness Versus Flexibility

One significant difference with PECO's management was the prioritization of quickness over flexibility. This choice affects management control in multiple ways, as seen in our case. With Jones's (1992) and Phan & Hill's (1995) findings, the focus on increased quickness was not unexpected. However, PECO is expected to be more flexible in its decision-making because of the practical connection between the owner and management 'sites'. With a strong connection with the owner, PECO could reasonably make more flexible decisions. However, as we can see in this case, PECO focuses on quickness in their decision-making at the cost of flexibility, contrary to what is to be expected.

It is further unexpected that PubCo demonstrates more flexibility with their decision-making by acting on opportunities rather than previously set out 'teleologies', contrary to PECO. Analyzing both firms' governance structures provide evidence regarding the differences. PubCo has a solid governance structure to convey trust towards the market and owners. For a public firm, aligning the owners and management is a constant struggle that needs to be dealt with. Hence, they have a distinct governance structure that highlights where power resides and how decisions are made. This clarity minimizes the misalignment of owners and management while ensuring the right decisions are made within the firm. However, this rigid structure comes at the cost of quickness, as significant decisions need to be approved by the board. However, because of the clarity of decision-making and the lack of 'rules' and 'teleologies', in contrast to PECO's CDD document, the board is free to be flexible in its decision-making. Hence, PubCo could establish a new operational business line. Moreover, PubCo's chair views the board as a control function restricting unwanted practices in the firm. PECO's board acts more as a discussion forum regarding the ideas and investments from the troika and deal team to ensure that it follows the committed strategy set out in the CDD. However, this only occurs when necessary to avoid slowing practices.

The governance structure and dynamics between the BoD, troika, and deal team need to be understood in order to analyze the management control in a PE firm-owned firm. On the one hand, a PE-owned company is not required to follow a strict governance structure

per se, indicating an ability to be more flexible. On the other hand, the lack of a clear governance structure requires ‘rules’ and ‘teleologies’ as a CDD or strategy document, as seen in PECO. Because of the commitment to the strategy and governance structure, decisions can be made quickly without involving multiple people. However, this restricts the firm's flexibility, as the strategy and CDD document outweigh the potential flexibility of the reconfigured governance structure.

A question that arises when discussing flexibility versus quickness is if one is better, which is arguably wrong to assert given the thesis’ method (Ahrens & Chapman, 2006). Thus, it is outside this thesis's scope but poses an intriguing subject for future research. It might depend on the firm's state (e.g., if it is public or private or in a specific holding period). Alternatively, it might depend on the firm’s vision or life stage. For example, a new firm might need to focus on quickness, while a mature firm needs to be flexible, or the opposite. We cannot assess with our empirics if one is more suitable. It would, however, be interesting to delve into the effects of different decision-making structures for firms with different owners from a normative approach.

6.2. Time to Exit

The limitations of the capital ceiling on the perceived time to exit is a novel and intriguing aspect that has yet to be researched from a practice theory approach (Bacon et al., 2012; Jøeväärä et al., 2022). In PECO, debt was capped within the scope of interest and principal payments and was thus not an option for more capital. Co-investments with other institutional investors were also not viable because of, for example, the management fee and carried interest of the fund. Further, reallocating investment capital towards one portfolio company is considered too risky and restricted by the LPs' agreement. Given these restrictions, a PE firm has a clear time-to-exit timeframe for a financial engineering case such as PECO. It is further crucial to distinguish between the perceived time frame (i.e., in months or years) and the certainty of an exit (i.e., when and how) when analyzing the time-to-exit, which have been limited in previous research.

Our research findings challenge the existing literature, suggesting that the time to exit does not significantly influence the practices performed by the subsidiary in the scope of financial engineering. This result implies that practices have a ‘general understanding’ of long-termism within PECO (e.g., by thinking about what is best for the portfolio company). This outweighs the ‘practical understanding’ of optimizing practices closer to an exit, as seen in previous research (Bacon et al., 2012). This might be a result of the secondary buyout nature of this case. As PECO was bought by another PE firm, there was a ‘practical understanding’ that no strategy changes were needed, as the firm would continue to operate similarly but with more capital available for further growth. However,

if the PE firm had instead made a public exit, the situation might have been different. As we see with PubCo, the leverage ratio plays a significant role in M&A practices. Hence, if PECO were to be listed, they would have to slow down the acquisition rate to minimize the leverage ratio, depending on the feasibility of gaining more equity through a new issue during the IPO. Viewing financial engineering and operational engineering on a scale rather than two absolutes is favorable, contrary to previous research's more straightforward approach (Acharya et al., 2013; Døskeland & Strömberg, 2018; Gompers et al., 2016). PE-owned firms focusing on financial engineering would probably have to shift towards operational engineering pre-IPO. This affects the IRR of the fund through additional time-consuming activity and prolonged exit avenues since structural capital and subsequent processes have become too scant as a consequence of financial engineering. Viewing value creations on a scale enables further context for the value creation practices.

As a PE firm often specializes in certain areas of value creation, it is unlikely that, when the capital is running low, the PE firm will switch to a more operational engineering approach or the other way around. This is further strengthened by the personnel of the PE firm who strictly have experience within investment banking and M&A, in the case of PECO, which limits its internal capabilities. However, if the PE firm is multidisciplinary regarding value creation, the perceived time to exit would be more ambiguous.

Moreover, practices in PE-owned companies can only partially be explained at a specific point-in-time. In this thesis, we have gathered data from a PE firm that had exited their portfolio firm, which enables reflections about the whole holding period of PECO. Although we have identified that time to exit does not affect practices in the portfolio firms in the scope of financial engineering, there are indications of stages of practices during the holding period. Even before the holding period, it was a priority to establish a consensus among the group regarding its 'general understanding' and more explicit 'teleology'. When this was established, local firms were to continue as before, while top decision-makers were to implement practices in the central organization while continuing the acquisition journey. At the end of the holding period, the company focused on maintaining a stable margin due to the PE firm selling on an EBITA multiple. Consequently, practices in a PE-owned company cannot fully be understood at a point-in-time but must be viewed based on stages in the holding period and the perceived time to exit.

Although this thesis did not focus on operational engineering, the empirics indicate that this value-creation strategy could significantly impact the time to exit. By using financial engineering, there is limited flexibility once capital runs out. To some extent, operational engineering is more complex, with many different alternative approaches, and alignment

between the selling PE firm and the new owner is less likely. Hence, operational engineering cases would presumably demonstrate a more considerable change in practices closer to the perceived exit. This opens up a promising avenue for future research, highlighting the importance and potential of this topic.

6.3. Reconfiguring the Governance Structure

The subject of governance structure is largely undeveloped within PE research. Studies often refer to governance without dissecting the structure of practices. This thesis contributes to PE research by establishing the decision-making groups (i.e., deal team, troika, and BoD) as ‘sites’ and studying how these make decisions in practice. As discussed previously, the PE firm is the definitive decision body, enacted through the deal team and troika. However, the PE firm does not exploit its formal control and instead relies on social control over the BoD. The power formally resides with the board but is allocated to the troika for most decisions. The deal team uses its connection with the troika to enact its power. With this, the governance structure becomes more ambiguous and complex, but at the same time, it enables the portfolio firm to act quickly.

A PE firm can internalize essential practices into their deal team ‘site’ to further strengthen their control. In PECo, this was done by having the M&A department in the PE firm, which enabled complete control and insight into these practices. However, two problems arise when putting functions outside of the portfolio firm. Firstly, with the example of PECo, there is a disconnect in the ‘practical understandings’ due to management not being fully involved in the processes of the acquisitions. Secondly, this requires an M&A department to be established before the exit or that the buyer takes over these practices within their own ‘site’. Otherwise, the PE firm limits potential acquirers during the exit of the portfolio firm.

Many of the governance issues in PECo are solved by having an appropriate CEO and strengthening incentives. Through financial belonging, enabled by incentives and widespread ownership, the practices become more interwoven between ‘sites’, creating a web of practices through cooperation and communication. The increased incentives are due to the limited trust as an effect of the restricted holding period. Establishing trust through an internal brand is a longer practice than creating financial belonging through incentives. With incentives, employees can be trusted to a greater extent, in contrast to the view of Bedford & Ditillios’s (2022) definition of managerial control. This enhances the idea that trust is at the core of control. It is, however, established differently, either through brand loyalty (as seen in PubCo) or strong financial incentives (as seen in PECo). As an employee of the M&A department at PECo said, with widespread financial incentives, “[...] a lot will be solved by itself.”

7. Conclusion

This thesis aims to understand and explore how Private Equity (PE) ownership affects management control. By incorporating Schatzki's 'site ontology', this thesis explores how PE ownership affects human behavior in a portfolio company while bridging the gap between 'practice theory' and management control. This further develops the field of PE research, which has traditionally focused on the firm *itself* (e.g., Gompers et al., 2016; Nama & Lowe, 2014) or adopted a *quantitative* approach (e.g., Acharya et al., 2009; Bloom et al., 2015; Cornelli & Karakas, 2008). Through a comparative qualitative field study, this thesis delves into the differences that emerge from the typical characteristics of Private Equity ownership. This thesis contrasts a PE-owned firm with a publicly listed firm of similar size, organizational structure, and maturity. The thesis identifies three key aspects that influence the management control of a PE-owned firm: *quickness*, *time to exit*, and *governance*.

This thesis finds that Private Equity firms prioritize quick decision-making over flexibility. Quickness in decision-making is achieved through two means: 1) the use of a strategy document and 2) a reconfiguration of the governance structure. The strict use of a strategy document, in this case the CDD, set clear priorities, 'rules', and 'teleological structures' for decision-making. These aspects increase quickness at the cost of flexibility. Secondly, the reconfigured governance structure, mandating power to the troika, further enables quickness as the BoD can be surpassed.

Moreover, this thesis finds that when analyzing the time to exit, it is crucial to distinguish the perceived time frame (i.e., in months or years) and the certainty of an exit (i.e., when and how). Further, it is important to distinguish between different methods of value creation. Identifying the time to exit is easier under financial engineering because of the reliance on capital in relation to the funds' limited capital. Once capital runs out, an exit is largely inevitable. Because of the simple operational involvement when implementing financial engineering, this thesis finds that few practices change closer to an exit. Further, these results imply that practices in the portfolio company are characterized by a 'general understanding' of long-termism. However, the effects of the time to exit may depend on the exit's nature (e.g., private-to-public). With the effects of an explicit holding period and time to exit, a private equity firm's practices cannot fully be understood at a point-in-time.

Previous studies rarely dissect the dynamics of practices and 'sites' (e.g., the deal team, troika, BoD) of the governance in PE-owned companies. The PE firm inherently reconfigures the typical governance structure when implementing the troika. The troika is a crucial decision-making body for the PE firm, enhancing the quickness of decision-

making. However, the troika inherently creates some friction within the firm, as it surpasses the BoD and sometimes the CEO. Notably, the troika is not a solid configuration of a ‘site’; instead, it consists of multiple ‘sites’ of decision-making, depending on the need. Moreover, financial incentives are crucial to align the ‘teleologies’ of employees while solving the trust issue arising from an ambiguous governance structure and aggressive M&A agenda inherent to a financial engineering case. These incentives also enabled operational problems to ‘solve themselves’ without implicating top management or the PE firm.

In summary, multiple Private Equity characteristics affect portfolio firms' management control practices. This thesis contributes to understanding the PE industry as a whole and gives insights into the practices that occur in Private equity-owned companies.

7.1. Limitations and Future Research

The thesis focuses on two case companies, one solely used for comparative purposes. This implies that the findings might not be applicable in other empirical settings. Additionally, the thesis overlooks potential variations among different PE firms, such as regions, value creation methods, or specializations. Further, different PE firms often have different equity arrangements, which heavily affect management control (Bedford, 2020). Moreover, PECO can be described as a ‘successful’ case that generated substantial profits for the PE firm, and there might be differences in a worse-performing case. Further, this thesis's findings are analyzed and discussed through the lens of Schatzki’s ‘site ontology’, which will have implications for our conclusions (Ahrens & Chapman, 2006).

There are multiple avenues of future research stemming from this thesis. For one, this thesis calls for research on the transition from private to public or public to private to analyze the differences in management control within the same firm rather than between two firms. Although governance was central to this thesis, a single case study on a public-to-private transaction would further provide valuable insights without the drawbacks of a comparative study. Moreover, a study on co-investments, where multiple PE firms control a portfolio firm, would address the effects on management control practices in that specific arrangement. Further, this thesis focuses on a case characterized by financial engineering. Hence, a study on operational engineering would further develop the field. Even though the reporting structure was largely neglected in this study, we saw interesting similarities between the two companies from this perspective, enabling a possible avenue for future research. Lastly, multiple opportunities exist to continue the research regarding our conclusions, such as the difference between flexibility and quickness.

8. References

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9. Appendix

Appendix A: List of conducted interviews

Nr	Interviewee title	Interview length	Interview date (2024)	Company
1	Senior Manager	65 minutes	13th of February	PECo
2	Board Member	62 minutes	19th of February	PECo
3	Local CEO	59 minutes	22nd of February	PECo
4	Associate	68 minutes	22nd of February	PE firm
5	Previous CEO	59 minutes	22nd of February	PECo
6	CFO	50 minutes	27th of February	PECo
7	Head of M&A	50 minutes	27th of February	PECo
8	Local CEO	66 minutes	21st of March	PECo
9	Associate*	32 minutes	24th of April	PE firm
10	Managing Partner	32 minutes	2nd of May	PE firm
11	Senior Manager	55 minutes	8th of February	PubCo
12	Controller	53 minutes	19th of February	PubCo
13	Chair	62 minutes	21st of February	PubCo
14	Senior Manager	55 minutes	22nd of February	PubCo
15	Controller	60 minutes	29th of February	PubCo
16	Head of Investor Relations	62 minutes	5th of March	PubCo
17	M&A	51 minutes	6th of March	PubCo
18	Local CEO	69 minutes	11th of March	PubCo
19	Chair*	29 minutes	23rd of April	PubCo

* Follow-up interview

Appendix B: Interview guide

Because of the semi-structured interview structure, many questions were changed or never asked. Due to the dispersion of the roles among the interviews, multiple non-structured role-specific questions were asked per interview.

Phase	Subject	Questions
1	Formalities	Discuss GDPR (sent beforehand) Discuss anonymity Consent for audio recording
2	The specific role	What role and responsibilities? Reports to? What central functions are you in contact with? What policies do you have to obey to? What would you say is the strategy of the firm?
3	Control 'downwards'	How do you manage your responsibilities How do you use them on a daily basis? What is vital? How does the follow up look like? Who is involved in the follow up? Have anything changed over time?
4	Control 'upwards'	How are you managed? How does it affect you? What do they think is vital? How does the follow up look like? Who is involved in the follow up? Have anything changed over time?
5	Information exchange	What information do you receive from the firm and how often? How does these affect your decisions?
6	Event specific	What event have you spent a lot of time on? What was your responsibility? What was the result?
7	Synergies	How do you work with synergies? How is this followed up? How do you increase the synergies between the firms?
8	Competition	How do you get insight into competitors? How does it affect your decisions?
9	Role specific questions	-