Emotional dimension of accounting practices in strategizing

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Abstract

The purpose of the paper is to better understand the role of accounting in strategizing by shedding light on how accounting is intertwined with intentionality and emotionality in constituting strategizing practices. In order to understand the role of accounting in strategizing processes, we conducted an ethnographic field study at a turnaround assistance division of a financial institution. The data collected by the field research is examined from a practice theory perspective. The practice theory perspective enables us to systematically examine the way in which local practices are constituted with understandings of practitioners to do things, rules, and structures of intentionality and emotionality. We find that a strategic agenda set at the top management provided a starting point for an array of activities that are unique to the local site but are connected to the strategic agenda meaningfully in a systematic manner, a la the signifying chain at the site. Accounting is extensively utilised to communicate the past, present and future of financially distressed clients with the turnaround division. Within the accounting communication, emotionality associated with the way accounting numbers are used plays a vital role to foster/hinder taking steps in the strategizing practices at the site. When accounting numbers are mobilized with a certain attitudes that are congruent with the emotional expectation of the counterparty, what we call “emotional conformance” emerges in the relationship. Emotional conformance provides emotional energy to take further steps in strategizing. When accounting numbers are not mobilized in ways that are not congruent with the emotional expectation of the counterparty, what we call “emotional dissociation” emerges, which in turn deprive of energy to practice strategizing. This paper contributes to the existing literature on accounting and strategizing by shedding lights on how emotionality associated with accounting mobilization is intertwined with intentionality that constitute strategizing processes.

Keywords
Accounting practice; Strategising; Emotionality; Business Turnaround
1. Introduction

What people actually do in the name of strategy has been a focus of attention for researchers seeking to obtain a more processual understanding of the relationship between accounting and strategy under a label “accounting and strategizing”. Chua (2007) criticised that most extant accounting research on strategy had been centred around the abstract noun “strategy,” which is black boxed. In order to open up the black box, Chua (2007) contends that it should be re-oriented to understand in verb terms. Rediscovering accounting and strategy as contingent, lived verbs rather than abstract nouns is the spirit of this thread of research. The concern with the relationship between accounting and strategizing leads us to ask how do skilful actors enact daily routines in the accomplishment of ‘strategy’ and how accounting is implicated in this process of strategizing. There have been a growing number of empirical research which examined the role of accounting in strategizing in this vein (Ahrens and Chapman, 2007; Jørgensen and Messner, 2010, Skaerbaek. P. and Tryggestad, 2010, Hansen & Mouritsen, 2006).

This paper examines how accounting is implicated in strategising. We investigate the micro processes of strategising in which abstract strategic agendas agreed at the top management level of an organisation are given concrete shapes and forms through the everyday practice of accounting at lower hierarchical levels of the organisation. The purpose of this paper is thus to explore the role of accounting in strategising by shedding light on how accounting practices are intertwined with intentionality and emotionality from a practice theory perspective.\footnote{The terms “emotions” and “feeling” are used interchangeably in this paper, although it is acknowledged that those terms are conceptualised distinctively by a number of researchers in various manner. For instance, Damasio (2005) defines them in connections with physiological mechanisms of human being (pp.143-155). While those physiologically based conceptualisation is insightful and may facilitate deeper understanding of the relationship between accounting and emotionality, those distinctions put the focus of attentions on particulars that are not very relevant for the present purpose and the empirical material that is examined in the this paper. The generic term emotionality is used in this paper to theoretically describe phenomena related to various types of feelings, emotions, moods, affectivity and etc. For the sake of consistency, we use emotionality as the generic term, while the term affective dimension is used to describe emotional dimension of teleoaffective structure.}

In the strategy literature, strategy-as-practice perspectives have been proposed to capture the dynamics of strategy (Whittington, 2006; Jazbokowski, 2003). These perspectives commonly conceptualise strategy as something people do rather than something people design. Accordingly, ‘strategy’ is conceptualised as a verb (i.e. ‘strategising’) instead of as a noun (Chua, 2007). Strategising is thus the key conceptual term in the strategy-as-practice perspective.

In a similar manner, there has been a growing call for scholars to articulate accounting-as-practice perspectives (Ahrens and Chapman, 2007), which are concerned with the relationship between what accounting promises to do
and what it actually does (Ahrens and Chapman, 2007; Mouritsen, 1999; Vaivio, 1999). Accounting-as-practice perspectives acknowledge that there is a role for intentionality to play in the dynamics of accounting, and although intentionality is not the determining factor, it remains an important part of accounting practices. Accounting-as-practice perspectives thus advance our understanding of the intertwined relationships between those expressed in noun terms, such as intentions and accounts, and those expressed in verb terms, such as doing and accounting.

Recent studies have also called for more detailed examinations of the dynamic relationship between accounting and strategy (Chapman, 2005; Chua, 2007). Combining the concern for strategising with that for accounting practices in organisations seems promising because it allows us to understand how accounting is weaved into strategic considerations as well as how accounting concepts are mobilised when crafting strategy (Chua, 2007, p. 492; Jørgensen and Messner, 2010). This combined concern resonates with the call for further study of the relationship between rationally designed intended strategy and actual strategic patterns that emerge in practice (Chenhall, 2005). Together with the concern for strategising, the accounting-as-practice perspective sheds light on the relationship between the intended strategies that are designed at the top management level and the accounting practices carried out on a day-to-day basis. Accounting-as-practice perspectives thus also explain the processes of strategising where abstract strategic ideas are given concrete shapes to become strategically implicated practices.

In order to examine the relationship between strategising and accounting, we draw on a practice theory perspective (Ahrens and Chapman, 2007; Jørgensen and Messner, 2010; Schatzki, 2005), which is helpful for picturing the roles of accounting in the micro processes of strategising. According to practice theory, practices are conceptualised as the fabrication of rules, practical understandings, and teleoaffective structure at what Schatzki (2005) terms a ‘site’, namely an organisational context such as a department in a company. The ontological stance of the practice theory perspective takes this site as its central focal point (Schatzki, 2005). This site ontology therefore fits our research objective, namely to understand micro strategising practices at a particular site in an organisation that consists of many micro sites, such as divisions and sections. In local sites, the abstract strategic ideas developed at the top management level take concrete shapes to become strategically implicated practices. The practice theory perspective thus enables us to investigate the roles of accounting in strategising processes at a local site in relation to the strategic intentions developed at the centre of the organisation.

The analysis in this paper is mainly based upon an ethnographic field study conducted at a regional financial institution, ‘Tie Bank’, in Japan. At Tie Bank, a new strategic agenda termed ‘building ties in the region’ was
proclaimed by the chairperson in 2008. Soon after, a department called the business turnaround assistance division (the turnaround division hereafter) became symbolic for Tie Bank. The turnaround division deals with the financially distressed clients of the bank. Most of the clients thin the turnaround division deals with are small and medium-sized family-owned enterprises (SMEs) in the region that have enjoyed long business relationships with Tie Bank. Ties in the regions are thus maintained if the turnaround division succeeds in assisting clients turn around their businesses and vice versa. The top management team expects that through the activities of the turnaround division, the new strategic agenda will unfold into concrete shapes. We chose the turnaround division as a key site in which our ethnographic field study took place.

By drawing on the practice theory perspective, our case illustrates that both intentionality and emotionality are intertwined with accounts and accounting, which in turn constitute strategising processes at the site. Based upon the ethnographic field study, we demonstrate a process in which an abstract strategic agenda developed at the centre of the organisation takes a concrete shape locally and the way in which accounts and accounting are intertwined with intentionality and emotionality. This study thus contributes to the existing literature on accounting and strategising by shedding light on the way intentionality and emotionality are intertwined to constitute strategic practices at the site.

The remainder of the paper is organised as follows. Section 2 briefly presents Schatzki’s (2005) practice theory in order to provide a theoretical framework to analyse the micro processes of strategising and accounting (Ahrens and Chapman, 2007; Jørgensen and Messner, 2010). Section 3 reviews the current state of knowledge on the relationship between accounting and emotionality in accounting literature. After explaining our research design in Section 4, the findings from the case are described in Section 5. Section 6 discusses the implications of the findings, which is followed by a conclusion.

2. A practice theory perspective as an analytical framework to examine the relationship between strategising and accounting

Ahrens and Chapman (2007) contend that their practice theory approach is helpful for considering the role of management accounting in the constitutions of organisations. They build on the findings of Schatzki (2002, 2005) to formulate their particular version of practice theory approach. The authors demonstrate that their practice theory approach describes management control systems as structures of intentionality that both shape and are shaped by shared norms and understandings in the interrelationships between technical and interpretive
accounting processes. According to them, a practice theory perspective offers a way of understanding the development of diverse activities at various sites based on the strategic agenda set out by head office staff (Ahrens and Chapman, 2007, p. 21). Management control is thus understood as a structure of intentionality, which is constituted in the cognitive processes that are distributed across people, practices, arrangements, and contexts. Their approach contributes to the existing accounting literature by providing ‘intentionality’ with an appropriate theoretical location in interpretive management accounting research.

Jørgensen and Messner (2010) also deploy a practice perspective built upon Schatzki (2005) to trace the micro processes of strategising at a new product development (NPD) site. They contribute to the existing literature on management accounting in NPD processes by showing how accounting becomes intelligible against the background of its interaction with other types of accounts such as strategy. Jørgensen and Messner (2010, p. 201) contend that their case illustrates that distinctive NPD practices ensure continuity and order, but the way in which these practices are carried out is subject to variation because the strategising process was a more bottom-up process in their case. The strategising process was both about uncertainty reduction and goal congruence in the NPD process, and accounting information was mobilised in the name of both in the stage-gate process. Accounting is thus intertwined with the way in which strategic ideas are mobilised and the processual understanding of practice theory offers a useful vocabulary to illuminate these points (Jørgensen and Messner, 2010, pp. 19–20).

Let us now briefly outline the version of practice theory developed by Schatzki (1996, 2002, 2005) to explain the micro dynamics of strategising and accounting. Schatzki (2005) contends that the site is the central focus of his social ontology. According to Schatzki (2005), the social site is composed of the nexuses of practices and material arrangements. Material arrangements imply the set-ups of material objects/entities such as human beings, artefacts, other organisms (Schatzki, 2005, p. 472).

Schatzki (2002, 2005) further views social practices as being formed as an array of activities. The social practices of the site are organised according to three phenomena: the understanding of how to do things, rules, and teleoaffective structures (Schatzki, 2005, pp. 471–472; Ahrens and Chapman, 2007, p. 8). Rules are explicit formulations that prescribe, require, or instruct that a certain action be taken. A teleoaffective structure is an array of ends, projects, uses (of things), and emotions that are acceptable or prescribed to participants in the practice.

These three phenomena, namely understandings, rules, and teleoaffective structures, are used to describe North American educational practices by Schatzki (2005, p. 472):
Educational practices are organized by (1) instructions, requirements, guidelines, and rules of thumb about these matters such as regulations that govern syllabuses, the timing of exams, or department affairs, rules of thumb about teaching introductory courses or about gender relations, and chair edicts; and (2) understandings of how to grade, teach, mentor, supervise, conduct research, use electronic equipment, perform administration, impress instructors, obtain desirable grades, and; and (3) a teleoaffective structure that embraces such ends as educating students, learning, receiving good student evaluations, obtaining good grades, gaining academic employment, and enjoying a successful academic career; a wide variety of tasks that can be pursued for these ends; and acceptable uses of such equipment as computers, blackboards, pointers, manila folders, coffee mugs, and telephones.

A teleoaffective structure is constituted by various ends, projects, uses, and emotions. These factors provide meaning and can signify for actions to be taken at the site. The teleoaffective structure, namely the structure of signifying at the site, has two dimensions: the teleological dimension and the affective dimension. The teleological dimension consists of a signifying chain, which stretches from the possibilities of existence for the sake of it to particular actions that are signified (e.g. what to do at particular moments in particular situations) (Schatzki, 1996, p. 122)\(^2\). In more familiar language, this can be considered to be a chain between an end and a project/task.

Another dimension of signifying is attunement, namely things mattering to people. Schatzki (2001) explains the affective dimension of teleoaffective structure as follows:

Things mattering is people being in particular moods and emotions or having particular feelings, affects, and passions. How things matter omnipresently structures the stream of behaviour. It usually accomplishes this by affecting what is teleologically signified as the thing to do. . . However, Mattering can structure activity independently of an actor’s ends and thereby overturn the teleological character of action. (p. 123)

The teleological dimension and the affective dimension of a teleoaffective structure together govern actions by

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\(^2\) The notion of the teleological dimension of a teleoaffective structure strongly resembles the definition of ‘institution’ developed in new institutional perspectives in organisational research, where institutions are defined as a taken for granted set of ‘ends, means, situations’ at a site (Brunsson et al., 2002, Sawabe and Ushio, 2009). However, there is no corresponding concept in new institutional perspectives for the affective dimension of a teleoaffective structure, which therefore provides a distinctive edge to the use of practice theory for exploring the lived experiences of a particular site.
shaping what is signified and attuned for actors to do in practice theory. Schatzki (2005) espouses a societal ontology. His societal ontology assumes that the organisation of a practice is a normalised array of understandings, rules, ends, and emotions. He explains his societal ontology as follows:

They [understandings, rules, ends and emotions] are features of the practice, expressed in the open-ended totality of actions that compose the practice. They thus constitute a sort of objective mind. A practice’s objective mind is distinct from the mind of any participant and also from the sum thereof. As described, in learning to participate in a practice, individuals acquire versions of many, though not all, of the objective mental states that organize it. To the extent that different participants acquire versions of the same objective states, they share mentality. (Schatzki, 2005, p. 479, parentheses and italics added by the authors of this paper)

This shared mentality is empirically traceable in Schatzki’s practice theory. Let us see how the three phenomena, understandings, rules, and teleoaffective structures, are traced in Schatzki’s account.

To say that educational actions are organized by these matters (shared mentality) is to say that they express the same understandings, observe, contravene, or ignore the same rules, and pursue ends and projects included in the same structure of acceptable and enjoined teleologies (Schatzki, 2005, p. 472, parentheses and italics added by the authors of this paper).

Empirically, this version of practice theory guides us to trace the objective mind of a site by following arrays of activities where the same understandings, rules, and teleoaffective structures are expressed, observed, contravened, ignored, and pursued. Schatzki (1996, pp. 118–121) cautions us that cognitive conditions and orders thereof are rarely possible to read off directly from the behaviour that cognitive conditions express. However, cognitive conditions and orders thereof can be revealed through the answers someone gives to a series of why questions concerning its behaviour. We need to add hastily that series of why questions primarily reveal the teleological dimension of action. This implies that whenever teleology is absent, why questions fail to reveal the conditions that are expressed in the behaviour and that are determinative of action intelligibility. Instead of asking why questions in such situation, we need to look at the affective dimension behind arrays of activities.

use senior managers’ intentions to re-analyse the role of accounting in the strategising process. Further, Jørgensen and Messner (2009) emphasise the importance of local knowledge by analysing the role of accounting in NPD processes. In our case study, we add one more aspect, emotionality, which is a constitutive part of the teleoaffective structure in Schatzki’s practice theory, into the analysis of the role of accounting in strategising.

3. **What we know about emotionality in relation to accounting/strategising from the extant literature**

Various streams of interpretative management accounting research share the concern that lived experiences should form the basis of our understanding of management accounting phenomena (Ahrens and Chapman, 2007; Modell, 2010). Despite acknowledging the importance of emotionality in day-to-day organisational life (Fineman, 1993), extant management accounting research has paid surprisingly scant attention to the emotional aspect of the lived experiences of accounting practices.

In a similar vein, limited research has thus far explicitly explored the emotional aspects of strategising, even within the strategy-as-practice perspective, which aims at understanding what strategies do in practice (Whittington, 2006; Jazbokowski, 2002). The extant research on accounting-as-practice perspectives has shown the role of intentionality in the malleability of local accounting practices (Ahrens and Chapman, 2007). Moreover, the affective dimension of the teleoaffective structure has not been explored in the accounting-as-practice literature, whereas the teleological dimension in Schatzki’s practice theory has.

Emotion is known to be unknowable (Sturdy, 2003). The unknowable, private and subjective characteristics of emotion may have abhorred a certain researchers with rationalistic worldviews while the same characteristics cautioned critical researchers about the danger to assist objectifying/colonizing human lives. Multidimensional character of emotion present methodological and ethical problems, but it also opens up theoretical challenges and possibilities (Sturdy, 2003, p.83).

In the accounting literature, Abeysekera’s (2004) concept of ‘emotional capital’ comprises emotional assets and emotional liabilities. Emotional assets include attributes such as pride, delight, tranquillity, passion, determination, commitment, care, and trust, as provided by a firm to its customers. Emotional liabilities include attributes such as anger, hatred, anxiety, and stress (Thomson, 1999, pp. 22–25). Bolton (2000) offers a typology that distinguishes between four distinct types of emotion management: ‘presentational’ (emotion management according to general social rules), “philanthropic” (emotion management given as a gift), “prescriptive” (emotion management
In the strategy literature, emotions are acknowledged to have important consequences in the process of strategy formation and strategic change. Sjostrand (1997) contends that emotions affect the decision-making processes of top management in times of strategic change because these processes are influenced emotionally by the status, prestige, and identity of the individuals involved. Huy (2002) further claims that the emotional capability to acknowledge, recognise, monitor, discriminate, and attend to emotions at the individual as well as at the collective level is important during processes of radical strategic change. Huy (2002) asserts that it is important for strategic change leaders to balance their own emotional commitments to the change and the necessity to attend to the emotions of its recipients. Imbalance leads to inertia or chaos, while good balance leads to successful strategic change.

Brundin and Melin (2006, p. 280) take a social constructionist view that emotions in strategising are socially constructed and situational. They state that emotions are enacted through individuals’ interactions where they are influenced by societal norms, values, traditions, and morality. The authors also take a performative view of emotions, namely that emotion is not something a person has but rather the result of other people’s interpretations. The display and managing of emotions is considered to be a way to adapt to social and cultural norms. The ability to display organisationally correct emotions is a part of occupational appropriateness (Morris and Feldman, 1996). In organisational settings, subordinates take superiors’ emotional displays as ‘key indicators of leaders’ intentions and sincerity’ (Humphrey, 2002, p. 500).

Brundin and Melin (2006) introduce the notions of emotional dissonance and emotional authenticity, which they claim lead to differing levels of emotional energy. When individuals display emotions that are not in accordance with their genuine emotions over a period of time, it leads to emotional dissonance. Emotional authenticity is the opposite, namely ‘the congruence of inner, subjective experience of emotions and outer behavioural displays and expressed emotions’ (Waddington, 2005, p. 37).

The emotional aspects of social interactions create lasting emotional states, which Collins (2004) calls emotional energy. High emotional energy is typically associated with such energising feelings as enthusiasm, solidarity, confidence, and commitment, whereas low emotional energy involves depriving feelings such as alienation, strain, stress, and depression. High emotional energy provides both individuals and collectives with the power to move forward, while low emotional energy causes inertia and stagnation. Emotional energy is
contagious within a group (Collins, 2004).

Brundin and Melin (2006, p. 291) conclude that emotional dissonance generates a low level of emotional energy, whereas emotional authenticity creates a high level of emotional energy in strategists. Low levels of emotional energy hinder strategic change; however, collective strategising activities also suffer through the contagious effect that the strategist’s low level of energy has on other organisational members. On the contrary, high levels of emotional energy generated through emotional authenticity in the strategist and those around him or her contribute positively to the successful realisation of strategic intent. In Section 5, we compare Brundin and Melin’s findings with those presented in this study to clarify how emotionality adds to our understanding of the role of accounting in strategising from a practice theory perspective.

4. Research Methods

The analysis in this paper is based upon the data collected by a series of field studies conducted at a single organisation, Tie Bank. We adopted a field study approach because in this type of research the main task of the researcher is to inquire into a field of practices and to make sense of his or her observations by abductive reasoning, i.e. by moving back and forth between the data and the theory (Ahrens and Chapman, 2007). In the abductive reasoning process, the empirics and the theory interact with one another. Our choice of research methods and the way they are utilised in the field thus reflect our acknowledgement of the interactive nature of the theory–empirics relation.

The main part of the field study was conducted from December 2008 to September 2009. The data were collected in three rounds. The first round of data collection was conducted mainly through interviews, while the second round of data collection was carried out through ethnographic participant observation. Follow-up interviews were conducted between October 2009 and March 2012 (third round of data collection).

The first round of data collection aimed to obtain contextual knowledge about strategising processes in the case organisation. In order to capture the strategising context, semi-structured interviews were designed. Interviewees were chosen in order to collect data from diverse divisions and different levels of the organisation, which allowed us to triangulate the data. Further, the first round of data collection was intentionally broad in its scope both in terms of the people interviewed and the topics covered in order to obtain an overview of the strategising process, as suggested by Ahrens and Dent (1998). The overall purpose of the interviews was thus to obtain a general

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3 We continue to have ongoing meetings with the case site and additional field notes are kept. However, those data collected after the third round of data collection are not reflected in this paper.
contextual understanding of strategising that was supposed to be shared among the members of the case organisation.

Typically, interview sessions were conducted in which one of the authors acted as the main interviewer and the other authors kept interview notes. Notes were circulated among interviewers for correction and addition immediately after each interview session. All interviews were recorded and transcribed. Early drafts of papers were reviewed and commented upon by at least one of the interviewees for two reasons: primarily to comply with the ethical codes of research conduct that we agreed upon with the case site at the beginning of the research project and secondly to allow interviewees to check whether the descriptions of the case appropriately reflected their ‘realities’. In particular, the quotations from the interviews and participant observations were written to ensure that they were not misleading or biased by the views of interviewees.

Data related to their strategic missions and the way they are developed, strategic plans and planning, management control system designs, and so on were collected mainly during the first round of data collection but they continued to be collected during the next two rounds, too. Internal documents such as annual presidential statements, budgetary policy statements, and management by objectives documents were collected and examined to understand the formal management control structure that was deployed to execute the strategic missions of the case organisation. Publically available documents such as leaflets and brochures disseminated to stakeholders were also collected and analysed to supplement our understanding of the control structure.

During the second round of data collection, ethnographic participant observation was conducted at the research site. One of the authors was located in the turnaround division of the organisation, in which he acted as a secretary to the divisional manager. The secretarial position of the participant observer mitigated potential conflicts of interest between participants and the researcher. Thus, the participant observer played a passive role and was not actively involved in the decision-making processes in the division.

As mentioned in Section 3, the turnaround division was chosen as the site for the participant observation through theoretical sampling (Strauss and Corbin, 1998) to probe deeper into the themes identified during the first round of interviews (cf. Jørgensen and Messner, 2009, pp. 6–7). The participant observer worked as a full-time member of the division for a month, i.e. from 8 o’clock in the morning until 6 o’clock in the evening five days a week for four weeks. His desk was located physically next to the divisional manager. The participant observer accompanied the divisional manager to meetings, such as internal meetings in the financial institution, meetings with clients, and so on. His main task was to take notes at those meetings and arrange them into readable notes for
the divisional manager. Those notes constitute a substantial part of his field notes, which were summarised on a daily basis and reported to the other two authors every night. Alongside these notes, information such as the physical properties of the meeting environment such as the size of the room where meetings took place and bodily actions as well as emotional expressions was recorded. The field notes also included the observations he made while sitting at his desk, such as discussions about handling client reports, practical advice from senior employees, conversations over coffee, and so on. The participant observer also attended social events such as informal gatherings with his colleagues after work. Further, another set of archival data, namely those directly related to the functioning of the division, was collected during the second round. Thus, the total length of the field notes and internal documents collected during the second round of data collection was more than 400 pages. A summary of the interviews and participant observations is provided in the Appendix.

The interview data and archival data were analysed jointly by the two authors in order to obtain contextual background knowledge for strategising processes in the turnaround division. Our understanding of the context that we developed during the first round of field research was tested in the second round of field research. This contextual knowledge provided the basis for the participant observer to interact with other members of the division, and through these interactions, he confirmed the validity of our contextual knowledge.

The fact that the ethnographic observation was conducted by acting as a secretary of the division’s manager facilitated us to appreciate the lived experiences at the site. We acknowledge that our appreciation of the lived experiences is potentially influenced by the manager’s point of view because of the secretarial role that the participant observer took. The potential influence is partly counterbalanced by letting voices, subordinates, superiors and clients, to be heard in the analysis of the data carefully.

5. Strategising through accounting in the turnaround division of Tie Bank

This section describes the strategically implicated accounting practices in the turnaround division of Tie Bank. The case description is structured around practice theory. Subsection 5.1 provides an overall picture of the financial institution in which the case site is located to illustrate the general context in which case site practices take place. The description in this section includes the strategic initiatives taken at the top management level and the firm’s overall management control system. Subsection 5.2 then describes the staffing of the division to show its material arrangements, i.e. the set-ups of material objects/entities such as human beings, artefacts, and other organisms. Subsection 5.3 illustrates the formal turnaround business processes in the division to show what kinds
of rules exist at the site. Subsections 5.1 to 5.3 together provide the organisational contexts and formal rules within which the strategically implicated accounting practices in the turnaround division take place. We next describe the way in which these practices unfold themselves. Subsection 5.4 describes how the strategising processes at the turnaround division move forward collectively, while Subsection 5.5 presents the teleoffective structure of the strategising processes to explain how and why they took place the way they did.

5.1 Tie Bank: a large regional cooperative financial institution

Tie Bank is a regional cooperative financial institution in Japan. It operates 85 branch offices and has approximately 1,700 employees. Its assets totalled approximately 2.3 trillion yen as of the end of fiscal year 2009. There are approximately 300 regional cooperative financial institutions in Japan, and Tie Bank is one of 10 largest institutions in this category in terms of asset size.

Regional cooperative financial institutions are regulated under the financial cooperatives act. Their business areas are limited regionally and they aim to provide loans to SMEs in the region. The ethos of Tie Bank is aligned with its identity as a regional cooperative financial institution ‘contributing to its members, regional residents, and then its region as a whole’.

The organisational structure of Tie Bank is illustrated in Figure 1. The board of directors alongside the board of corporate auditors are located at the centre of the organisational chart. On the right-hand side of the chart, the headquarters is situated, which consists of the credit risk management, human relations, lending screening, administration, and business turnaround assistance divisions. On the left-hand side of the organisational chart, the divisions are identified by area. The 85 branches are divided into 15 areas.

As Figure 1 shows, the board members are in charge of administering lines and staff functions. This includes the geographically divided 15 areas and the functionally differentiated back office divisions at the headquarters. The former as a whole is referred to as the ‘Area Director System’. Each area is monitored by a director in charge so that front lines of the institutions are closely connected to the top management team.

In 2008, on its 85-year anniversary, the newly elected chairperson of the board declared a new strategic agenda, namely ‘Building Ties’ with the people in the region. The symbolic message that the chairperson repeated was ‘lending an umbrella on a rainy day’. Unlike those banks who lend umbrellas when it is not raining, Tie Bank
aimed to fulfil its social mission as a regional cooperative by providing loans in times of difficulties so that long-term trustful relationships are built with and among people in the region.

A new five-year strategic plan was thus established, which included new ways of doing financial business in the region, such as providing high value-added financial support for local SMEs by letting employees appreciate their clients’ businesses from the same points of view as those of clients. It was assumed that the value of financial services could be improved by employees’ deep understanding of their clients. In order to understand their clients better, employees needed to share their viewpoints. Consequently, if employees obtained a better understanding of their clients, they could offer more valuable financial services and improve trust between the parties and develop the relations further. This would result in dyadic relationships as well as a network of trusting relationships in the region and thus meet the objectives of the new strategy. Accordingly, it was understood within this strategic thinking that contributing to the region in terms of culture, the environment, and education would benefit Tie Bank financially in the long run. The creation of this virtuous circle was the core idea behind the new five-year strategic plan.

Tie Bank has long been known as a conceptual innovator in the world of regional finance in Japan. For example, Tie Bank initiated the so-called ‘community bank movement’ in the 1970s when the seminal idea of ‘community banking’ in Japan emerged. It also published two series of books in 1974 and 1978 on the concept ‘community banking’ in cooperation with academics working in the field of philosophy, cultural anthropology, sociology, political economy, and engineering4.

Since the 1970s, Tie Bank has strived to offer financial services that are tied to its identity as a ‘community bank’ in the region. However, the new top management team was frustrated with the gap between the ideal and the actual practices of Tie Bank. An executive director commented that, ‘We do not want to follow the scoring banking practices. They make us no different from megabanks’ (Interview, January 2009). In the late 1990s, the Financial Service Agency (FSA) of Japan introduced financial guidelines for banks. Because financial inspections and supervision were conducted to assess whether banks were following these guidelines, they were a source of coercive isomorphic pressure (Powell and DiMaggio, 1991) among banks in Japan. The basic thread in the guidelines is that financial practices should be based on quantitative assessments. For example, the provision of loans should be decided based on borrowers’ financial conditions, which are captured by accounting numbers and reflected in the ratings just like those described in the international banking regulatory agreements known as Basle

4 In order to protect the anonymity of the case site, references are not provided.
II. Better accounting numbers result in higher ratings, and thus more money is lent at low rates of interest. By contrast, poorer accounting numbers result in lower ratings, and thus less money is lent at higher rates of interest. This concept is why banks lend umbrellas when it is sunny. The strategic idea of ‘lending an umbrella on a rainy day’ emerged against this backdrop.

The new five-year strategic plan was different from previous strategic plans in two ways: how it was established and how budgetary control was complemented by other control mechanisms. Previously, three-year strategic plans were developed and controlled in a top-down manner. They dictated the annual budgetary control systems in which monthly targets were closely monitored and controlled by the bank’s headquarters. These challenging annual budgetary targets were derived from the strategic goal set out in the three-year strategic plan (Interviews, Jan and Feb 2009).

The new five-year strategic plan, however, was developed more interactively with middle and lower-level managers. The time horizon of the strategic plan was extended from three to five years because of the top management’s recognition that it takes much longer for new strategic agendas to be realised. Similarly, there was less emphasis, at least from top management, on financial goals. Annual budgetary targets were set as they were with previous strategic plans, but the overall level of financial targets was less stretching. Complementing accounting control systems, Tie Bank invested in introducing a number of new control systems to facilitate strategically aligned behaviour at the lower levels of the organisation.

The ‘career design system’ was one of those new control systems that fostered ‘Building Ties’ activities at the operational level. In the new career design system, relatively younger members of Tie Bank were given opportunities to spend a few months at a client’s organisation working as a trainee so that they could become capable of sharing the same viewpoints as those of clients. A branch staff member who experienced working at a client’s organisation commented afterwards, ‘I try to visit clients more often than before to see what is going on behind the accounting numbers’ (Interview, March 2009). The new career design system also provided occasions for employees to meet with top management team members to discuss their careers at Tie Bank where the meanings of management ethos for individual workers were discussed.

The modification of the Area Director System was another initiative to support strategically aligned activities at the operational level. The old Area Director System had 11 areas for which the board as a whole was responsible. The Area Director System introduced in 2009 had 15 areas with one member of the board in charge of each. Thus, each board member was individually responsible for monitoring the activities of the area such as alignment with
the new strategic agenda, although they were not responsible for financial performance. The communication and cooperation between branches and back offices at the headquarters seemed critically important to encourage financially sound and socially appropriate branch activities. Because the new strategic agenda ‘lending an umbrella on a rainy day’ drives branches to lend more money to those in trouble, this may increase the risk exposure of Tie Bank, which must be controlled by the risk management, lending screening, and business turnaround assistance divisions at the headquarters. The tension created by the new strategic agenda between branch activities and headquarter controls needed to be balanced, and the new Area Director System was a measure to proactively cope with the emerging tensions.

The directors in charge of monitoring areas were also expected to take leading roles in communicating and coordinating branch activities within and outside their own areas. At the same time, they actively established networks of customers and professionals such as accountants and business consultants. Most board members control the areas that they used to serve as branch managers because of their intimate knowledge of the histories and people in the area they look after. This intimate knowledge was a powerful tool for the new strategic agenda to take effect in the operations of branches. The new Area Director System demonstrated advancements in the way branches and the headquarters communicated and the networking effects in the region (Interviews, April 2009, on site observation of regional professional meetings in 2009).

5.2 The material arrangements of the turnaround division: staffing

Along with these initiatives to introduce new management control systems, the turnaround division also shed light on the new strategic plan. The business turnaround assistance practices of Tie Bank became the epitome of building/maintaining long-term relationships with customers. The symbolic significance of the turnaround division was confirmed when the FSA of Japan issued its ‘Comprehensive Measures to Facilitate Financing for Small and Medium-Sized Enterprises’. This reflected the growing concern over the financial difficulties that SMEs were experiencing after the US-led financial crisis after the collapse of Lehman Brothers and appreciation of yen over other currencies (FSA Japan, 2009). The FSA of Japan stated clearly that it would focus on checking whether financial institutions had enhanced financing and support for SMEs to improve their business operations. The turnaround division became the focus of attention both from an organisational strategic point of view and from a national institutional point of view.

The aim of the turnaround division was to assist financially distressed clients improve their businesses. Thus, if
the turnaround division abandoned the possibility of rescue, it automatically meant the end of the client’s business. Although there is a lengthy internal process to go through to decide whether to continue lending loans to financially troubled clients, the final decision rests with the turnaround division.

The number of members in the turnaround division was increased when the new strategic concept ‘Building Ties’ was set out. Two former branch managers were transferred to the turnaround division to become a divisional manager and a sectional manager in June 2008. An executive director commented that ‘We should entrust the task of running the division to enthusiastic young colleagues with a proven track record for their age so that they have more chances to learn from the experience’ (Managing Director: September 25, 2009).

In November 2008, two more experienced branch managers became members of the turnaround division. The turnaround division now comprised a team of 11 members, up from seven a year before, consisting of senior and younger staff members. The turnaround division supports the workings of branches when it comes to business with financially distressed clients. As branch offices accumulate more experience of dealing with financially distressed clients with support from the turnaround division, it was expected that the knowledge and skill of turnaround assistance practices would diffuse among branch offices. One purpose of the personnel transfer from the branch offices to the turnaround division was thus to assist this diffusion. One of the key skills needed in the turnaround division was those related to accounting, namely developing and evaluating business plans expressed in accounting terms. As described in detail in the next subsection, business plans are the main medium with which financially distressed clients communicate with Tie Bank.

The business plans of financially distressed clients need to strike the right balance between feasibility and profitability. These business plans should look feasible enough to convince Tie Bank that they are realistic but also show that the business is profitable enough so that the lending decisions of Tie Bank seem economically rational to the stakeholders of the bank. The turnaround division let financially distressed clients develop their own turnaround business plans. However, in those cases where clients were not capable of developing their own business plans, Tie Bank asked professional accountants and business consultants to help out. Professional accountants and business consultants are usually an integral part of the turnaround business assistance processes at Tie Bank.

At the same time as the new strategic concept ‘Building Ties’ was declared by Tie Bank, the Japanese government extended the public financial support programmes for SMEs (Japan Small Business Research Institute, 2010). The turnaround division assisted financially distressed clients that were eligible for these public
financial support programmes, thus providing leverage for the division.

5.3 Formal business turnaround assistance rules and procedures

In this subsection, the rules and procedures formally set at Tie Bank to guide and constrain business turnaround assistance is described. The formal business turnaround assistance process starts when a branch applies for their clients who are seeking business turnaround assistance from Tie Bank. When the application is submitted, the turnaround division and the branch discuss the necessity of assistance for the clients as well as the possibilities of the client turning around its business.

When the turnaround division and the branch reach consensus about the necessity and possibility of the business turnaround assistance, they jointly meet with the top management of the financially distressed client. There are three purposes for this meeting: first, to confirm that the management will engage with the business turnaround assistance process; second, to understand the management’s perceptions of why the client company is financially distressed; and third, to understand the measures taken so far by the client to overcome this situation. It is critical at this stage for the turnaround division to confirm that the top management of the client is motivated to turn around its business. Internal guidelines within Tie Bank make it clear that the strong motivation of the client’s top management is crucial here. When the three parties, i.e. the client, the branch, and the turnaround division, agree that they are willing to commence the turnaround business assistance process, the client is officially classified as a client in a turnaround business assistance process.

Next, it is required to execute two types of due diligence investigations: financial due diligence and business due diligence. Financial due diligence is usually executed by professional accountants and aims to obtain an objectively reliable accounting representation of the client company. Business due diligence is carried out to assess the sustainability of the client’s business from a third party’s point of view. Business due diligences are usually conducted by either professional accountants or business consultants. These two types of due diligences together show the new objective ‘reality’ of the client’s current situation. Finally, a business turnaround plan is devised by the client, which is usually supported by professional accountants such as Certified Public Accountants, Certified Public Tax Accountants, and business consultants. The business turnaround plan of the clients is then scrutinised by the turnaround division.

The business turnaround plans tend to posit a brighter future in terms of sales and costs compared with previous plans. Supporting evidence for the proposed sales increases and cost reductions are thus carefully analysed by the
turnaround division. At the same time, the profitability of the business turnaround plan is checked by the turnaround division using the premium payback period method, which reflects the interest rates at which the amount must be paid back. If the turnaround division finds these figures unconvincing or unsatisfactory, then the business turnaround plan must be revised.

During this process of devising and revising the business turnaround plan, previous business plans are actually implemented at the client and constantly monitored by the turnaround division. Thus, implementing a business turnaround plan and its revision are overlapping processes that involve frequent dialogue between clients’ top executives and the turnaround division. Monthly meetings with clients are required according to the division’s internal rules. However, members of the turnaround division can meet with clients more often to assess how business plans are implemented, to discuss improvements, and to encourage and motivate clients.

After the recursive processes of devising, implementing, and revising the business plan, the turnaround division acknowledges that both the business turnaround plan for the refinancing period as well as the will and ability of the client have risen to a level that it feels confident enough to persuade the top management and other divisional managers of Tie Bank to commit to refinancing. The decision to commit refinancing has to be internally approved before arrangements take shape. At this stage, the turnaround process has reached a point termed ‘closing’. After closing, the client is reclassified as an ordinary client and the client relationship is handed back to the originating branch. When the turnaround process is closed, the client’s internal rating, which corresponds to the risk profile of the borrower, is raised in Tie Bank. The upgrading of the internal rating is reflected in the reduction in the loan loss reserve for the client concerned. The business turnaround assistance process is illustrated in the Figure 2.

[Insert Figure 2: Business Turnaround Assistance Process]

5.4 Practical understandings of the division of work in the turnaround division

In this subsection, we focus on the practical understandings about each party’s role to show how a collective practical understanding of the site constitutes the turnaround business assistance practices. Each member of the turnaround division has different roles to play and routines to execute. Their physical domains of activities differ as well. The divisional manager tends to spend much of his time meeting with clients and other managers outside the division, while the sectional manager spends most of his time processing internal documents and communicating with other members of the division. No formal rule regulates how each member acts but there is a
mutual understanding about the roles each must play in the business turnaround assistance processes.

The divisional manager meets with clients on a planned basis. A business turnaround plan usually has milestones, and as such, the divisional manager meets clients in person to check whether these milestones are being met as planned. A face-to-face meeting is critically important because divisional managers need to understand the will of top managers, the attitudes of employees, the atmosphere of the working environment, and so on. In other words, he or she needs to see what is behind the numbers.

The sectional manager stays at the office. His role is to support the divisional manager in terms of the internal processing of documents and controlling other members’ activities. He creates and maintains the internal conditions of the division in order to allow the divisional manager to focus on external issues. For instance, the sectional manager makes sure that his subordinates prepare financial plans for their clients carefully and asks them whether a client’s financial plan is supported by and consistent with concrete action plans. To what extent the financial plan is supported by past track record and to what extent it is assisted by the new initiatives in the plan are questioned by the sectional manager in order to assure the quality of documents the division prepares for the divisional manager.

The divisional members work in cooperation with the branch staff to deal with financially distressed clients. They ask branch staff members to meet with their clients as often as possible to both monitor and motivate the clients. Compared with branch employees, members of the turnaround division are regarded as specialists when it comes to business turnaround assistance practices. While the workings of divisional members are controlled by the sectional manager, the divisional members control the way branch employees meet with their clients. Together with the rules governing the turnaround business assistance processes, the practical understandings of members’ roles constitute the collective practices in the turnaround division.

5.5 Teleoaffective structure of the turnaround division

The teleoaffective structure allows us to understand the meanings shared at the site, the turnaround division in our case, in relation to accounting and strategising. The teleoaffective structure of the turnaround division is constituted by various ends, projects, and emotions that provide meanings and signify for actions to be taken at the site (Schatzki, 1996, 2002, 2005). The teleological dimension and affective dimension make up the teleoaffective structure of the site. The teleological dimension is captured by following the chain of end and project/task at the site. The affective dimension is understood by following people in particular moods and
emotions at the site. The next two subsections illustrate the teleological dimension and the affective dimension of the turnaround division, respectively.

5.5.1 Signifying chain of the turnaround practice

On the first day of the ethnographic participant observation, the participant observer had the chance to meet with the chairperson of the board. At the meeting, he advised that ‘we take step-by-step initiatives (in assisting financially distressed clients to turn around their businesses). I expect you to learn each step-by-step process’ (Chairperson of the Board: August 25, 2009, parenthesis added by the authors). These step-by-step initiatives are found in the shape of the teleoaffective structure of the turnaround division. The identity of Tie Bank resides within the teleoaffective structure of the turnaround division, which provides meanings for certain actions to be taken in the turnaround business assistance processes.

The strategic concept ‘Building Ties’ is translated by the top management into phrases such as ‘Tie Bank will lend an umbrella on a rainy day’. The same strategic concept ‘Building Ties’ is translated as ‘decreasing the loan loss reserve’ in the turnaround division (Divisional Manager, September 1, 2009; Sectional Manager, August 27, 2009; Director August 25, 2009). This translation is not self-evident for outsiders because the translation process involves various idiosyncratic assumptions and subjective expectations in the turnaround division. The translation process when unfolded explains why certain activities should be taken. In other words, each step in the translation process provides meanings to the activities performed by the members of the turnaround division. The causal relationships that enable the translation from ‘Building Ties’ to ‘decreasing the loan loss reserve’ correspond to the ‘signifying chain’ of the site.

In order to capture the signifying chain in the turnaround division, we traced the links that connect the organisational strategic concept ‘Building Ties’ with the divisional goal ‘decreasing the loan loss reserve’. Most of those links are found in conversations within the turnaround division. Some of them are found in conversations with clients or other divisions within Tie bank. When analysed and reintegrated together, the links that tie the strategic agenda with the divisional goal form the following signifying chain in the turnaround division.

‘Building Ties’ means maintaining relationships with existing clients as much as possible. ‘Being a community bank means we have lasting relationships’ (Director, March 2, 2009). Therefore, assisting financially distressed clients to turn around their businesses helps attain this goal. ‘We think that assisting a client, when we are the client’s main bank, is really about “Building Ties”’ (Divisional Manager, September 17, 2009).
In order to help financially distressed clients turn around their businesses, we need to understand the ‘reality’ of their businesses. Therefore, we need to have a reliable accounting representation to understand the reality behind the numbers. To understand the reality behind the objective numbers, we need to know the managers deeply. For this, we need to have face-to-face meetings with clients and work with them to devise better business plans and help them develop capabilities to execute these business plans (Divisional Manager, March 2, 2009).

“We do not understand unless we meet with the client in person. . . Financial statements give us some information but you understand well when you visit the place by yourself” (Sectional Manager, August 29, 2009).

When the financially distressed clients have better business plans and improved capabilities, their business plans should clear internal hurdle rates, such as those set by the premium payback period method, so that their internal ratings are upgraded (Divisional Manager, March 2, 2009). When their internal ratings are upgraded, the loan loss reserve required is decreased. Figure 3 illustrates the signifying chain that links ‘Building Ties’ with ‘decreasing the loan loss reserve’.

Figure 3 Signifying chain in the Turnaround Division inserted here

Within this signifying chain, business turnaround plans expressed in accounting terms are the main medium through which Tie Bank and client companies’ managers communicate and establish a mutual understanding about their future turnaround activities. The details of accounting practices matter because turnaround plans are described in accounting terms. Accounting numbers are dependent on the subjective and intersubjective understanding of the business, and the trustworthiness of accounting numbers is closely linked to that of the individuals who prepare them.

The signifying chain illustrates that the business turnaround assistance process is mediated by accounting methods. Accounting is used by clients to express their ideas about the future. The business turnaround plans expressed in accounting terms are then used by the turnaround division to communicate with other divisions inside Tie Bank, especially with the risk management division who are in charge of controlling the overall risk exposure of the bank. Accounting is thus a medium to communicate both internally and externally.

5.5.2 Emotionalitiy and identity in the Signifying Chain: ‘fighting spirit’ and the transformation of the self

The majority of the signifying chain in the turnaround division seems instrumentally rational. This is no
different from a textbook description of rational decision making. However, the bottom two categories in Figure 3, namely ‘understanding the reality behind the numbers’ and ‘face-to-face meetings with clients’ distinguish this signifying chain as unique to the case organisation.

These two categories and the associated cause and effect relationships assume that the turnaround division are seeking possibilities that are beyond the representation of previous objective numbers. By understanding the reality behind the numbers and by meeting clients face-to-face, it is expected that something more than what is represented in the numbers be brought about. In those steps, a client transforms itself from an independent objective economic entity to be investigated by Tie Bank into an interdependent subjective social actor who jointly creates value to the business with Tie Bank. A sectional manager commented on how the new strategic agenda affected the turnaround practices that ‘rescheduling finance is not enough – we need to change managers themselves’ (27 August 2009).

Trustworthy accounting information is rarely readily provided by troubled clients even though they are seriously in need of financial support from Tie Bank. The divisional manager commented that, ‘I know many top executives do not have any sense of accounting. They fly by the seats of their pants. They should not be qualified as executive managers’ (Divisional Manager: 31 August 2009). The same divisional manager later summarised that:

Some clients are afraid that we would withdraw our credit if they provided decent accounting information. Others do not have the courage to face their real situations. They do not have the guts to scrutinise their own accounts. Others just do not keep their books correctly (Divisional Manager: January 19, 2012).

Faced with a lack of trustworthy accounting information, the turnaround division persuades clients to confront their realities, to recognise reality in financial terms, in order to provide a reliable accounting representation of their businesses to stakeholders. The divisional manager believes that it is his duty to make the client aware of what he or she has done to the business:

I push them to their limits so that they recognise their responsibility and admit that they are responsible for the business failure. Then, I encourage them to revive their businesses. Those are our main tasks (Divisional Manager: August 31, 2009).
Engaging with clients, even when they are not truly committed to the task of turning around their own businesses, reflects the way Tie Bank (as a regional cooperative bank) differentiates itself from so-called megabanks. The divisional manager commented that:

Our team is very different to those of megabanks. Megabanks have already decided to treat business turnaround assistance as a commodity package to sell. For example, the due diligence process is usually outsourced to consulting firms as part of a package. Basically, they do not assist clients who do not meet with their pre-set criteria. We try to assist turnaround clients’ businesses somehow. Instead (of rejecting the possibilities because the criteria have not been met), we ask the top executives for more details (Divisional Manager: August 31, 2009).

Another member of the division explained similarly about its identity as a regional cooperative bank and the way turnaround business assistance practices should run:

I understand that our turnaround practices differ from those provided by megabanks. We take step-by-step initiatives. We take advantage of our strengths, namely that we know about the area more than megabanks [do]. We have good reason to protect the regional economy. It is easy to drive companies into the ground. But we refuse not to open umbrellas when it rains. We would like to assist clients if there is any possibility to turn around their businesses (A divisional staff member: August 26, 2009)

As these quotes illustrate, the strategic agenda ‘Building Ties’ provides an identity for the turnaround division to engage with their clients in their own ways. The commitment to the ‘tie’, in turn, forces the turnaround division to proactively engage with clients. Accounting becomes not merely a communication medium but a strategic leverage for the turnaround division. It is used to allow financially distressed clients to face their own past realities in order to make them acknowledge their business responsibilities. Accounting is thus a strategic leverage for the turnaround division to let managers transform themselves:

The fighting spirit of the owner managers is very important. We watch this point carefully. When cash is tight, the owner managers are tempted to visit lawyers to submit for Chapter 11. We tell them not to visit law firms. ‘We support you.’ Without fighting spirit, the owner managers shift the blame for business failure to the
macro economic downturn and ailing industry. We urge them to change their mindsets and say that you will make your business fail unless you transform yourself. We let them transform themselves profoundly (Divisional Manager: August 26, 2009)

This transformation of the self radically separates the signifying chain in the turnaround division from ordinary economically rational cause–effect relationships. It even relates to something emotional such as fighting spirit. Within this signifying chain, the turnaround division endeavours to alter the counterparty in the business relationship. Accounting is used to let clients face past reality so that they can communicate future visions in a convincing manner. Although the past and future described in accounting terms are tightly connected, their attributes are essentially different. While past reality is fixed and certain, future reality is loose and undecided. The signifying chain of the site incorporates the fundamental uncertainty about the future but appreciates that the starting point for the future malleability of individuals lies in the acceptance of the unchangeable past. This belief in the malleability of individuals based on the acceptance of fixed reality in the signifying chain forms the background of emotionality presented in the next subsection.

5.5.3 Affective dimension of the teleoaffective structure in the turnaround division

The signifying chain mainly illustrates the teleological dimension of the teleoaffective structure at the site. Another dimension of the teleoaffective structure is emotionality. In practice theory, emotionality is recognised when things matter to people so that they display particular moods, feelings, and passions. In conjunction with teleological ends, emotions and moods explain why certain actions are taken at the site. As described in the way the fighting spirit of the owner manager is tested in the signifying chain, the teleological dimension and affective dimension of the teleoaffective structure at the site seem to be intertwined.

Teleological ends were found to be closely connected to group feelings in our case. Our case site demonstrates that the strategic agenda ‘Building Ties’ provides identificational foundations for the turnaround division as described in the previous subsection. The members of the turnaround division do not hide that they are proud of sharing this identity. Teleological ends afford normative conditions upon which the members of the turnaround division anchor their identity. At the same time, this emotionality shared in the turnaround division seems to complement the steps in the signifying chain described in the previous subsection. Let us now discuss the affective dimension of the teleoaffective structure at the site.

We found that a set of idiosyncratic vocabulary is shared and used at the site to express inexplicable feelings
about the relationships with financially distressed clients, their businesses, and their accounting numbers. These verbal expressions attracted the participant observer’s attention partly because they are not commonly used in Japanese and partly because their significance is not easily explained logically.

They are a kind of argot shared and used in the turnaround division. This argot is typically used when members of the division urge their clients to have certain attitudes over their business plans. Let us now explain the way one of those expressions, MUKEMUKE, is used in meetings with financially distressed clients.

The expression MUKEMUKE is ‘naked’ and ‘peeled’ if we force ourselves to literally translate it into English. It is said that the divisional manager started using the expression MUKEMUKE, and then his subordinate also started using it (Staff members, September 25, 2009).

At a meeting with a client in the early stage of the turnaround process, the divisional manager started talking to the clients rather quietly, saying, ‘We will be embarrassed unless you talk with MUKEMUKE’ (September 1, 2009). We are not sure how MUKEMUKE was initially interpreted by the client at the meeting, although we interpret it as a synonym of honestly and sincerely in this context.

The meeting was held to find a mutual understanding of the financial situation of the client and to ascertain that theirs was a ‘main bank relationship’. The client had dealt with a number of banks; however, no particular bank held a leading role in monitoring and governing the client. In other words, the client was understood not to have a so-called main bank. Assisting the client to turn around its business means taking the main bank responsibility for Tie Bank. From Tie Bank’s point of view, it has to know if the client is worthy enough for it to undertake the main bank responsibility. The meeting with the client went on to scrutinize a series of bad investment decisions that had damaged the firm’s balance sheet:

(Client) My grandfather started our business and my father succeeded . . . My father died eight years ago. About 10 years ago, my father tried to expand the business and invested too much. The two years before he passed away were very hard.

(Divisional Manager) What made you want to increase bank borrowings?

(Client) Eight years ago, because of water treatment problem. . . We borrowed 70 from XX bank and 50 from another financial institution. . .

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5 A main bank relationship is a long-term relationship between a firm and a particular bank from which the firm obtains its largest share of borrowings (Aoki and Patrick, 1995, p.1). They expand the definition to include the monitoring and governance roles of a main bank in this relationship.

6 In order to keep the anonymity of the clients, some of the details in the conversations are omitted and the accounting figures are modified.
(Divisional Manager) How about another investment you made later?

(Client) 70 million. It was my decision. I explained to the banks.

(Divisional Manager) Was it for the main business?

[The loans were used for the new business that is not related to the main business of the client.]

(Client) Yes, well, I talked about the new business, too.

(Divisional Manager) Did you explain the investment returns (to banks)?

(Client) No, not really. Actually, I knew the investment was not going well. We diverted funds from our main business for the new one. . . That was when Tie Bank lent us 50. . . We were worried that banks might say ‘no’ and thought that we should focus our efforts on the main business. A Megabank XX came and lent us more money. . . Fundamentally I was too naïve.

(Divisional Manager) I would like to ask your own perspective on the reason why you failed and about your own future. Our commitment is 20 years. Could you disclose all information to us?

The client explained what they have already done to overcome its financial difficulties, such as reducing management compensation, lowering employee salaries, and closing underperforming branches. The explanation was accompanied by accounting figures. Finally, the meeting ended when the divisional manager confirmed that:

(Divisional Manager) You see that Tie Bank is your main bank now, is this correct?

(Client) Yes, you are right.

(Divisional Manager) No more investment. If you wish to invest in anything, please do consult us in advance.

(Client) I do like my job. I do my best.

On the way back from the meeting in the car, the divisional manager commented that, ‘The turnaround process begins only when everything is open in MUKEMUKU. We never know unless we see the owner manager in person.’ Apparently, the client succeeded in obtaining the trust of the divisional manager. The divisional manager concluded that, ‘The heart of business turnaround is the owner manager. The failure in the past doesn’t matter. We have to assist these kinds of companies turn around their businesses’ (Divisional Manager, September 1, 2009). The same divisional manager later commented at a closed workshop on business turnaround hosted by one of the authors that both parties, i.e. Tie Bank and the financially distressed client, are jumping at shadows in the
initial stage of the turnaround process (Divisional Manager, January 19, 2012). At an early stage of the turnaround process, the clients are uncertain about the true motivation of Tie Bank. Because it is common that banks take their umbrellas away from clients when it rains, customers are not prepared to believe that Tie Bank would lend an umbrella when it rains however hard it claims its good intentions. Clients are worried that Tie Bank would use this occasion to secure its credit somehow.

The turnaround division knows about its own good intentions but it is sceptical about the competence and goodwill of clients. Tie Bank has lent money even though clients are incapable of paying back the loans because either their businesses are not performing well or they are not faithful. There is thus a substantial reason for both parties to be sceptical about the counterparty’s intentions and competences. The face-to-face meeting with the client is regarded as important for the turnaround division to have a sense of whether the relationship can be trustworthy.

In this context, MUKEMUKE seems to express expected attitudes by the turnaround division, such as honesty and sincerity, which should be demonstrated by the client from the point of view of the division. When the client successfully demonstrates certain attitudes towards the accounting numbers that are in line with MUKEMUKE, the turnaround division seems to have positive feelings about him or her.

On the side of the client, it requires courage to admit its past failure and to disclose miserable financial situations in accounting numbers. To a certain extent, the client takes a leap of faith when behaving in a MUKEMUKE manner with regards to accounting numbers. However, in the face-to-face meeting, its faith is rewarded emotionally in a sense that the turnaround division develops positive feelings about the relationship with the client. His or her attitude is welcomed and the burden to turn around the business is shared with Tie Bank.

A MUKEMUKE attitude by the client creates positive feelings on the side of the turnaround division, which thus rewards the clients emotionally in the above described sense. This suggests that both parties are developing mutual feelings that they have something in common about their relationship. In other words, they start to have a common focus of attention and to develop a shared mood (Collins, 2004). Face-to-face meetings where accounting is deployed to examine the client could be understood as an interaction ritual.

This emergence of a common focus of attention and a shared mood seems to provide impetus for the turnaround division to take further steps in the signifying chain. When the attitude of the client with regard to

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7 Two authors have hosted a monthly workshop on business turnaround since November 2011. The participants are from regional banks, one of which is Tie Bank, professional accountants, and academics. The membership of the workshop is closed to maintain the confidentiality of the information discussed during sessions.
accounts and accounting meet with what is expected by the turnaround division, the face-to-face talk over accounting as an interaction ritual increases the emotional energy level for the turnaround division to practice strategising where an abstract strategic agenda ‘Building Ties’ takes the concrete shapes of distinctive practices at the site.

The expression MUKEMUKE is also used when the turnaround division tries to push its clients forward in the relationship. At another meeting, the sectional manager tried to encourage the client to discuss its business plans more frankly and said cheerfully, ‘Let’s move forward with MUKEMUKE’ (August 2, 2009). Here, MUKEMUKE is used to allow clients to put the past behind them so that they can start moving forward together.

By contrast, the divisional manager once murmured after an internal meeting in the division that ‘(i)t would be more exciting if we could discuss this with MUKEMUKE’ (September 1, 2009). The internal meeting was held to discuss whether the internal ratings of clients could be upgraded or not but it seemed to have passed without touching on the sensitive issues. On this occasion, the divisional manager was frustrated because the meeting was dominated by a self-protective atmosphere. The expression MUKEMUKE is thus used to not only describe the attitude of the client but also that of colleagues.

The pressure to speak in MUKEMUKE sometimes became immense. In a series of scrutinising conversations at a meeting, a client literally became hyperventilated. That particular meeting was held on the last day of August 2009 in the afternoon. A son of the owner manager and a family lawyer visited the main office of Tie Bank. The divisional manager, a section manager of the turnaround division, a branch office manager, and the participant observer attended the meeting. The purpose of the meeting was to discuss the possibilities of assisting the turnaround of the client’s business.

(Divisional Manager) How has your business been going recently? The last time we met was a couple of months ago. We have been waiting for your visit. You have not been paying back. . . We would like to confirm your will to turn around the business and how you plan to turn it around. I hope that you understand the situation.

[Client does not respond]

(Lawyer) You understand it, do you?

[Prompts him to nod. Client nods ambiguously]

(Divisional Manager) We need your direction to turn around your business. . . We cannot let you defer
payment so many times. Please set the direction. Decide which assets to sell and not to sell. We would like to see the possibilities of a turnaround within your direction. . . Today, we need you to seal your stamp on the mandatory documents to defer payment.

[The divisional manager talks with the lawyer about the legal documents]

(Divisional Manager) Let me know the precise information about the other banks.

(Lawyer) We talked with Bank W, but they told us that they cannot do anything.

(Divisional Manager) What about the payments to the other banks?

(Client) We paid 20 to 30 thousand. Banks X, Y, and Z rescheduled the payments.

(Divisional Manager) Aren’t they in arrears?

(Client) I do not think so.

(Lawyer) I think just on sufferance by banks. I am acting as a contact person.

(Divisional Manager) You do not even acknowledge what your lawyer is doing for you . . .

[The lawyer explains the immediate plans and tries to convince them that they need more time to deliberate the turnaround plan]

(Divisional Manager) Strictly speaking, we need your turnaround plan when we agree to defer payment.

(Sectional Manager) Why don’t we discuss the new plan at the end of October?

[Divisional manager asks a series of questions about restructuring, such as the sale of assets and the layoff of employees. The lawyer explains the situation back]

(Divisional Manager) So the fixed costs are small. We need to know everything in the turnaround assistance. How do you manage the claw-back? Don’t you have some stock?

(Client) I manage them personally.

(Lawyer) I understand that he manages them because they are necessary costs for the business turnaround.

(Divisional Manager) You are not turning around your business by yourself, but asking financial institutions to reschedule your loans. We wish to assist you. In order to assist you, tell us how you manage your cash and deposits. We will not take money from there because you tell us so. We will not be surprised whatever we hear from you when you tell us the truth. It is your homework to do by the end of October.

[Documents being signed]

(Client) I feel suffocated.
The client starts to hyperventilate. Someone brought a plastic bag to normalise his ventilation. This continued for about five minutes. The lawyer stamped seals on behalf of the client. The client is uneasy speaking after returning to normal ventilation. The divisional manager explains how they should proceed until the next meeting. The lawyer confirms the procedure.

After the meeting, they returned to the turnaround division’s office room. The executive director in charge of the turnaround division was waiting for them. Apparently, he knew what had happened at the meeting. The executive director scolded the branch officer, ‘You were too sweet and spoiled the client. Go there and do the accounting work.’ The executive director continued: ‘It’s because he was lying. He became ill when scrutinised. It’s a matter of time.’ The divisional manager responded, ‘I do not understand why he came today. It’s sad to do business with an ill person.’ The client was not talking in a MUKEMUKE manner. The turnaround division does not seem to have any enthusiasm left for the client.

In the above-described meeting, the client failed to show the expected attitude to talk in a MUKEMUKE manner. It could be understood as a form of resistance but the client left a lasting impression that he was not only incompetent but also dishonest because of the way he mobilised his accounting numbers. The face-to-face meeting ended up creating dissociating feelings in the relationship, which prevented the turnaround division taking further steps to assist the client. This decreased the emotional energy level for the turnaround division to execute strategising processes where an abstract strategic agenda ‘Building Ties’ could have had taken concrete shapes with this particular client.

6. Discussion

The turnaround business assistance practices at the Tie Bank are characterised by high uncertainty and a lack of trust. The representation of a client’s past and future business in accounting numbers thus plays a vital role to reduce uncertainty perception and develop mutual trust.

Strategising in the turnaround division aims to link the strategic agenda ‘Building Ties’ that has been developed by top management with its daily practices. Practicing ‘Building Ties’ in the turnaround division is different from expanding business with profit-making clients or developing new relationships with entrepreneurial clients. The turnaround division deals with financially distressed clients, and thus, practicing ‘Building Ties’ is about salvaging existing relationships.

The past performances of their clients are often not promising. Although there may be a number of excuses or
reasons, their ability and will to run a successful business remain in doubt. Even though the business failure may have been caused by the macro economic downturn, ailing industrial conditions, or changing market structures, Tie Bank believes that it is the firm manager’s responsibility to prepare for these changing conditions.

Clients often think that part of the blame lies in the previous lending behaviour of banks. If banks had acted more prudently when they provided loans, clients would not have been in such difficulties. It is common sense that banks lend money when it is sunny and limit lending when it rains. Financially distressed clients are afraid that they will be ripped off if they provide a complete set of accounting information to banks. Window dressing and deception are more of a rule than an exception.

The context in which strategising in the turnaround division takes place is infused with mutual distrust and anxiety. Strategising in the division is a process in which the parties are trying to escape from the trap of mutual distrust in order to establish a foundation for the future commitment between the Tie Bank and the client.

The starting point of the strategising processes in the turnaround division lies in the strategic agenda set out at the top management level. The turnaround division is taking initiatives to salvage relationships with its clients because of this imposed strategic agenda. At the same time, it is well aware of the financial consequences incurred by doing so. The division is constantly reminded by the risk control division how much risk exposure it could bear. The turnaround assistance practice thus needs to reduce risk exposure not by replacing clients in the portfolio but by facilitating clients to change. By re-establishing trustful relationships in which clients both develop plausible business plans for the future and improve capabilities to execute these plans, the strategising process in the turnaround division is, like the NPD practice described in Jørgensen and Messner (2010, p. 202), about uncertainty reduction.

The perception of uncertainty is reduced when accounting talk (Jønsson and Solli, 1993) fosters feelings of trust in each other. At a superficial level, the power in accounting talk is asymmetrical. The turnaround division assesses whether clients recognise their own business conditions objectively and critically in order to understand whether their business plans have been devised to meet the financial criteria necessary to survive and are plausible enough to be realisable. The face-to-face meeting with the clients is of paramount importance for the turnaround assistance practice because it is the most important occasion to see through the reality of the past and future in the accounting numbers.

This power asymmetry becomes more symmetrical when deeper emotional interactions are scrutinised. There is a resistance and backlash in the accounting talk. The accounting talk in the face-to-face meetings reveals that
each party is developing feelings about the counterparty and the nature of their relationship. When accounting talk successfully restores mutual trust, clients respond to the division rhythmically and vice versa, whereas unsuccessful accounting talk is out of rhythm. This rhythmical interaction is a feature of a situation in which a common focus of attention and a mood are shared (Collins, 2004). It is not only the division but also the clients who develop feelings about this relationship.

Just as what is represented by accounting, the way accounting information is mobilised in the face-to-face meetings affects the development of emotionality. The meanings of accounting information and how this information is utilised are intertwined in a complex manner, and in turn are influenced by the meaning of the accounting information. A miserable financial situation represented in a similar manner in accounting terms may have a totally different meaning in the turnaround assistance practices. At one time, presenting a miserable accounting representation may be welcomed as it shows the client’s honesty and courage to accept its difficulties. At another time, a similar miserable accounting representation implies the client’s incompetence and lack of guts. Both the top management and the turnaround division well acknowledge the importance and limitation of accounting representation but the significance is highly context-dependent, which is similar to what Ahrens and Chapman (2007) conceptualised as situated functionality (pp. 21–22).

The situated functionality of accounting representation is both context-dependent and context creating. The practical understanding of the turnaround assistance practice focuses on the way it affects the attitudes and abilities of clients. Re-establishing mutual trust is not a passive process for the division but rather it is an active process of influencing the client’s willingness to turn around its business and assisting developing the capabilities to do so. The accounting talk in the face-to-face meeting has a vital importance in this kind of dynamic interaction. The strategic agenda ‘Building Ties’ is rephrased as ‘lending an umbrella when it rains’.

The common sense knowledge is that banks lend an umbrella when it is sunny. The heteroclite strategic agenda is a starting point for both the intentionality and the emotionality of strategising in the turnaround division. High uncertainty and fundamental anxiety characterise the strategising process in the turnaround division. The strategising process in the division is constituted by the teleological as well as the affective dimension alongside practical understandings and rules. Accounting talk in face-to-face meetings is implicated in the affective dimension, which in turn affects the strategising process in the division.

Brundin and Merlin (2006) analyse the strategising process in entrepreneurial settings by deploying two analytical concepts: emotional authenticity and emotional dissonance. When an entrepreneur displays emotions
that are congruent with his or her true inner emotions, i.e. emotional authenticity, it increases the emotional energy level, which in turn advances the strategising process. When an entrepreneur displays emotions that are different from his or her true inner emotions, i.e. emotional dissonance, it decreases the emotional energy level, which in turn truncates the strategising process.

While emotional authenticity/dissonance analyses two types of emotions, displayed emotion and true emotion, at the individual level, our analysis focuses on the level of interactions. We infer from the observed data that emotional energy level is increased when the client’s attitudes over accounting representations are in conformity with the division’s expectations, while it is decreased when they do not conform each other. Let us term this type of conformance as “emotional conformance” and non-conformance as “emotional dissociation”. Both emotional conformance and emotional dissociation describes collective state of minds, but affects interactions in opposite directions.

The differing emotional responses to the level of the emotional conformance are conceptually similar to but different from what have been theorised in the symbolic interactionist approach in the sociology of emotions (Stets, 2006). In the symbolic interactionist approach, two types of cognitive appraisals are posited: trans-situational identity and situational identity of individuals. The affective responses will be positive (negative) when the two identities are (not) in conformance (Stets & Turner, 2008, p.38). Our findings are similar to what the symbolic interactionist approach conceptualised in a sense that the degree of conformance between the individual idiosyncrasy and the situational role affects the emotional responses. They are conceptually different in the following two aspects: we are more concerned with individual attitudes rather than individual identities, and emotional responses are of collective rather than of individual. For this end, our findings are generally consistent with and complement Collin’s ritualistic approach (Collins, 2004).

The two analytical concept ‘emotional conformance’ and ‘emotional dissociation’ help us to understand how emotionality associated with the way accounting is mobilised constitutes the strategising process. These concepts deal with the way in which interactions in accounting talk develop. When clients respond to questions posed by the turnaround division in a manner that is in conformance with what is expected, and vice versa in a rhythmical manner, the collective state of emotional conformance emerges, which in turn increases emotional energy in strategising. On the contrary, when clients do not respond in a way that meets with what is expected, emotional

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8 The term “emotional conformance” is created to connote that there is an aspect of compliance with the counterparty’s expectation and that two parties form something together. Linguistically similar term “emotional congruence” is used as a concept to explain paedophilia in psychology (Finkelhor, 1984).
dissociation emerges in the relationship, which decreases the emotional energy in strategising. Accounting talk develops emotionality at the interactive level in the turnaround assistance practice. The affective dimension is thus an indispensable constitutive element in the strategising practices in the turnaround division.

In the Schatzki's original formulation, emotionality is one of two dimensions of the teleoaffective structure which provides meanings to activities at the site. The way we understand two dimensions of the teleoaffective structure illustrates the similarity as well as the difference between them. The teleological dimension is illustrated as a signifying chain which has a distinctive structural property in our analysis. The affective dimension is more prosessual and emergent in interactions. The differences may imply that there is an opportunity to further develop practice theory conceptually.

7. Conclusion

Practice theory is concerned with what people actually do and why they do what they do. The practice theory perspective that we draw upon in this study helps explain the role of both intentionality and emotionality in the day-to-day practice of accounting in strategising. Ahrens and Chapman (2007, p. 22) illustrate how management control systems as a structure of intentionality are constituted in the cognitive processes that are distributed across people, practices, material arrangements, and contexts. This paper adds the affective dimension as an integral part of distributed cognitive processes.

Our case of turnaround division practices in a financial organisation is similar to the NPD practice analysed in Jørgensen and Messner (2010) to the extent that both types of practices are characterised by high uncertainty. These authors analysed the strategising process, within which a strategic agenda takes concrete shapes in terms of NPD practices, thus focusing on the various types of accountability developed in the stage-gate process. Strategic objectives are mobilised in tandem with financial arguments in the strategising process, and thus uncertainty reduction and goal congruence are attained (Jørgensen and Messner, 2010, p. 202).

Similarly, the strategising process in the turnaround division concerns uncertainty reduction and emotional conformance. Accounting representation is regarded as important but one of the many ways to evaluate NPD projects in their study: ‘Management board drew from their own practical expertise in order to ‘see through’ numbers that featured in the project reports’ (Jørgensen and Messner, 2010, p. 202). In our case, face-to-face meetings with clients are shown to be critically important to understand the reality behind the numbers in order to evaluate clients’ businesses as well as to develop emotional conformance in the relationship.
Accounting representation of the past and future of clients’ businesses provide opportunities for the members of the turnaround assistance division to develop the emotional energy necessary to carry out the strategising process. The degree of emotional energy developed in the accounting talk allows them to engage in discontinuous processes from the past to the future in order to turn around failing businesses. Our analysis of emotionality in accounting and strategising focuses on a social level where emotionality is developed in and affected by the interactions with others.

Accounting is a powerful practice that contributes to constructing a reality in which people experience various types of emotions and feelings – both individually and collectively. The emotionality of accounting that we have captured in this paper is a small step towards appreciating how accounting practice incorporates various other practices at the site and how people act and find meanings in their acts.

Acknowledgement

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Acknowledgement

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References


Appendix. 1 Information of formal fieldwork activity

Interviews

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<th>Meeting Type</th>
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<td>Morning meeting in the division</td>
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<td>Internal rating meeting</td>
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<td>Branch manager and top management meeting</td>
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<td>Lending decision making meeting</td>
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<td>Business turnaround seminar for tax accountants</td>
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<td>Meeting with clients</td>
<td>17</td>
</tr>
<tr>
<td>Internal meeting about financial plans</td>
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</table>
Figure 1: Tie Bank Organisational Chart

- **Area director system**
  - Main branch
    - Business department
    - Business assistance department
  - Area 1
    - Branches
  - Area 2
    - Branches
  - Area 3
    - Branches
  - Area 4
    - Branches
  - Area 5
    - Branches
  - Area 6
    - Branches

- **Board of directors**
  - Director
  - Director
  - Director
  - Director
  - Director
  - Director
  - Director
  - 19 members including 3 corporate auditors

- **Head office**
  - Management planning division
  - Public relations division
  - Human Relations division
  - Cooperate assistance division
  - Screening division
  - Administration division
  - Credit risk management division
  - …19 divisions as a whole

15 areas as a whole
Figure 2: Business Turnaround Assistance Process

A: accounting professionals  B: branch  C: client  D: turnaround division
Figure 3 A Signifying Chain in the Turnaround Division

- Building ties
- Maintaining ties with existing clients
- Assisting clients to turn around their businesses
- Evaluating a client’s business plans
- Understanding ‘reality’ behind accounting numbers
- Decreasing the allowance for bad loans
- Upgrading internal ratings
- Calculating the payback period
- Realisable financially sound business plan
- Face-to-face meetings with clients