Accounting for rituals and ritualization: The case of shareholders’ associations

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ABSTRACT

This paper uses ritual theory to examine the participation of shareholders’ associations in rituals and ritualization within social spaces. We focus on how the interconnectedness between private rituals (private investor meetings) and public rituals (AGMs and courts) produce psychological and functional benefits for shareholders’ associations. We explore the strategic acts used by shareholders’ associations in ritualization. Our study reveals that the participation of shareholders’ associations in each ritual plays a significant role in reducing conflict and maintaining harmony. Regarding ritualization, our study shows that some shareholders’ associations use a form of gamesmanship to gain strategic advantage in audit committee nominations at AGMs.

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1. Introduction

This study uses ritual theory to explore shareholders’ association members’ accounts of how rituals and ritualization are used in the pursuit of their agenda within social spaces. In this paper, we describe rituals as “rule-governed activities that draws the attention of its participants to objects of thought and feeling which they hold to be of special significance” (Lukes, 1975, p.291).1 Rituals are routine actions that are performed in social spaces and can be described as formalized, ordered, stylized, scripted, stage-managed, and involving role play during performance (Goodsell, 1989; McComas, Besley & Black, 2010; Smith & Stewart, 2011). Studies suggest that rituals offer both psychological and functional benefits to participants and their audience. From a psychological perspective, rituals help create harmony and shared meanings between participants (Lewin & Green, 2009; Rook, 1985). From a functionalist perspective, rituals aid social order, communication and identity creation (Lewin & Green, 2009; Smith & Stewart, 2011). In the accounting field, studies suggest rituals are useful in communicating accounting numbers to an audience. They suggest that rituals foster accountability and discipline and mask conflict in the audit profession (Catasús & Johed, 2007; Gambling, 1977, 1987; Mills & Bettner, 1992; Roberts, Sanderson, Barker, & Hendry, 2006; Pentland, 1993; Power, 2003). A few of these studies draw insights from the direct observation of participant interactions in specific spaces, such as private spaces (e.g., investor meetings) and public spaces

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1 This definition of rituals represents one of several explanations found in ritual studies. The fragmented literature on rituals suggests there is no consensus on the meaning of rituals (Dacin et al., 2010; McComas et al., 2010).

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(e.g., annual general meetings—AGMs) (Apostolidis, 2007; Catasús & Johed, 2007; Roberts et al., 2006; Solomon, Solomon, Joseph, & Norton, 2013).

However, these studies do not provide insight into the functional and psychological benefits attributed to actor participation in multiple rituals involving several interconnected yet differentiated spaces, despite overwhelming evidence that indicates that the nature and function of rituals differ across private and public spaces (Dacin, Munir, & Tracey, 2010; Goodsell, 1989; Johnson, Schnatterly, Johnson, & Chiu, 2010). Thus, we do not know the potential value attributable to actor participation in several loosely connected rituals. Therefore, our first objective is to address this problem through our research question: how does the interconnectedness between private rituals (private investor meetings) and public rituals (AGMs and courts) produce psychological and functional benefits for shareholders’ associations? We focus on the participation of shareholders’ associations in multiple rituals. We select shareholders’ associations rather than institutional investors because of the former’s preference for participation in rituals across a multitude of spaces. Studies suggest that shareholders’ associations, organizations consisting mainly of small, ordinary shareholders, pursue governance accountability through three rituals: private investor meetings, annual general meetings (AGMs) and courts. However, the participation of shareholders’ associations in the courts’ rituals remains relatively underexplored in prior studies. Therefore, we also aim to address this gap through our studied rituals (Catasús & Johed, 2007; Choi & Cho, 2003; Strickland, Wiles, & Zenner, 1996).

In this study, rituals are considered products of a process termed ritualization (Kelner, 2008). Ritualization is a term that is associated with a strategic way of acting in the practice of rituals (Bell, 1992; McComas et al., 2010). In the accounting literature, ritualization is rarely examined despite its relevance to the performance of rituals (Catasús & Johed, 2007; Uddin & Choudhury, 2008; Roberts et al., 2006). Ritualization has also been examined by research scholars outside the accounting literature. These scholars provide insight into how participants use strategic practices in the enactment of rituals (Kelner, 2008; Knottnerus & LoConto, 2003; McComas et al., 2010). However, what these studies do not address are the strategic acts used by groups in ritualization. What strategic acts do participants in groups (e.g., shareholders’ associations) use in ritualization? Therefore, our second research objective focuses on ritualization, where we explore the strategic acts of groups participating in ritualization. Our aim is to understand the strategies and tactics employed by shareholders’ associations in ritual practices to produce a desired outcome. In this paper, we explore the ritualization of AGMs, which represent the main social space used by shareholders’ associations for shareholder activism² (Catasús & Johed, 2007; Hasenfuss, 2006). AGMs are preferred over private investor meetings and courts because they offer greater freedom for participants to engage in strategic and psychological games. The differences in the extent of ritualization between each social space are determined by the degree of formality, opportunities for manipulation and planning (Apostolidis, 2007; Johnson et al., 2010; McComas et al., 2010; Smith & Stewart, 2011). For example, the ‘question time slot’ at AGMs is far less “predictable and controllable” (Apostolidis 2007, p. 1279). Catasús and Johed (2007) find evidence of shareholders’ association members strategically manipulating the question time slot to embarrass management.

Our theoretical frame is based on ritual theory. Our choice of theories differs from prior works that have employed agency theory, the dramaturgical, institutional logic and ideal speech situations as well as actor network theory in studying shareholders’ associations and AGMs (Apostolidis, 2007; Biehl-Missal, 2011; Carrington & Johed, 2007; Catasús and Johed, 2007). These studies form part of a growing body of literature that provides evidence of ritual performance at AGMs. These studies demonstrate that rituals are used in communicating corporate performance to shareholders in regulated spaces. However, the application of these theoretical frameworks causes our attention to be directed toward symbols, aesthetics and performance styles rather than the real effects of rituals on participants that go beyond symbolic meanings (Johnson et al., 2010; McComas et al., 2010). Johnson et al. (2010, p. 1591) argue that for researchers examining rituals without applying ritual theory, “ritual implies a lack of significance: being ritualized is equated with having little impact or influence”. The authors argue that ritual theory helps explain the substantive value of rituals. Another identifiable limitation is that these theories do not provide insight into shareholders’ cognitive interpretations of events when assessing ritual performance at AGMs. In contrast, ritual theory focuses on the meanings and messages associated with actions that are transmitted between participants during rituals (Lewin & Green, 2009; Tellis-Nayak & Tellis-Nayak, 1984).

Our study uses the context of Nigeria, where shareholders’ associations have faced criticism because of their attendance at private meetings with corporate managers and their use of scripted performances at AGMs (Adegbite, Amaeshi, & Amao, 2012; Amao & Amaeshi, 2008; Yakasai, 2001). Second, this setting provides an opportunity to explore the strategic acts of groups participating in ritualization at AGMs. We focus on audit committee elections at AGMs. In Nigeria, a shareholders’ association can nominate a member who holds a stake in a target company as a shareholder representative on the audit committee. However, there are over thirty shareholders’ associations in Nigeria (Amao & Amaeshi, 2008; Tijjani, Fifield, & Power, 2009). This large number makes the election process for positions within an audit committee competitive. This competitive environment provides an opportunity setting for examining group strategizing behavior. This situation of a high number of registered shareholders’ associations in Nigeria is in contrast to that of Australia, New Zealand, Sweden, South

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² In this paper, we define shareholder activism as an activity that is built on institutionally defined systems that enable participating actors such as shareholders’ associations to convey messages through symbolic performances and ceremonies that hold financial and social meanings in legally prescribed spaces (Judge et al., 2010; Poulsen et al., 2010).
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