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Guest Editorial

Developing corporate governance theory through qualitative research

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Corporate governance research has historically focused on testing predictions based on agency theory through the use of quantitative methods (Daily, Dalton & Cannella, 2003; Dalton, Hitt, Certo, & Daily, 2007). A recent review of articles published in CGIR supported this conclusion showing that the large majority of the articles published in 2008-10 (i) have been developed using agency theory or other economic-related perspectives, and (ii) adopt a rigorous explanatory approach characterized by deductively testing theoretical predictions (Zattoni & van Ees, 2012).

These studies have greatly contributed to enrich our knowledge of corporate governance issues, and have helped governance practitioners to strengthen the effectiveness of governance mechanisms aimed at protecting investors. At the same time, the empirical evidence provided by these studies is mixed at best, and several recent meta-analyses have revealed that agency-based prescriptions generally have equivocal impacts on governance behaviors and performance outcomes (Dalton, Daily, Ellstrand & Johnson, 1998; Dalton, Hitt, Certo & Daily, 2007; Deutsch, 2005; Rhoades, Rechner & Sundaramurthy, 2000). As a result, the field of corporate governance has begun to move away from agency theory and consider other theoretical frameworks and methodologies (Durisin & Puzone, 2009).

Logical positivism, the scientific philosophy which agency theory embraces, is the dominant paradigm within the social sciences today with its focus on parsimonious theory that is generalizable and gleaned through a separation of the observer from the observation (Carnap, 1928). However, logical positivism and deductive theory-testing studies have their strengths and weaknesses. Qualitative research, with its philosophical grounding in phenomenology, addresses the weaknesses of logical positivism by focusing on the accuracy and contextual nature of social science at the sacrifice of generalizability (Kuhn, 1962). According to Karl Weick (1979), the aim of all social science is to generate theory that is accurate, parsimonious, and generalizable, but no theory or empirical method can embrace all three criteria at one time.

The mixed findings of previous studies based on agency theory encouraged governance scholars affiliated with this journal to raise a call towards the use of alternative or complementary theories, and to explore real-life governance issues using data collected through a direct interaction with key governance actors. For example, the editors of recent special issues that focused on boards and governance emphasized that to enhance our understanding of the effectiveness of governance mechanisms scholars should gain access to process-oriented data, go beyond the almost exclusive use of agency theory, and overcome empirical dogmatisms and narrow conceptualizations of corporate governance (e.g. Daily et al., 2003; Hambrick, von Werder & Zajac, 2008; Huse, Hoksisson, Zattoni & Viganò, 2011).

Consequently, the goal of this special issue is to break new methodological and theoretical ground in corporate governance research. In particular, our purpose is to incentivize governance scholars to use qualitative methods, and to generate fresh new theoretical insights about corporate governance practices that are both rigorous and relevant. In order to raise interest in the special issue we posted the call for papers on this journal's website and in various newsletters (i.e. European Academy of Management and the Academy of Management), and we circulated calls among corporate governance colleagues, and we advertised the special issue in our print journal and on our website. In response to this call, we received twenty-seven submissions that we screened to evaluate their fit with the journal and the call for papers. Interestingly, the large majority of the articles (i.e. twenty-one) came from European scholars, four from scholars located in Oceania, and one from scholars located in Africa and in the US. Within the European scholars, the UK scholars played a prominent role with eight submissions.

We screened all articles for consistency with journal guidelines (Zattoni & van Ees, 2012), and based on this criteria, we desk rejected seven papers. The remaining twenty articles were sent to reviewers. We chose a mix of reviewers (most of them from institutions outside the United States) that were familiar with qualitative methods and approaches in governance research, and who would be likely to undertake vigorous developmental reviews. After the first round of reviews, the guest editors collectively decided unanimously to reject eleven articles that – even if interesting and promising for theory and method – were not sufficiently developed to reach publication in the time span required.

Authors of the remaining nine articles were invited to revise their manuscripts and to present them at a developmental workshop. The workshop was sponsored by the Research Division of SDA Bocconi School of Management and was organized in Milan on September 23-24, 2011. Eight papers were presented during the two-day workshop, with two contributors presenting their works through teleconference from Australia and the UK. The goal of the developmental workshop was to get all submitters involved by contributing to the improvement of all papers. The workshop was opened by a keynote speech from Andrew Pettigrew – Professor of Strategy and Organization at the Said Business school – on the 'The conduct of qualitative research in organizational settings'. During the workshop, William (Bill) Judge – E.V. Williams Chair of Strategic Leadership at Old Dominion University – contributed a presentation on ‘The role that qualitative research plays in the mission of CGIR’. Consistent with our expectations, there was an open environment where all submitters got useful and positive comments on how to improve the rigor and the relevance of their studies.

The dialogue between submitters and reviewers continued after the workshop with the resubmission of the revised version of the papers. One author retired his paper from the special issue as he was unable to meet the deadline. After the second round of reviews, we rejected three promising articles that were still too distant from publication. The remaining scholars received an invitation to ‘revise and resubmit’ their papers for final selection. Finally, we decided to accept for publication three interesting articles. Beyond these three articles, the special issue includes two commentaries from highly reputable qualitative scholars (Andrew Pettigrew and Pratima Bansal) and a review of qualitative corporate governance studies developed by Terry McNulty, Alessandro Zattoni, and Thomas Douglas.

SPECIAL ISSUE ARTICLES

This special issue begins with two commentaries from internationally-recognized qualitative research experts. . The first commentary by Andrew Pettigrew provides a selective acknowledgment of some of the main contributors to qualitative research, emphasizes the codification of standards in qualitative research, and highlights some of those standards. First, Pettigrew reminds us that a key milestone in the development of qualitative methods was a special issue organized by John van Maanen for ASQ in 1979. This event was important as the number of articles published in top journals using qualitative methods has significantly increased since the publication of the special issue. Then, he analyzes the evolution and codification of standards used to assess qualitative research. A key suggestion is to provide a transparent description of methods and analyses as this can help scholars to address journals' request for higher standards of methodological codification of qualitative research. Finally, Pettigrew invites scholars to read Kathleen Eisenhardt's works as they provide an exemplary combination of rigor and relevance that may inspire future qualitative studies.

In our second commentary, Pratima Bansal argues that the dominance by agency theory led governance scholars to deductive theorizing. While this approach has its own merits, the overemphasis on agency theory could also have contributed to missed opportunities to find the emperor's new clothes. In other words, Bansal invites scholars to consider inductive and deductive theorizing as complementary methods to advance our knowledge on corporate governance issues. In the last part of the commentary, she underlines that qualitative data can contribute to governance studies in three ways: (i) by exposing new questions, (ii) by challenging existing assumptions, and (iii) by identifying new constructs. Finally, she claims that qualitative research is also suited to explore issues where there exists strong theory, but inconsistencies in empirical results, and provides some guidelines to address these issues.

Beyond the two commentaries, the special issue includes four diverse articles. The first one, written by Bernard Bailey and Simon Peck, explores the antecedents that lead boards to develop a particular type of strategic decision-making style. To reach this purpose, Bailey and Peck conducted semi-structured interviews with twenty-nine directors of eight US public companies. Their results show that the predominant style of decision making (i.e. procedural rationality versus political behavior) is explained by three variables: (1) shared mental models, (2) balanced power relationship, and (3) board chair leadership skills. The article is interesting as it advances three new constructs for understanding of board strategic decision-making, and it highlights the understudied role of board chair to create a boardroom environment conducive to quality decision-making processes.

The second article, written by Silke Machold and Stuart Farquhar, explores board tasks over time and the contingent conditions under which they evolve. The two authors conducted a longitudinal study of the boards of six UK companies in order to investigate (i) the range of tasks boards engage with, (ii) the degree and type of adaptability of board tasks to changes in the external contexts, and (iii) the degree to which boards are active or passive over time. Remarkably, Machold and Farquhar were able to directly observe 31 different board meetings over a one to two year period of time for these six firms. It is indeed rare to observe actual board behavior over time, and this study reveals some surprising and unexpected triggers of change and resistance to change within the boardroom.

1. The third article, written by Anna Tilba & Terry McNulty, explores how the practice of pension fund investment management informs the ownership behavior of pension fund and investee corporations. Tilba and McNulty conducted thirty-five semi-structured interviews with several subjects involved in the process: pension fund trustees, executives, investments officers and financial intermediaries. This information was supplemented by documentary analysis and fund investment meetings in order to get a better understanding of the empirical phenomenon under

investigation. The results show that pensions funds tend to operate at a considerable distance from the investee companies as they delegate the management of their investments to a chain of external subjects including actuaries, investment consultants and fund managers. The study has theoretical implications about the role of institutional investors in corporate governance issues, and raises skepticism about engaged ownership and shareowner stewardship. The fourth article, written by Terry McNulty, Alessandro Zattoni and Thomas Douglas, provides a review of qualitative research published in scholarly peer-reviewed journals. The study content analyzed seventy-eight qualitative corporate governance studies. The results show that qualitative research is a small fraction of published works on governance, is mostly developed by UK and European scholars, is published in European journals, and is mostly aimed at opening the black box of boards of directors. The study shows also that qualitative scholars use a number of different theories, spanning several disciplines, and adopt a wide range of methods to get a better account of the governance phenomena. The article encourages governance scholars to conduct rigorous and relevant qualitative research in order to provide a better understanding of corporate phenomena, and to help policy makers and practitioners to develop more efficient governance mechanisms.

CONCLUSIONS

We hope that this special issue, by showing alternative approaches and methods to those that dominant corporate governance research, encourages scholars to consider a diversity of methodological options for their own research (Judge, 2008), and particularly promotes the value of qualitative methods for corporate governance research. We will be able to measure the success of this special issue in the coming years by observing the number of rigorous and relevant qualitative articles published in CGIR and in other related journals in the future, and by gauging the impact of these articles on the field of corporate governance

At the end of this three-year process from the development of the special issue to its publication, we would like to make some final comments about the value of qualitative studies in governance research. First, this special issue confirms the European and the UK tradition in qualitative governance studies. However, in order to address the mission of the journal – i.e. “to develop a global theory of corporate governance that is parsimonious, accurate, and generalizable to any economy of the world” (Judge, 2010: 85) – we encourage more qualitative studies from non-European countries, and more multi-country qualitative studies. Moreover, an increasing number of rigorous and relevant qualitative studies exploring corporate governance in diverse governance environments will help scholars and practitioners gain a better understanding of corporate governance phenomena. In particular, field studies of actual governance phenomena enable researchers to verify actual perceptions and behaviors, rather than treating the governance actors and mechanisms as a “black box” (Forbes & Milliken, 1999).

Second, the number of articles submitted to the special issue underlines the limited number of qualitative studies with a focus on corporate governance. This evidence can be understood if we consider that collecting and analyzing qualitative data takes longer than exploring existing archival datasets. Moreover, access to some key governance actors – such as board members – is traditionally difficult as their decisions involve price sensitive issues and they bear legal responsibilities for their actions (Daily et al., 2003). In this case, the availability of large scale datasets with several governance variables (e.g. ownership structures, board demographics, firm performance) offered scholars the possibility to explore archival data through sophisticated statistical techniques and undermined the need to access primary governance data. We invite future studies to take the challenge to collect and to analyze qualitative data in order to get a richer understanding of governance processes and outcomes in a real-life context.

Third, we do not see irreconcilable differences between quantitative and qualitative methods. In contrast, we firmly believe that different methods are providing scholars complementary lenses to explore corporate governance phenomena. So we invite governance scholars to explore the same governance topic using a variety of methods to get a deeper and richer understanding of the phenomena under investigation. The analysis of data coming from different sources and collected through several methods (e.g. interviews, participant observation, diaries) will allow the researcher to be more involved in the phenomena. Moreover, the two approaches (i.e. the qualitative and the quantitative method) can also be combined in mixed method studies that build on the strengths of each method and overcome the weaknesses of a single approach (Jick, 1979).

In sum, we believe that this special issue greatly enriches the conversation and understanding of the antecedents and consequences of corporate governance. We commend it to governance scholars throughout the world, and encourage qualitative researchers to follow these pioneering scholars into the boardroom and ownership groups, as well as consideration of other key corporate governance actors, such as family dynamics, business groups, lobbyists, regulators, the news media, and even government officials who interact with the private sector. We need to consider how industry and national context influences corporate governance behaviors and outcomes, as well as how path dependent corporate governance actually is. Overall, we have much to learn, but these articles fill important voids in the literature.

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