The crucial importance of access to the advancement of governance research

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Abstract

Governance research has entered troubled waters. Despite the absence of a unifying theory, the dominant research agenda has used a plethora of performance proxies, statistical analyses and hypothetico-deductive science. The goal of much of this research appears to have been motivated by the identification of patterns and regularities, without any apparent interest in providing an explanation of why such patterns or regularities may occur – or even why they may be important. An impasse has now emerged, beyond which much governance research has been unable to proceed.

The aim of this paper is to make a methodological contribution to corporate governance research, by discussing the importance of access to boardrooms to gather primary data, and exploring the benefits of access to support alternative approaches to advance governance research. The importance of gaining access to make first-hand observations was highlighted in the literature decades ago. First-hand knowledge, of the powers and mechanisms that can produce events, appears to be a necessary antecedent of credible postulates of how boards can influence performance outcomes. However, most organisations and groups are unwilling to agree to grant researchers access to boardrooms. Consequently, the majority of research has been limited to the utilisation of performance proxies, and anecdotal accounts and surveys of directors out of context.

Direct access appears to be necessary to the collection of reliable – and sufficiently complete – first-hand data, to enable a deep understanding to be gained, and credible postulations to be proposed and tested. Preliminary insights gained from recent research, informed by the analysis of data from first-hand observations inside boardrooms, are discussed.

Keywords: corporate governance, research methodology, access, observation

Introduction

Over the last four decades, many researchers have investigated topics relating to boards and corporate governance. Most of this research has investigated structural, composition and behavioural attributes (Cowling, 2003) of boards of listed companies (Daily & Dalton, 1993) and, to a lesser extent, small-medium enterprises (Clarke & Klettner, 2010). Questionnaires and surveys; the analysis of publicly available records (Huse & Zattoni, 2008); large quantitative data sets (Moore & Reberioux, 2011); hypothetico-deductive science (Ketokivi & Mantere, 2010); and, a normative input-output perspective have largely dominated the governance research agenda to date.

Boards have been assumed to be objects that can be reduced to separable attributes and studied objectively, and that ‘truth’ can be determined through the analysis of empirical data, in either the deductive or the inductive tradition. The goal of most governance research appears to have been the identification of patterns and regularities, without any apparent interest in providing an explanation (Elster, 2007) of how they occur – or even why they may be important. The existence of unidirectional causal relationships has been assumed in many studies: the objective being to discover them through the application of inductive techniques, or to test them with formal logic. However, the board is not a discrete object that can be studied in isolation from the structure within which it exists, the company (Tricker, 2012). The results of studies informed by secondary data have been mixed, as five comprehensive meta-analyses attest (Finegold, Benson, & Hecht, 2007; Hermalin & Weisbach, 2003; Lawal, 2012; Petrovic, 2008; Pugliese et al., 2009). No conclusive explanation of the so-called governance–performance relationship (Huse, 2007) has been achieved, despite the board appearing to be important to value creation; board effectiveness appearing to be an antecedent of company success; and, some variables appearing to be significant in some circumstances. Consequently, owners and shareholders lack credible guidance to hold boards accountable in practice.

The apparent importance of access

The aim of this methodological paper is to explore the importance of access to the advancement of corporate governance research. Direct observation of phenomena within a real-life context enables researchers to learn more than what is possible with experiments and cross-sectional methods, which typically extract the subject of interest from its natural context (George & Bennett, 2005). Insights from first-hand observations often transcend those available from interviews, surveys or statistical analyses (Bales & Flanders, 1954). Boards are no exception. Indeed, the identification of typically unobservable mechanisms (Sayer, 2000) that can be activated by boards is unlikely to be possible if research is limited to secondary data and deductive or inductive modes of inference (Danermark, Ekstrom, Jakobsen, & Karlsson, 2002). Access appears to be crucial to the advancement of business research, especially the creation of credible knowledge about boards and their contribution to business performance outcomes.

The importance of gaining access was highlighted in the literature decades ago (Gummesson, 1991). Gummesson later re-asserted that “traditional research methods used in business research do not provide satisfactory *access”* (2000, p. 14, Gummesson's emphasis), and again that the gaining of access is crucial to enable the researcher to get as close to reality as possible (2007). The analysis of first-hand observation data is akin to the use of a microscope to see details that would not otherwise be observable from a distance. Sadly, Gummesson’s repeated calls have been largely ignored by researchers, despite the importance of “opening up the black box” (Johanson, 2008, p. 345), to obviate assumptions of congruence (Lawrence, 1997) and identify what actually goes on in boardrooms, having been acknowledged (Huse, 2009).

Notwithstanding the apparent importance of access to the collection of reliable primary data for effective explanatory research, many organisations and groups have been unwilling to grant access – boards particularly so (Leblanc & Gillies, 2005). “Strong norms of privacy” (Pettigrew, 1992, p. 164) appear to be the primary barrier to participation. Consequently, the gaining of access to boardrooms has been very difficult to achieve in most, but not all (Crow, 2012), cases. As a result, much governance research has been limited to the utilisation of performance proxies, secondary data and desktop research (Neill & Dulewicz, 2010). The results have been correspondingly limited.

The continued use of secondary data and hypothetico-deductive science appears to have contributed to an impasse (Friedrichs & Kratochwil, 2009) in governance research, beyond which most researchers have been unable to proceed. The dearth of any conclusive explanatory evidence from research efforts informed by secondary data suggests that primary data is crucial. The strategic management literature indicates that many endogenous and exogenous factors (Wynn & Williams, 2012) can affect company performance. Therefore, any reconceptualisation of governance must account for social interactions between directors, and with owners and perhaps managers. A holistic approach that explores the subject (the board) and the context within which it exists (the company) is likely to be pivotal to the identification of mechanisms and production of credible explanations.

Towards an alternative approach to research

The analysis of data collected from several primary, secondary and tertiary sources appears to be crucial to the production of credible social theories (Krupnik, 2012). Also, analysis techniques that move beyond the limitations of cross-sectional methods and hypothetico-deductive science are likely to be required if a deep understanding of the phenomena (Dobson, Myles, & Jackson, 2007) is to be gained, and the goal of the research is explanation. Therefore, an iterative approach to analysis, that combines qualitative and quantitative data gathered from first-hand boardroom observations; utilises abductive and retroductive modes of inference; and, is based on critical realism (Bhaskar, 1975), appears to provide an viable pathway (Crow & Lockhart, 2014) along which to pursue the production of more holistic and methodologically pluralistic theories (Kurki, 2009) of how boards can influence company performance outcomes.

The literature appears to provide a powerful philosophical validation for the use of case study (Easton, 2010) “for conducting a critical realist search for causal mechanisms” (Williams & Karahanna, 2013, p. 936) and the development of explanatory theory in the *in vivo* tradition (Andersen & Kragh, 2010). However, the typically qualitative case study method has been criticised in some quarters (Beverland & Lindgreen, 2010). For example, the presence of a researcher as an observer *in situ* can cause a research participant to distort information (Robbins, Spranca, & Mendelsohn, 1996; Robson & Wardle, 1988) or modify their behaviour (Ganster, Hennessey, & Luthans, 1983; Zerbe & Paulhus, 1987).

Behaviour modification can be difficult to detect and manage (Fisher, 1993), particularly in one-off observations. The impact (Krueger & Ham, 1996) of these difficulties may be reduced through persistent observation (Lincoln & Guba, 1985). Participants tend to revert to authentic behaviours (Vissak, 2010) in longitudinal studies, as they become more comfortable with the presence of an unobtrusive silent observer over time. The legitimacy of the case study can be further enhanced through the use of comparative analyses (George & Bennett, 2005); respondent validation (Bloor, 1978); triangulation (Stake, 1995); specific examples (Rost & Osterloh, 2010); and, highly detailed reporting (Crotty, 1998).

Therefore, a longitudinal multiple-case study of boardroom observations should enable researchers to study patterns; identify associations; and, associate changes in performance with decisions made by the board. The comparison of similarities and differences (Ragin & Amoroso, 2011) over time (Aaboen, Dubois, & Lind, 2012) appears to be important, because "the idea of a cause depends rather obviously on the concept of sequential time" (Evans, 1997, p. 140). If decisions are observed to precipitate a change in business performance; and, underlying powers and mechanisms that can produce events can be identified; and, decisions can be attributed to the actions of the board, then it should be possible to tentatively postulate an explanatory theory of how boards can influence performance in certain circumstances and contexts. However, such research is entirely reliant on the gaining of access to boardrooms, to gather the first-hand observation data required to inform the longitudinal case study and subsequent analysis.

Data collection

Research that aims to provide an explanation of how boards influence performance outcomes requires the participation of companies prepared to grant access, so that first-hand data can be gathered for in-depth study. The actual process used to secure access and collect data for a recent study is described in the remainder of this section, and preliminary insights gained from the analysis of first-hand observation data are discussed in the following section.

A convenience approach provides an appropriate, if somewhat pragmatic, approach to the recruitment of suitable companies for governance research, given the inherent difficulty in recruiting companies that consent to provide access. Selection criteria suggested to be appropriate include a record of high-growth; a continuous trading record; a board and governance practices in place; and, consent to grant access to observe board meetings, interview the CEO and chairman, and gather board data for analysis. The names of potentially suitable companies were gathered from public records and other sources of information. These included registers of publicly listed companies; lists of high-growth companies; quasi-public companies known to the researcher; and, informal suggestions made by the researcher's business and collaborative networks. An initial list of 46 company names was assembled, from which it was hoped several participants could be recruited. Formal and informal pathways (Leblanc & Gillies, 2005) were used to approach companies. Of the initial list of 46 companies, only two agreed to participate and grant access. A condition of participation was strict confidentiality, because the research involved the sharing of confidential company secrets and other information with the researcher. Consequently, the two participant companies are simply identified as Alpha and Bravo in the following discussion.

Several different collection techniques were used to collect primary, secondary and tertiary data, including a twelve-month cycle of first-hand boardroom observations. The first-hand observation board meetings enabled normative planning; decision-making; and, monitoring activities that occur during a business year to be observed. The researcher was able to see through the board's eyes; be sensitive to context; identify patterns; and, take less for granted (Marshall & Rossman, 1999). The chairman and the CEO of each company were also interviewed independently. An interview guide was used to elicit full responses including the interviewee's understanding of board processes in use; how strategic decisions are made; who controls the board agenda; and, other potentially relevant factors. Observations and interviews were recorded, with the knowledge and consent of the participants.

Insights as a result of access

Several insights gained from the preliminary analysis of boardroom observations, triangulation of data and conceptual abstraction and retroduction are discussed in the following paragraphs. These insights were only revealed through the analysis of first-hand observation data. They would have remained hidden had access not been granted or the research was limited to the analysis of secondary data.

Alpha is a profitable, high-growth company, with an annual turnover of over 50 million dollars. While a high-performance culture is in place, an underlying tension, between non-executive directors (NEDs) and independent directors, was apparent in the boardroom occasionally, particularly when strategically important matters were being considered. Two NEDs appeared to be motivated by a different purpose and objective than the independent directors. An analysis of the observation data suggests that the NEDs were seeking to maximise dividend payments and grow the value of the company in the near term. One NED stated that the company needed to achieve strong growth *and* to pay dividends to shareholders each year. In contrast, and consistent with Alpha's strategy (to pursue growth), the independent directors were committed to the re-investment of profits to fund growth.

The two NEDs were observed to be relatively quiet during board meetings. They generally only contributed when invited to do so by the chairman, and their questions and comments were observed to be at odds with the flow of the conversation to times. There seemed to be a lack of trust and respect amongst (groups of) directors on the Alpha board. The Alpha chairman implied that the independent directors did not always respect the contributions of the NEDs, which corroborated the researcher's assessment. The observed dysfunctional interaction impeded decision-making, at a time when speed in decision-making was crucial to the realisation of realise significant growth opportunities that would have enhanced company performance outcomes including company valuation.

Bravo is a high-growth company, with an annual turnover similar to Alpha. In contrast to the vigorous interaction in the Alpha boardroom, the Bravo directors were generally reserved in their interaction. The somewhat passive style of interaction appeared to be counterproductive to performance, because the company experienced a major cash flow shortfall during the observation period. The possibility of a shortfall was reported to the board before it occurred. However, the board did not immediately respond in a manner to mitigate business risk. Responsive action was only initiated when cash reserves and overdraft facilities were near their full limit. The tardy response of the board suggests that it was somewhat aloof, because it failed to monitor performance and the short-term outlook effectively. However, once recognised, the independent chairman suggested that the board needed to meet more frequently to monitor the performance of the business and state of the finances much more closely than what had been possible with bi-monthly meetings. The observed passive style of the board appears to have contributed to the difficulties experienced by Bravo.

Alpha and Bravo had quite different approaches to strategy development and approval, both during the observation period and historically. The board and management of Alpha craft strategy together, using an iterative process led by the CEO. Two strategy days are scheduled into the board calendar to review the market and identify strategic options. Selected management, staff, customer and supplier representatives provided presentations. The board tested planning assumptions vigorously, and it reviewed, embellished and provided feedback on proposals. This collaborative approach elicited a wide range of options, and, crucially, directors were able to hear contributions firsthand; provide their own contributions; test assumptions; explore scenarios; and, ask questions about various points of interest to them. The CEO provided strategy leadership, because, in the chairman's words, "he understands the business better than we do". However, the board was observed to be actively involved in the discovery of strategic options; engaged in the discussion that ensued from such discoveries; debated various options vigorously; assisted with the identification of preferences; and, ultimately, after the preparation of supporting documentation, approved the preferred strategy.

In contrast to the collaborative approach used by Alpha, management largely develops strategy at Bravo, without any observed engagement by the Bravo board. However, several executive directors do contribute, albeit in their executive capacities. Bravo's strategy was updated during the observation period. The CEO led the strategy development process. Two outputs were produced: a high-level "roadmap" and a three-year strategy. The roadmap was developed and presented to staff as the company's strategy without the knowledge or express approval of the board. The independent chairman was observed to request a copy of the relevant presentation material "so he could read it". The consequence of this interaction was, in effect, the provision of tacit approval of the roadmap by the board. The second output of the process was a three-year strategy that was presented to the board by management. Several directors, including the independent chairman and the non-executive director, challenged the strategy quite vigorously during the discussion that followed. After several directors had spoken, the independent chairman challenged – quite vehemently at times – the financial forecast metrics in the proposed strategy document because some of calculations were incorrect. The chairman asked what confidence the board should have in the validity or reliability of the proposed strategy, and the company's ability to implement it and achieve the stated objectives, given the errors in the financial forecasts "and possibly elsewhere". The chairman suggested that the strategy needed "considerably more work" before the board could adopt it. However, the conversation continued on, and the chairman moved steadily towards a decision point without requiring a revised draft to be presented at a subsequent meeting. Surprisingly, the chairman proposed that the board, subject to the errors, gaps and incomplete action items being addressed, approve the strategy. Management provided an assurance, at which point the strategy was, in effect, approved. This action sequence raises questions about the level of engagement of the board, the competence of the board and the effectiveness of the chairman who was passive until a crisis occurred.

These observations reveal interesting insights into the actual interaction in boardrooms, and they point to underlying powers and mechanisms including cooperation, engagement and competence, amongst others. The observations appear to provide support for earlier conclusions (Crow, Lockhart, & Lewis, 2014) that the board's involvement in the development of strategy, making of strategic decisions in the context of approved strategy and the monitoring of performance is significant to any influence the board may have on company performance. However, these insights were only revealed through the analysis of primary data, which, in turn, was dependent on access to observe what actually happens in boardrooms. Further analysis, to understand the underlying powers and mechanisms that appear to have been activated, is now underway.

Conclusions

The aim of this methodological paper was to explore the importance of access to the advancement of corporate governance research. Boards are complex social entities that cannot be described simply or even primarily in terms of invariant variables or observable regularities. Rather, the board is a structure that possesses powers which, when exercised, can activate mechanisms. Knowledge of these powers and mechanisms appears to be crucial to the development of credible theory. However, such knowledge appears to be reliant on the analysis of data gathered from first-hand observations from within the structure. This suggests that access, to collect primary data, is crucial to expedite the production of credible theories.

We conclude that the collection of primary data from within the boardroom, together with a longitudinal design and an iterative approach, appears to enable an understanding of what actually occurs in boardrooms to be gained and underlying powers and mechanisms that cause events to be identified. Indeed, none of the insights gained from the research described in this paper could be discerned from secondary data alone. However, an *a priori* relationship between the researcher and the directors of participant companies, either directly or via a third-party, appears to be vitally important to the achievement of appropriate levels of access (Gummesson, 2000) to expedite such research. Such relationships are expected to be rare among a research community plagued by the academic–practitioner divide (McNatt, Glassman, & Glassman, 2013). Notwithstanding this, if access to observe what *actually occurs* in the boardroom can be achieved, and longitudinal primary data can be gathered, then it may be possible to gain sufficient knowledge to enable an explanatory theory (Ragin, 1987), of how boards influence performance outcomes, to be postulated.

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