

## FROM THE EDITORS

### RETHINKING GOVERNANCE IN MANAGEMENT RESEARCH

In the field of management, the study of governance has primarily dealt with decision-making by boards of directors, chief executives, and senior managers. The corporate governance literature has generated important insights regarding incentive alignment, risk taking, and coordination challenges. Emerging trends, highlighted in this issue, raise new questions regarding managerial roles, organizational contexts, internal and social processes, and changes in governance over time. We encourage management scholars to rethink their approach to governance research by considering stakeholder engagement, the implications of big data, social impact, global dimensions, and comparative analysis of governance. A broadened conceptualization of governance may also deal with the dynamics of interorganizational arrangements, including the co-creation of organizations of varying governance forms.

#### WHAT IS GOVERNANCE?

In this “thematic issue,” we assembled articles that reflect evolving practices in governance.<sup>1</sup> Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders’ role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company’s strategic aims, providing the leadership to put them into effect, supervising the management of the business, and

reporting to shareholders on their stewardship. The board’s actions are subject to laws, regulations, and the shareholders in general meeting (Cadbury, 1992). Corporate governance is therefore about what the board of a company does and how it sets the values of the company, but is distinct from the operational management of the company by full-time executives.

These views of corporate governance stem predominantly from a financial perspective. For example, Shleifer and Vishny (1997: 737) address corporate governance as “the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. How do the suppliers of finance get managers to return some of the profits to them? How do they make sure that managers do not steal the capital they supply or invest it in bad projects? How do suppliers of finance control managers?” These views stem primarily from an agency theoretical perspective that investigates the consequences of separation of ownership and control in the modern corporation (Jensen & Meckling, 1976). Recent corporate activity and views, however, have an expanded view of governance as involving stewardship and leadership, in addition to the narrower financial prudence role. From a survey of board members from 15 countries, a leading executive search firm recently reported that strategic alignment and execution, engaged leadership, and capacity to adapt are hallmarks of a new, dynamic view of corporate governance (Heidrick & Struggles International, Inc., 2014). Given the emerging trend of more inclusive interpretation of governance, we refer to governance as leadership systems, managerial control protocols, property rights, decision rights, and other practices that give organizations their authority and mandates for action, consistent with McGahan’s (2014) call for the Annual Meeting of the Academy of Management theme.

Management research has dealt primarily with a well-defined set of questions on this agenda related to the governance of investor-owned corporations, including publicly traded companies, family-owned companies, and entrepreneurial or-

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<sup>1</sup> The articles in this thematic issue were accepted into the journal under normal review processes and were not part of any Special Research Forum call. Consistent with the 75th Annual Meeting of the Academy of Management theme of “Opening Governance” in 2015, we bring together exemplar papers to encourage new directions in governance research. We thank Anita McGahan for her substantial contribution to this editorial. We would also like to thank Don Robert, CEO of Experian, for an interview with Scott Graffin and Oxford University’s Centre for Corporate Reputation for arranging it.

ganizations. Scholarly studies tend to emphasize the mechanisms by which governance authority is executed in corporations. Important research on the separation of investor and managerial decision rights describes the challenges of aligning the interests of principals and agents under the constraints that arise from investor ownership. Research on the roles of boards of directors and the authority of the CEO has led to extensive understanding of the context for managerial decision making under uncertainty and risk. Comparisons between entrepreneurial start-ups, mature firms, and family-owned companies point to the pervasive need for governance mechanisms in the configuration and administration of a wide array of corporate activities. At the same time, different stakeholders, ranging from customers to policy makers, often question the effectiveness of governance mechanisms.

In this editorial, we provide an overview of governance research and point to open questions in this area. Yet, despite the considerable opportunity for further research, the advances in this stream also shed light on the limits and challenges of dominant scholarly approaches to the topic of governance. Finally, we point to entirely new areas for scholarship based on a broad conceptualization of governance. The field's emphasis on mechanisms has left open important questions about the comparative performance of various approaches to governance, such as the relative strength for creating and capturing value of the publicly traded versus the privately held corporation. As a consequence, we revisit core constructs of governance and reflect on their implications for management scholarship.

### **A BRIEF OVERVIEW OF GOVERNANCE RESEARCH**

Corporate governance is one of the most widely researched topics by management academics, and is extensively covered by business journalists as well. Studies in this domain examine corporate governance mechanisms that are implemented in an effort to align the interests of managers with those of owners. These studies typically focus on the dyadic relationship between a firm's executives and the board of directors, executive pay, the effects of ownership concentration, and the market for corporate control, with the intention of motivating managers to implement more efficient and ef-

fective uses of shareholder resources (Dalton, Hitt, Certo, & Dalton, 2007).

During the late 1990s and early 2000s, agency problems were identified as a primary cause of failure in the governance of a slate of large corporations. The well-publicized corporate scandals of Enron, WorldCom, and others led to numerous governance reforms all around the globe. The combination of these scandals and corporate governance reforms brought increased attention and scrutiny regarding the oversight of managers of large public corporations. This increased oversight has taken many forms, and has been a subject of several recent studies that, in turn, point to opportunities for further research.

First, there have been numerous legal reforms. Countries enacted new corporate governance codes to strengthen governance in light of the well-known scandals. Examples of such reforms include the Sarbanes–Oxley Act in the United States, the Cadbury Code in the United Kingdom, the Cromme Code in Germany, the Provisional Code of Corporate Governance for Securities Companies in China, and the *Recomendações sobre Governança Corporativa* in Brazil. The conditions that led to these regulatory changes, as well as the effects of the new regulations, have been studied by Cowen and Marcel (2011), Shipilov, Greve, and Rowley (2010), Zhang and Wiersema (2009), and others.

Second, there has been increased media attention regarding the monitoring and compensation of CEOs during this time period. While, as Khurana (2002) noted, in the decades leading up to the scandals of the early 2000s, media attention on CEOs was already on the rise, criticism of CEO compensation was fueled by these scandals. Annual lists of the best and worst CEOs as well as over- and underpaid CEOs became—and remain—grist for headline news, and fuelled subsequent media investigations into corporate practices (e.g., Bednar, 2012; Pollock, Rindova, & Maggitti, 2008; Zavyalova, Pfarrer, Reger, & Shapiro, 2012).

Third, the collapse of the international financial markets in 2008 and the resulting worldwide recession prompted direct governmental interventions in many countries, initially in financial services and subsequently in a broad range of sectors. Widespread bankruptcies led governments to supply banks and firms with substantial capital, thus raising questions about the robustness of governance rules in light of the “too big to fail” narrative. Recipients of government funds, in turn, were often required to adapt their governance practices in one

or more fundamental ways: to dismiss and replace executives by processes outside of specified approaches, to make improvements in their mechanisms of decision making, and to restructure their operations by mandate rather than by negotiation. While the direct involvement of some governments in corporate governance was temporary, several governments have kept and even increased their ownership in corporations and thus scrutiny of the managers of those corporations, leading to the emergence of state capitalism (Inoue, Lazzarini, & Musacchio, 2013).

Fourth, there has also been an increased scrutiny of managers by stakeholder groups that are not typically enfranchised directly in the execution of governance duties, such as employees, social activists, or other groups that may not have direct ownership of a given corporation. For instance, corporate fraud has been increasingly reported by employees through social media in and outside of the workplace. Social movement organizations formed by customers and other stakeholders also increasingly influence managerial decisions by calling for protests and boycotts against corporations. The increased scrutiny by social movement organizations has motivated managers to change their actions and modify their policies. Furthermore, social movements have led managers to shift their attention from profit to the “triple bottom line,” which encompasses profit, people, and the planet (e.g., Jayachandran, Kalaignanam, & Eilert, 2013; Kacperczyk, 2009; King, 2008; McDonnell & King, 2013).

### THE COMPLEXITY OF CORPORATE GOVERNANCE

Recent corporate governance research has answered calls to go beyond the traditional agency conflict between shareholders and managers and the evaluations of managerial effectiveness from the investors' perspective. Articles in this issue illustrate that researchers have started to explore governance problems at *different levels of analysis* by considering managers and their teams in leadership and other roles, rather than as agents of the shareholders or inside members of the board of directors. They also present a *variety of contexts* in their studies that may alter the traditional conceptualizations of agency conflict. The different contexts include private and family firms, entrepreneurial businesses, nongovernmental organizations, and public and private partnerships. Governance re-

searchers have also started to explore *new processes* by shifting their attention from incentive alignment to (internal) organizational architecture, coordination, and collaboration, and to (external) social processes and policies. Further, new studies increasingly focus on *temporal effects* of governance and explore governance shifts. Much more research on these topics is warranted.

Carton, Murphy, and Clark (2014) in this issue illustrate the study of managers in their leadership role. The authors seek to answer how leader rhetoric about employees' ultimate purpose of work influences organizational performance. Using archival data on hospitals and data from an online experiment, they examine the importance of leader rhetoric and shared cognition in motivating employees to develop a shared sense of the ultimate purpose of their organizations. They find that leader expressions of visions and values increased organizational coordination and performance. Their results also reveal some interesting rhetorical patterns that leaders used even though they proved ineffective in communicating a shared purpose of their organizations to employees.

Scott, Garza, Conlon, and Kim (2014) investigate managers' adherence to justice rules. In contrast to a wide range of studies on employee reactions to organizational justice, these authors examine the types of managerial motives associated with justice rule adherence. Using responses to a daily, experience-sampling survey, the authors find that managers adhere to distributive, procedural, informational, and interpersonal rules of justice for “hot” affective as well as for “cold” cognitive reasons. Further, their study reveals a complex relationship between justice dimensions and “hot” affective and “cold” cognitive managerial motives.

Smith (2014), in her in-depth study of decision making in six top management teams, seeks to find out how senior managers sustained commitments to strategic paradoxes, including exploiting their business units' existing products while exploring their innovation. Using a dynamic decision model, she describes an interwoven relationship between dilemmas and paradoxes involving top management team decisions over their business units' resources, organizational design, and product design. Her research also reveals that leaders adopt a shifting decision making pattern in service of an overall strategy that embeds paradoxes and contradictions.

Recent studies have also considered governance problems in different contexts, including types of firms. Patel and Cooper (2014), for example, inves-

tigate the interaction of different top management team members in the boardrooms of family firms. They find that greater structural power equality between family and non-family members of the top management team leads to higher firm performance. Although the presence of the founder CEO weakened the positive effect of structural power equality on performance in the study, the authors find stronger effects for family firms operating in dynamic environments and for firms with higher governance performance.

In addition to different levels of analysis and contexts, new studies on corporate governance have begun to explore the roles of top managers and boards in different organizational processes, including internal governance policies and practices, as well as external processes, including social and regulatory changes and stakeholder preferences. Huy, Corley, and Kraatz (2014) examine the role middle managers play in influencing legitimacy judgments of the top management team as change agents within one firm after a radical environmental change involving the firm's technological and competitive environments. They reveal how new top managers formulated a plan for change and enjoyed internal organizational support soon after their arrival to the firm. The authors also show how middle managers looked for clues about the motivations, intentions, and capabilities of top executives by analyzing their plans and strategy implementation. As the firm's top executive change agents failed in their efforts to provide effective responses to the environmental change, the authors of the study report middle managers' legitimacy judgments of top managers and resistance to organizational change.

In contrast to previous work that has focused on the effects of different governance mechanisms on firm performance in isolation, Misangyi and Acharya (2014) examine the combinations of governance mechanisms used by firms in the S&P 1500. Their configurational examination provides evidence on how different governance mechanisms work together toward higher firm performance. The authors demonstrate, for example, that CEO incentives and monitoring mechanisms may work well together as complements, rather than as substitutes, as theorized in previous literature.

Belogolovsky and Bamberger (2014) study the organizational implications of pay secrecy policy. Using signaling theory, they investigate the psychological mechanisms behind pay secrecy policies, with the results of their multi-round laboratory

simulation suggesting that pay secrecy negatively influences individual task performance and participant continuation intentions. Moreover, the empirical support for their moderated-mediation model indicates that even weak signals that are associated with a managerial practice have important behavioral implications when the signals are interpreted in the context of other practice-based signals.

A growing stream of studies are examining corporate governance in relationship to external environmental processes, including changes in regulations, shifting stakeholder pressures, and emerging social policies. Rhee and Fiss (2014) investigate the mechanisms by which organizational leaders frame controversial practices. Their study on the framing of the adoption of "poison pills" by U.S. firms uses regulatory focus theory and the literature on source credibility. They find evidence that the stock market reacted positively to announcements of poison pill adoption when the framing of the adoption was aligned with the dominant institutional logic. However, negative stock market reaction was reported when statements signaled the speakers' self-serving interests. Their results also illustrate the importance of speaker visibility, prior firm performance, and practice prevalence.

Gomulya and Boeker (2014) have studied the managerial actions firms take after financial restatements or events that damage a firm's reputation. They find that firms seek to send signals about their efforts and the credibility of their top executives to their stakeholders, including financial analysts, the stock market, and the mass media. Focusing on the attributes of the new CEOs, the authors establish that firms with more significant restatements tended to name successor CEOs who served previously as CEOs, had turnaround experience, had training in accounting or finance, and graduated from elite schools.

Briscoe, Chin, and Hambrick (2014) extend the idea of corporate opportunity structure from the social movement literature to include the personal values of the corporate elite, particularly the CEO. In the context of the formation of LGBT employee activist groups, the authors study the political ideology of CEOs of Fortune 500 companies. They theorize that employee social activists consider CEOs' values when deciding on their campaign against the company. In addition to evidence on how political liberalism of CEOs influence employee activism, the authors find support for the effects of contextual factors, such as CEO power,

workplace conservatism, and the phase of social movement.

Governance scholars can also make interesting contributions by understanding the temporal effects of governance and shifts in governance over time. In their study on CEO temporal focus, Nadkarni and Chen (2014) investigate the ways CEOs' attention to the past, present, and future has influenced the rate of new product introductions in different environments. They collect original data on CEO temporal focus from letters to shareholders, interviews, speeches, and press releases using a psycholinguistic approach (Pennebaker, Francis, & Booth, 2001). Their results suggest that CEO temporal profiles are associated with different rates of new product introductions in stable and dynamic environments.

Joseph, Ocasio, and McDonnell (2014) examine how the recent emergence of shareholder value logic in the United States has led to a shift in governance over time. The governance shift in their study is the adoption of the CEO-only board structure, or boards in which CEOs are the only insiders. Using structural elaboration theory, they show that the ambiguous nature of new institutional logics can benefit powerful CEOs. According to these authors, CEOs may even employ the new CEO-only board structure as a means to remove insider board members who have been rival candidates for the chief executive position.

### NEW AREAS OF INQUIRY

What are some of the new opportunities for management scholarship if we broaden the study of corporate governance? We encourage scholars to consider emergent, contextual trends that are reshaping of governance in organizations. Broadening conceptions of governance raises new research avenues on the effectiveness and efficiency of nongovernmental organizations, governmental bodies, proprietorships, and other forms in the creation of value through the deployment of organizational resources. Though far from exclusive, we highlight stakeholder engagement, the implications of big data, social impact, global dimensions, and comparative analysis of governance. This last topic suggests revisiting questions about the unit of analysis of governance, especially in light of contemporaneous creation of multiple, often project-based organizations designed to work in tandem to accom-

plish specific goals, sometimes on a short timetable.

The conferring of the Nobel Prize in Economics on Elinor Ostrom in 2012 coincided in time with a recent reinterpretation of stakeholder theory to emphasize such principles as graduated sanctions and stakeholder legitimacy (Blair & Stout, 1999; Klein, Mahoney, McGahan, & Pitelis, 2012). At the core of the argument is the insight that stakeholder claims on an organization's governance rights, decisions, and processes are commensurate with the stakeholders' investment in the activities of the organization. Research is required to identify the boundaries of such claims, and the legitimacy of stakeholder interests in contexts where disagreements or ambiguity arise about the amount of collaborative investment and the terms under which it occurs. Study is also warranted on the mechanisms of stakeholder engagement in decision making and the constraints on action associated with stakeholder concerns.

The phrase "big data" refers to the large amounts of information generated from mobile telephones, Internet websites, and other devices tethered to computing. Because much of the information associated with large-scale data sets is broad in scope, focused on transactions, frequently ill structured, and often short in coverage duration, a challenge associated with the analysis of big data is in identification (George, Haas, & Pentland, 2014). Patterns of behavior may be discerned, but inferring causal mechanisms from such data may be difficult. Despite the challenges, big data carries significant promise for improving governance, especially because it provides decision makers such as corporate executives with opportunities associated with experimentation, structured feedback processes (e.g., "crowdsourcing"), and hypothesis-driven inquiry. By transforming data into information for critical decision makers, governance as a decision process may be significantly improved. More research in the field of management is necessary to discern which processes are effective for supporting better decision making.

In terms of the social impact of corporate governance, management scholars should consider organizational purpose and the interests of different stakeholders beyond the preferences of firm investors (Hollensbe, Wookey, Hickey, George, & Nichols, 2014). As recent research suggests (see Bundy, Shropshire, & Buchholtz, 2013, for a recent discussion of this literature), the number of different parties attempting to influence how a firm operates has

expanded in recent years. The growing importance of multiple stakeholders suggests that researchers need to continue to expand the number of these groups considered in future research, and also, potentially, revisit the theoretical assumptions that drive and define the types of research questions we examine. Consistent with this research, in a recent interview with Scott Graffin, Don Robert, the CEO of Experian, recognized that “the chief executive probably has one reputation with employees, another one with investors, another one with vendors, another one with clients, and yet another one with [their] own board.” Accounting for how these multiple constituencies influence CEOs’ approaches to strategic decisions is an important endeavor for future research.

The complexity associated with managing multiple stakeholders is amplified in light of the increased media scrutiny that firms face (e.g., Bednar, 2012; Wiesenfeld, Wurthmann, & Hambrick, 2008). Thus, the confluence of an increasing number of stakeholders and this increased media attention means that, in the words of Don Robert, how a firm is perceived by stakeholders is:

[A] fragile, fleeting and dynamic thing that I think is, in part, a result of our financial performance, how we choose to communicate, what consumers think about us as a steward or guardian of their information, what third parties say about us in the media—blogs, for example, written communications—and how our employees behave both on the field and off. It’s a lot of different things.<sup>2</sup>

Juggling multiple and potentially conflicting expectations will be of central concern for CEOs and represents fruitful ground for future research.

Another opportunity for researchers to broaden the study of corporate governance is to consider its global dimensions. While most previous research has focused on the U.S. system of governance, there is substantial variation in corporate governance systems around the world. The variation is largely driven by institutional differences, including investor rights and protection (Fligstein & Choo, 2005). In addition to the legal foundation of a country (e.g., common law or civil law), which can determine investor rights, the effectiveness of governance mechanisms may be influenced by cultural values and norms—for example, the acceptance of inequality in the case of executive compensation.

Owing to the differences in institutional systems around the world, families, financial institutions, business groups, or the state often own substantial shares in corporations and alter their corporate governance. Business groups (keiretsus, chaebols, grupos, etc.), for instance, are dominant players in many countries. The interconnected relationship of their member firms acts as a powerful governance mechanism.

The global dimension of corporate governance also takes the operation of multinational enterprises into account. Whereas traditional governance research focused on the agency relationship between the multinational enterprise’s top management and its domestic owners, it is increasingly acknowledged that the activities and administration of these large corporations present a number of unique challenges for corporate governance. First, multinational enterprises operate in multiple countries, often with autonomous local subsidiaries and their managers. Such a high level of organizational complexity undoubtedly makes monitoring and the use of managerial incentives problematic. Second, these enterprises are increasingly owned by diverse groups of shareholders, as well as interacting with local customers, government agencies, and other stakeholders. The pressures by these heterogeneous stakeholder groups likely lead to changes in the use and effectiveness of governance mechanisms. Third, multinational enterprises and their management may be powerful enough today to change institutions in different countries (e.g., pressure governments to change laws or shape the preferences and norms of their local customers), and thus modify corporate governance systems of countries and/or establish the legitimacy of their own (foreign) governance systems. Taking these global trends together, it will be interesting to find out if corporate governance systems converge or diverge in different regions and around the world in the coming decades.

Increasingly, organizations work in such tight partnerships that their activities are virtually co-designed. As the effects of governance decisions in one organization influence those of partnering firms, questions arise regarding the optimality of coordinated decision making across organizational boundaries (e.g., Lavie, Haunschild, & Khanna, 2012). How should such coordination occur in a governance system in which authority and responsibility are conferred only with reference to the focal organization? What are the implications of coordination across organizational boundaries

<sup>2</sup> Don Roberts, interview by Scott Graffin, November 11, 2013.

when such coordination creates conflicts for executives in the administration of duties? What are the limits to interorganizational coordination in the execution of the fundamental duties of governance? Significant research is needed on how the various facets of governance are affected by interorganizational arrangements.

The evolution of governance arrangements over time is centrally important to their continuing relevance and to the performance of organizations (Baum & McGahan, 2013). Constraints on organizational action arising from facets of governance designed to protect particular stakeholders may incite questions about the legitimacy of the arrangements. Organizations may close and re-deploy their resources under alternative governance structures as a result. In some instances, corporations may relaunch particular activities in different geographies and/or under an alternative charter. Such alternatives may include corporations, nonprofit organizations, or licensing arrangements. Under such circumstances, alternative governance arrangements compete to create value. Comparative analysis of alternative governance forms—and the implications of the decision-making, managerial, and organizational processes they imply—is another important area for future research.

In sum, these interrelated trends suggest expanded promise for governance research in the coming years. This issue highlights a number of areas of new inquiry, and we believe these studies will help broaden the scope of future work on governance. As the conceptualization of what constitutes governance as well as the parties involved in overseeing the operations of organizations continue to evolve and expand, management scholars will have many opportunities to shape the dialog on what constitutes good governance and how organizations and society can be better served.

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