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William Q. Judge
Old Dominion University, wjudge@odu.edu

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Editorial

Thomas Kuhn and Corporate Governance Research

William Q. Judge
Editor in Chief

Back in the dark ages (i.e., 1980s) when I was pursuing my doctoral degree at the University of North Carolina at Chapel Hill, I read Thomas Kuhn's (1962) book on how science evolves over time. That book had a big influence on my thinking then, and it continues to influence me. Indeed, that book seems especially pertinent to this particular issue for reasons which I will explain later on in this essay.

For those who are not familiar with this particular book, Kuhn (1962) maintained that nearly all sciences operated within a prevailing or dominant paradigm. A scientific paradigm was like a lens for analyzing problems for a community of scientific scholars. In essence, it is a set of assumptions about how things operate and these assumptions influence the theories articulated and data collected. Within this community of scholars, "normal" science was conducted and practical "puzzles" were addressed. As such, normal science typically involved finding detailed answers to already known ideas.

As scholars can only see what they are looking for and a paradigm guides what you can see, all paradigms can serve as blinders. However, paradigms do not get replaced until a credible alternative paradigm arises, and it more effectively describes and explains unsolved puzzles from the old paradigm. Interestingly, Kuhn observed that most paradigm shifts, or scientific revolutions, were fomented by people operating outside of the established paradigm. I was also interested to note that Kuhn maintained that individuals operating within different paradigms could not effectively communicate with each other as they operated from totally different sets of assumptions.

I think that Kuhn has some valuable insights for those interested in comparative corporate governance research and practice. The mission here at *CGIR* is to develop a global theory of corporate governance that is parsimonious, accurate, and generalizable to any economy of the world. Most of what we do in scholarly journals is publish "normal science" where relatively small puzzles are explored and some new insights are generated within the prevailing paradigm. Here at *CGIR*, we are no exception to this general insight.

However, one of the things that makes us different at *CGIR* is that we are an interdisciplinary journal that publishes research from a wide variety of scholarly disciplines. In addition, our reviewers and authors hail from all over the world because the only way to get to a truly global perspective is to enlist the collective wisdom of the worldwide body of scholars.

Nonetheless, there are many within our community of scholars who are not satisfied with the rather plodding progress toward a global theory of corporate governance. Furthermore, there are some who are at the fringes of the community who read our scholarship and actively question whether the prevailing paradigm that we are operating under is the best one for moving toward a more truly global theory that addresses critical corporate governance issues.

With these concerns in mind, I would like to announce a new type of article which we intend to publish in *CGIR* in the future. We call these new articles "Perspectives" because their aim is to challenge the existing paradigm in which corporate governance research operates, point to anomalies that are not being solved, and suggest an alternative worldview that may better solve the problems before us.

As such, I am pleased to announce that John Carver, a prominent corporate governance consultant and member of our editorial advisory board, offers his own perspective in this issue on what is wrong with the prevailing paradigm and what we need to do about it. In his thoughtful article (which went through six iterations and was reviewed by five different reviewers), Carver suggests that too many corporate governance studies examine what is, as opposed to what should be. As such, he recommends more normative research that builds out a series of principles from which all corporate governance practices can be evaluated. I commend his article for your reading and encourage others to submit

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their own "perspective" on what is wrong with our prevailing paradigm and what we could do about it in the future.

Of course, we also publish a series of "normal" science articles in this issue as well. Specifically, our leadoff article by Renders, Gaeremynck and Sercu studies the relationship between corporate governance ratings and firm performance across 14 developed economies in Europe from 1999 to 2003. Using agency and institutional logics, they find that: (1) corporate governance ratings are positively associated with firm performance, measured using market-based and accounting-based measures; (2) this relationship is moderated by institutional context; and (3) corporate governance ratings are improving over time.

A second article operating within the dominant paradigm was authored by Chen, Liu, and Li. These scholars sought to better understand the determinants of executive compensation within 502 Chinese firms during the period of 2001–2006. They refined and extended agency predictions by finding that the extent of CEO shareholding, degree of foreign investment, and the presence of a compensation committee were all positively related to executive compensation, above and beyond the standard controls. Interestingly, traditional corporate governance monitoring mechanisms were all found to be unrelated to executive compensation in this governance environment.

Next, Hoi and Robin reexamine the relationship between ownership and firm value in a matched paired sample of US firms in 2000. Of course, it is relatively well established in the literature that insider ownership is negatively related to firm value in multiple governance environments, but previous findings have not been very robust. This study refines and extends our understanding of that relationship by exploring a more nuanced measure of ownership by considering both incentive for self-dealing (e.g., dual-class versus single-class ownership structures) as well as proximity of control (e.g., insider, outsider on the board, and outsider not on the board). Notably, they report a relatively strong interaction effect when both incentive and proximity are considered (e.g., dual-class and high-proximity situations), all else being equal. In sum, we learn that the market generally punishes dual-class firms where the largest shareholder is either the top executive or an outsider sitting on the board, but it does not punish firms when this happens in single-class firms or when dual-class firms' largest shareholder is someone who does not sit on the board.

Finally, Nielsen and Huse push the boundaries of the extant paradigm by examining actual board processes within 201 Norwegian firms. Specifically, they explore how gender diversity on corporate boards may influence three board processes (i.e., development activities, board conflict, and open debate) and on two dimensions of board effectiveness (i.e., strategic control and operating control). Notably, they find that the prevalence of female directors on the board are largely positively related to both board processes and effectiveness, with the exception of no relationship found with degree of open debate. This study challenges the existing paradigm to study actual (not inferred) board processes as well as consider nontraditional paradigms (such as gender theory) to explain governance outcomes.

For those who are interested in incremental and revolutionary reflections on corporate governance theory and research, I commend this issue to your reading. And for those interested in how science progresses over time, I commend Kuhn's (1962) *Structure of Scientific Revolutions* book as well.

REFERENCE

Kuhn, T. 1962. ***The structure of scientific revolutions***. Chicago: University of Chicago Press.