INTRODUCTION TO SPECIAL TOPIC FORUM

CORPORATE GOVERNANCE: DECADES OF DIALOGUE AND DATA

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The field of corporate governance is at a crossroads. Our knowledge of what we know about the efficacy of corporate governance mechanisms is rivaled by what we do not know. This special topic forum is dedicated to continuing the rich tradition of research in this area, with the hope that the models and theories offered will propel corporate governance research to the next level, enhancing our understanding of those governance structures and mechanisms that best serve organizational functioning.

We define governance as the determination of the broad uses to which organizational resources will be deployed and the resolution of conflicts among the myriad participants in organizations. This definition stands in some contrast to the many decades of governance research, in which researchers have focused primarily on the control of executive self-interest and the protection of shareholder interests in settings where organizational ownership and control are separated. The overwhelming emphasis in governance research has been on the efficacy of the various mechanisms available to protect shareholders from the self-interested whims of executives. These years of research have been very productive, yielding valuable insights into many aspects of the manager-shareholder conflict. An intriguing element of the extensive body of corporate governance research is that we now know where not to look for relationships attendant with corporate governance structures and mechanisms, perhaps even more so than we know where to look for such relationships.

This current state of corporate governance research is what propels this special topic forum. We were intrigued by the opportunity to encourage researchers (including ourselves) to assess where the field stands and set forth an agenda for future study. Predominant among our aims was a hope that new theoretical perspectives and new models of corporate governance would emerge to guide researchers toward productive avenues of study. We hope the readers of this special issue agree with us that the contributors have helped accomplish this goal.

THEORY AND PRACTICE: THE BLIND LEADING THE BLIND?

In a 1997 review of corporate governance research, Shleifer and Vishny noted that "the subject of corporate governance is of enormous practical importance" (1997: 737). Their observation highlights one of the attractions to conducting research in this area: its direct relationship with corporate practice. Corporate governance researchers have a unique opportunity to directly influence corporate governance practices through the careful integration of theory and empirical study. It has not always been clear, however, whether practice follows theory, or vice versa. As important, it is not clear that there is concordance between the guidance provided in the extant literature and the practices employed by corporations.

THEORY

The overwhelmingly dominant theoretical perspective applied in corporate governance studies is agency theory (Dalton, Daily, Ell-
Jensen and Meckling (1976) proposed agency theory as an explanation of how the public corporation could exist, given the assumption that managers are self-interested, and a context in which those managers do not bear the full wealth effects of their decisions. This was the first satisfactory explanation of the public corporation since Berle and Means (1932) pointed out some of the key problems inherent in the separation of ownership and control.

The popularity of agency theory in governance research is likely due to two factors. First, it is an extremely simple theory, in which large corporations are reduced to two participants—managers and shareholders—and the interests of each are assumed to be both clear and consistent. Second, the notion of humans as self-interested and generally unwilling to sacrifice personal interests for the interests of others is both age old and widespread. Adam Smith predicted more than 200 years ago that the “joint stock company”—an analogue to the modern public corporation—could never survive the rigors of a competitive economy, because waste and inefficiency would surely bring it down (Smith, 1776). Economists struggled with this problem for centuries, until Jensen and Meckling (1976) provided their convincing rationale for how the public corporation could survive and prosper despite the self-interested proclivities of managers. In nearly all modern governance research governance mechanisms are conceptualized as deterrents to managerial self-interest.

Corporate governance mechanisms provide shareholders some assurance that managers will strive to achieve outcomes that are in the shareholders’ interests (Shleifer & Vishny, 1997). Shareholders have available both internal and external governance mechanisms to help bring the interests of managers in line with their own (Walsh & Seward, 1990). Internal mechanisms include an effectively structured board, compensation contracts that encourage a shareholder orientation, and concentrated ownership holdings that lead to active monitoring of executives. The market for corporate control serves as an external mechanism that is typically activated when internal mechanisms for controlling managerial opportunism have failed.

While agency theory dominates corporate governance research (Dalton, Daily, Certo, & Roengpitya, 2003), parts of the governance literature stem from a wider range of theoretical perspectives. Many of these theoretical perspectives are intended as complements to—not substitutes for—agency theory. A multitheoretic approach to corporate governance is essential for recognizing the many mechanisms and structures that might reasonably enhance organizational functioning. For example, the board of directors is perhaps the most central internal governance mechanism. Whereas agency theory is appropriate for conceptualizing the control/monitoring role of directors, additional (and perhaps contrasting) theoretical perspectives are needed to explain directors’ resource, service, and strategy roles (e.g., Johnson, Daily, & Ellstrand, 1996; Zahra & Pearce, 1989).

Resource dependence theory provides a theoretical foundation for directors’ resource role. Proponents of this theory address board members’ contributions as boundary spanners of the organization and its environment (e.g., Dalton, Daily, Johnson, & Ellstrand, 1999; Hillman, Cannella, & Paetzold, 2000; Johnson et al., 1996; Pfaff & Salancik, 1978). In this role, outside directors provide access to resources needed by the firm. For example, outside directors who are also executives of financial institutions may assist in securing favorable lines of credit (e.g., Stearns & Mizruchi, 1993); outside directors who are partners in a law firm provide legal advice, either in board meetings or in private communication with firm executives, that may otherwise be more costly for the firm to secure. The provision of these resources enhances organizational functioning, firm performance, and survival.

Stewardship theory has also garnered researchers’ attention, both as a complement and a contrast to agency theory (see, for example, Davis, Schoorman, & Donaldson, 1997, for an excellent overview). Whereas agency theorists view executives and directors as self-serving and opportunistic, stewardship theorists describe them as frequently having interests that are isomorphic with those of shareholders (e.g., Davis et al., 1997). This is not to say that stewardship theorists adopt a view of executives and directors as altruistic; rather, they recognize that there are many situations in which executives conclude that serving shareholders’ interests also serves their own interests (Lane, Cannella, & Lubatkin, 1998).

Executives have reputations that are interwoven with the financial performance of their firms
In order to protect their reputations as expert decision makers, executives and directors are inclined to operate the firm in a manner that maximizes financial performance indicators, including shareholder returns. For example, directors, whether insiders or outsiders, concern themselves with the effectiveness of their firm's strategy, because they recognize that the firm's performance directly impacts perceptions of their individual performance. In being effective stewards of the organization, executives and directors are also effectively managing their own careers (Fama, 1980).

The power perspective, as applied to corporate governance studies, addresses the potential conflict of interests among executives, directors, and shareholders (e.g., Jensen & Werner, 1988). The power relationship between CEOs and boards of directors has been of particular interest in corporate governance research (e.g., Daily & Johnson, 1997; Finkelstein & D'Aveni, 1994; Mizruchi, 1983). In CEO succession studies, for example, researchers often incorporate power theories to help explain the succession process (e.g., Shen & Cannella, 2002).

Although the board legally is the more powerful entity in the CEO/board relationship, there are a number of factors that operate to reduce board power vis-à-vis the CEO. For example, CEOs can exercise influence over the succession process by dismissing viable successor candidates (Cannella & Shen, 2001). The timing of a director's appointment to the board might also impact the power relationship between board members and CEOs, because directors appointed during the tenures of current CEOs may feel beholden to them and may be less likely to challenge them (Monks & Minow, 1991; Wade, O'Reilly, & Chandratat, 1990).

Our intent is not to provide a comprehensive list of the many theoretical perspectives apparent in the corporate governance literature. There are several additional perspectives that we have elected not to develop, for the sake of parsimony. For example, Zahra and Pearce (1989) have noted the applicability of class hegemony theory to the treatment of boards of directors. Other researchers have applied signaling theory to governance in initial public offering (IPO) firms (e.g., Certo, Covin, Daily, & Dalton, 2001). Social comparison theorists have examined the CEO compensation process (O'Reilly, Main, & Crystal, 1988). The theoretical perspectives we have identified—and those we have not mentioned—suggest that researchers face a considerable challenge in determining those settings that best fit the assumptions in a given theory.

**PRACTICE**

As with scholarly research, agency theoretic principles also dominate corporate practice. Shareholder activism is instructive on this count. By considering the governance reforms sought by shareholder activists, we can gain insight into governance practices that are perceived as both legitimate and effective in protecting shareholders' interests. Shareholder activism is designed to encourage executives and directors to adopt practices that insulate shareholders from managerial self-interest by providing incentives for executives to manage firms in shareholders' long-term interests.

The more notable corporate governance reforms have included configuring boards largely, if not exclusively, of independent, outside directors; separating the positions of board chair and chief executive officer; imposing age and term limits for directors; and providing executive compensation packages that include contingent forms of pay (e.g., Business Roundtable, 1997; Dalton et al., 1999; National Association of Corporate Directors, 1996; Teachers Insurance and Annuity Association-College Retirement Equities Fund, 1997). Notably, these reforms are being sought in multiple country contexts, including the United States, United Kingdom, Germany, and Australia (e.g., Committee on Corporate Governance, 1998; The Financial Aspects of Corporate Governance, 1992; Flynn, Peterson, Miller, Echikson, & Edmondson, 1998).

Some of the more notable shareholder activists are public pension funds, such as the California Public Employees' Retirement System (CalPERS). CalPERS has been active in seeking greater director independence by requesting that firms in which the fund invests (1) compose their boards predominantly of independent directors, (2) identify a lead director to assist the board chair, and (3) impose age limits on directors (Lublin, 1997; van Heeckeren, 1997). Similarly, the CREF arm of the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) has targeted firms
that maintain what the fund views as inappropriate governance structures. In 1998, for example, CREF pressured Walt Disney Co. to reconfigure its board such that a majority of directors had no ties to firm management (Orwall, 1998; Orwall & Lublin, 1998). A variety of organizations have also issued guidelines designed to create independent boards and ensure that boards are composed of individuals able to effectively discharge their duties. An early exemplar of such efforts is The Financial Aspects of Corporate Governance report (aka the Cadbury Report). This report is the outcome of a committee, chaired by Sir Adrian Cadbury, in the United Kingdom. The committee was formed "to address the financial aspects of corporate governance" (The Financial Aspects of Corporate Governance, 1992: 15). Central to this report is The Code of Best Practice that outlines guidelines for board and director independence. All U.K.-listed organizations are expected to conform to the report’s guidelines.

Similarly, in 1996 the National Association of Corporate Directors (NACD) constituted a Commission on Director Professionalism that included guidelines for enhanced director performance. Included among these guidelines are limits on the number of boards on which directors might serve and director term limits (e.g., National Association of Corporate Directors, 1996; see also Byrne, 1996, and Lublin, 1996). These and related efforts are designed to enhance shareholder wealth through more independent governance.

CONSIDERING THE EVIDENCE

As we described above, both researchers and practitioners have focused largely on the conflicts of interests between managers and shareholders and on the conclusion that more independent oversight of management is better than less. Independent governance structures (e.g., outsider-dominated boards, separation of the CEO and board chair positions) are both prescribed in agency theory and sought by shareholder activists. Were independent governance structures clearly of superior benefit to shareholders, we would expect to see these results reflected in the results of scholarly research. Such results, however, are not evident (Shleifer & Vishny, 1997). Two meta-analyses provide some context and illustrate the general state of corporate governance research relying on agency theory (Dalton et al., 2003; Dalton et al., 1998). While agency theorists clearly would prescribe boards composed of outside, independent directors and the separation of CEO and board chair positions, neither of these board configurations is associated with firm financial performance (Dalton et al., 1998). Importantly, this conclusion holds across the many ways in which financial performance has been measured in the literature. Similarly, in the second meta-analysis, Dalton et al. (2003) found no support for the agency theory-prescribed relationship between equity ownership and firm performance. Neither inside nor outside equity ownership is related to firm financial performance. As with the earlier Dalton et al. (1998) meta-analysis, this analysis included both accounting and market-based measures of financial performance.

Another instructive stream of research, also dominated by agency theory, is that addressing executive compensation. Two important changes in the early 1990s altered the means by which executive compensation packages are structured. One change was in executive compensation reporting guidelines, specified by the Securities and Exchange Commission (SEC). In 1992 the SEC adopted the Executive Compensation Disclosure Rules (Executive Compensation Disclosure, 1992). These rules require that exchange-listed firms report executive compensation in a manner that clearly and concisely identifies the compensation packages for the five most highly paid officers, including the CEO. Moreover, these rules require that firms provide (1) comparative performance graphs relying on industry benchmarks, (2) estimates of the value of executive stock options granted, and (3) the criteria by which executives are evaluated.

The second change in the regulatory landscape involves a change in the way executive compensation is taxed. The enactment of Internal Revenue Code 162(m) limits deductions for nonperformance-based compensation to one million dollars annually for those executives whose compensation must be reported in SEC proxy filings (i.e., the CEO and the four additional most highly paid firm officers). These changes, in concert with shareholder activism aimed at better aligning executive pay with shareholder performance, encouraged executive...
compensation practice to move toward stock options and other incentives.

The increased reliance on equity-based forms of executive compensation has resulted in a stronger alignment between executives and shareholders, driven largely by stock options (e.g., Lowenstein, 2000; Perry & Zenner, 2000). That is, executives today hold greater percentages of firm equity than they did during the early 1990s. Despite the increase in equity-based compensation during the past decade, extant research has not provided compelling evidence of a strong relationship between executive compensation and shareholder wealth at the firm level. A recent meta-analysis of pay studies, for example, showed that firm size accounted for eight times more variance in CEO pay than did firm performance (e.g., Tosi, Werner, Katz, & Gomez-Mejia, 2000; see also Dalton et al., 2003).

In sum, while issues of control over executives and independence of oversight have dominated research and practice, there is scant evidence that these approaches have been productive from a shareholder-oriented perspective. These results suggest that alternative theories and models are needed to effectively uncover the promise and potential of corporate governance. In the following section we identify three themes within this stream of research that we believe carry such promise.

PROMISING THEMES

A variety of themes are relevant to corporate governance research. As we have noted, many of these themes are also apparent in organizational practice. Below we develop three themes—board oversight, shareholder activism, and governing firms in crisis—that we envision as central to moving corporate governance research forward.

Board Oversight

The role of monitoring (i.e., board oversight of executives) is a central element of agency theory and fully consistent with the view that the separation of ownership from control creates a situation conducive to managerial opportunism (e.g., Jensen & Meckling, 1976). Importantly, as we have noted, this theme dominates both corporate governance research and practice. Independent boards of directors are widely believed to result in improved firm financial performance, whether measured as accounting returns or market returns (see, for example, Dalton et al., 1998, for an overview). Extant empirical research, however, provides virtually no support for this belief. As a result, the monitoring model of corporate governance has been characterized as largely deficient (Langevoort, 2001).

The current state of corporate governance research suggests a reconceptualization of the oversight role. Board monitoring has been centrally important in corporate governance research (Johnson et al., 1996), with boards of directors described as "the apex of the internal control system" (Jensen, 1993: 862). As a demonstration of their centrality within corporate governance, directors are responsible for key oversight functions that include hiring, firing, and compensating CEOs. Directors are also ultimately responsible for effective organizational functioning (Blair & Stout, 2001; Jensen, 1993; Johnson et al., 1996).

Given the importance of boards of directors in corporate governance research, it is intriguing that extant studies have failed to reveal a systematic significant relationship between board independence and firm financial performance (Dalton et al., 1998). While the reasons are undoubtedly complex, we propose two potential explanations as a starting point for future discussion and research. First, too much emphasis may be placed on directors' oversight role, to the exclusion of alternative roles. Second, there may be intervening processes that arise between board independence and firm financial performance.

The current state of corporate governance suggests that researchers and practitioners must reconsider the relative weight placed on directors' oversight role. In addition to the monitoring role, directors fulfill resource, service, and strategy roles (Johnson et al., 1998; Zahra & Pearce, 1989). Rather than focusing predominantly on directors' willingness or ability to control executives, in future research scholars may yield more productive results by focusing on the assistance directors provide in bringing valued resources to the firm and in serving as a source of advice and counsel for CEOs.

The contrast of oversight and support poses an important concern for directors and challenges them to maintain what can become a
rather delicate balance. Many functional organizational attributes, like the commitment of and consensus among organizational participants, can contribute greatly to organizational effectiveness and efficiency, but they also can become dysfunctional in the extreme (Buchholtz & Kidder, 2002; Hedberg, Nystrom, & Starbuck, 1976; Shen, see this issue). The challenge for directors is to build and maintain trust in their relationships with executives, but also to maintain some distance so that effective monitoring can be achieved.

An important aspect of broadening the focus beyond directors' monitoring role is considering theoretical foundations other than agency theory. In recent research scholars have discussed the limitations of agency theory, particularly as applied to corporate governance research (Dalton et al., 2003; Dalton et al., 1998; Lane et al., 1998). Moreover, agency theory is not informative with regard to directors' resource, service, and strategy roles. Here, theoretical perspectives such as resource dependence theory (Pfeffer & Salancik, 1978), the legalistic perspective (e.g., Coffee, 1999), institutional theory (DiMaggio & Powell, 1983), and stewardship theory (e.g., Davis et al., 1997) may have greater currency.

An additional limitation of extant corporate governance research is its near universal focus on a direct relationship between corporate governance mechanisms and firm financial performance. Approximately a decade ago Pettigrew observed, "Great inferential leaps are made from input variables such as board composition to output variables such as board performance with no direct evidence on the processes and mechanisms which presumably link the inputs to the outputs" (1992: 171). This criticism is certainly not unique to corporate governance studies; however, the strong reliance on proxies for processes and dispositions has undoubtedly resulted in limitations in researchers' abilities to uncover optimal governance mechanisms and configurations. In an excellent synthesis of boards of directors research, Forbes and Miliken note:

The influence of board demography on firm performance may not be simple and direct, as many past studies presume, but, rather, complex and indirect. To account for this possibility, researchers must begin to explore more precise ways of studying board demography that account for the role of intervening processes (1999: 490).

Shareholder Activism

Shareholder activism has emerged as an important factor in corporate governance. Shareholders with significant ownership positions have both the incentive to monitor executives and the influence to bring about changes they feel will be beneficial (Bethel & Liebeskind, 1993). Recent legislative and regulatory changes have facilitated shareholders' ability to engage in activist efforts. These changes are fundamental to the effectiveness of the corporate governance system, from the perspective of shareholders, since the effectiveness of concentrated ownership is largely dependent on the effectiveness of the legal system that protects shareholders' property rights (Shleifer & Vishny, 1997).

An early 1990s regulatory change by the SEC made it significantly easier for institutional investors, in particular, to engage in activist efforts. Prior to the regulatory change, shareholders were prohibited from discussing corporate matters with more than ten shareholders or shareholder groups without prior SEC approval (Jensen, 1993). This rule was relaxed, permitting shareholders holding less than 5 percent of outstanding shares—with no vested interest in the issue being discussed and not seeking proxy voting authority—to freely communicate with other shareholders (Jensen, 1993).

As a result of this and similar changes, institutional investors have emerged as an important force in corporate monitoring (e.g., Black, 1990; Davis & Thompson, 1994). Institutional investors have some incentive to actively monitor executives. Unlike most board members who hold modest, if any, ownership positions in the firms they serve, institutions tend to hold much larger stakes (Blair, 1995; Conference Board, 2000). Moreover, institutions account for the vast majority of U.S. stock exchange transactions (Zahra, Neubaum, & Huse, 2000). While the holdings of a given institutional investor fund might seem modest at an average of between 1 and 2 percent of a given firm's outstanding shares, the dollar value of these holdings can be substantial (Blair, 1995).

Jensen (1993) has recently questioned the promise of shareholder activism—specifically, institutional investor activism. Not all institutional investors, for example, have demonstrated an inclination toward actively challenging firms' executives (Brickley, Lease, & Smith,
1988; David, Kochhar, & Levitas, 1998; Kochhar &
David, 1996). Only those institutional investors
not subject to actual or potential influence from
corporate management are likely to engage in
activism (Brickley et al., 1988; Coffee, 1991; Davis
& Thompson, 1994). Brickley et al. (1988) have
termed these pressure-resistant institutional in-
vestors. An additional concern is that while
pressure-resistant institutional investors have
been effective in persuading officers and direc-
tors to institute governance changes, these
changes have not necessarily led to improved
firm performance (Wahal, 1998). This lack of
evidence again calls into question the share-
holder-centered models of corporate governance.

Institutional investors' increasing reliance on
indexing investment strategies is also a factor
in funds' propensity to engage in activism. In-
dexing is a passive investment strategy that
involves buying a specified number of shares
from a delineated set of firms, such as the S&P
500 (Coffee, 1991; Cox, 1993; Rock, 1991). The
direction of the anticipated impact on institutional
investor activism is uncertain, however. Index-
ing may result in fund managers' adopting the
position that activism is largely unnecessary, if
not also ineffective. Fund managers may be-
lieve that, on average, their portfolio of firms
will yield returns comparable to those for the
market as a whole, regardless of the governance
structure of any given firm in the overall port-
folio. Additionally, because fund managers re-
lying on indexing strategies have a predefined
set of firms from which to select, they may per-
ceive their ability to divest the shares of firms
with which they are dissatisfied as largely un-
tenable over the long term.

Alternatively, fund managers, as a function of
the boundaries around the set of firms in which
they might invest, may elect to actively monitor
officers and directors, given the constraints in
altering the portfolio of firms in which the fund
invests. This is consistent with fund managers' hav-
ing a choice between exit—divesting a
firm's stock—and voice—shareholder activism
(Black, 1992). This strategy is not costless, how-
ever. Institutional investor activism can be nine
times as costly as pure reliance on indexing
strategies (Makin, 1993).

Jensen (1993) has also commented on the lim-
itations in shareholder activism. He has noted
that shareholders' influence is largely grounded
in the legal system. In his opinion, the legal
system "is far too blunt an instrument to handle
the problems of wasteful managerial behavior
effectively" (Jensen, 1993: 850). This reasoning,
however, may have less to do with the legal
system than with the need to further refine re-
search approaches with regard to shareholder
activism efficacy. As with board of director re-
search, this stream of research likely would ben-
efit from greater consideration of the processes
by which shareholders seek to institute gover-
nance changes, as well as consideration of the
anticipated outcomes of their activist efforts. Ad-
ditionally, these approaches will require ex-
panded theoretical foundations on which to
build future research.

Governing Firms in Crisis

The vast majority of organizational literature
addresses the stable or growing firm—that is,
the focus is on effectively managing the suc-
cessful organization (e.g., Jensen, 1993; Summer
et al., 1990; Whetten, 1980). Relatively little re-
search has been devoted to the effective man-
agement of the firm in crisis, financial or other-
wise (Daily, 1994). The volatility to which firms
worldwide have been subjected in recent years
suggests that the relative inattention to firms in
crisis is unfortunate. As a result, this inattention
presents an opportunity for governance re-
searchers to augment our understanding of the
effectiveness of alternative forms of governance.

In a small but productive stream of research,
scientists have investigated governance struc-
tures in financially distressed firms. Their re-
search has supported the importance of gover-
nance structures in explaining the likelihood
that a firm will file for bankruptcy. Specifically,
in contrast to the general body of governance
research, a series of studies has shown that
board independence is related to firm perfor-
ance, as measured by the incidence of bank-
ruptcy filing (Daily & Dalton, 1994a,b; Hambrick
& D'Aveni, 1992). Daily (1995a) has noted mixed
support for board independence, however.

A central task of effectively functioning
boards is the removal of poorly performing ex-
ecutives (Fama, 1980). Boards with greater struc-
tural independence (i.e., outsider-dominated,
separate board leadership structure) may be
more willing to remove ineffective executives
prior to a crisis reaching the point of corporate
bankruptcy. This action may prove critical in
reversing a financial decline, since deficiencies within the top management team are related to firm failure (e.g., Hambrick & D'Aveni, 1992). Moreover, key organizational stakeholders may lose confidence in the management team perceived to be responsible for the firm's crisis. Stockholders, for example, react positively to executive changes following a bankruptcy filing (Bonnier & Bruner, 1989; Davidson, Worrell, & Dutia, 1993).

Interestingly, among firms in crisis, the tight governance prescribed by agency theory may actually be harmful to firm survival and shareholder interests. As described by Hambrick and D'Aveni (1988, 1992), corporate failures frequently unfold as downward spirals in which executive teams are replaced so quickly and frequently that they have no time to devise and implement strategies that might, in fact, save the organization. Further, agency theory's prescription to replace poorly performing managers assumes there are willing and able replacements ready to step in for those who are removed. If (as agency theory implies) the only good managers are those associated with high-performing firms, it is unclear why any of those good managers would willingly leave a high-performing firm to take over one threatened by bankruptcy.

Finally, when a firm spirals toward bankruptcy, another of its key constituencies may preempt shareholders. That is, banks and other lending agencies may displace shareholders as the key stakeholders to be satisfied. While the firm may fail in shareholders' eyes, the resolution of the bankruptcy may well resolve most or all of the lenders' problems (Gilson, 2001). This is a situation in which the legal rights of some corporate participants (lenders) come to outweigh those of shareholders.

Research investigating the presence of institutional investors in the financially declining firm has yielded less consistent results than research addressing boards of directors in crisis firms. Daily and Dalton (1994a), for example, found an inverse relationship between institutional investor equity holdings and the incidence of bankruptcy in the five years prior to the actual bankruptcy filing. In contrast, Daily (1996) did not corroborate these findings. She did, however, find that institutional investor equity holdings, contrary to expectation, were positively and significantly associated with the length of time spent in bankruptcy reorganization and negatively associated with a prepackaged bankruptcy filing. These findings suggest the need for a greater understanding of the role of institutional investors as a governance mechanism in the firm in crisis.

In research addressing the governance/performance relationship in firms in crisis, scholars have primarily examined firms either immediately prior to or at the point of crisis (Daily, 1994). There remains much to learn about governance mechanisms that enable firms to avoid a crisis such as financial decline. There is also an opportunity to significantly augment researchers' understanding of the period following a crisis. For example, the postbankruptcy period is a largely underdeveloped area of research. Researchers know very little about governance structures that enable a firm to successfully emerge from financial crisis (Daily, 1994; Daily & Dalton, 1994a). Given the low rates of success in emerging from a bankruptcy filing (Daily, 1995a; LoPucki & Whitford, 1993; Moulton & Thomas, 1993), focused attention on governance mechanisms that might assist in this effort holds much promise.

**DISMANTLING FORTRESSES**

Attention to the three themes we have outlined provides the promise of enabling researchers to develop a more comprehensive appreciation for the role that corporate governance plays in organizational effectiveness. There are also a number of potential barriers to moving corporate governance research forward that deserve attention. While some barriers are largely out of researchers' control, others are more directly under the discretion of the research community.

One of the more challenging barriers researchers face is gaining access to the types of process-oriented data that, we have suggested, will enhance our understanding of the effectiveness of governance mechanisms. The potential value of process data is considerable. As noted by Forbes and Milliken, process-oriented governance research "will enable researchers to better explain inconsistencies in past research on boards, to disentangle the contributions that multiple theoretical perspectives have to offer in explaining board dynamics, and to clarify the tradeoffs inherent in board design" (1999: 502).
Access to these data, however, has proven extraordinarily difficult, for it requires the cooperation of corporate boards of directors. To date, boards have been largely unwilling to provide such access.

Directors' reticence to invite researchers into the "black box" of boardroom deliberations is understandable. The increase in shareholder activism has been accompanied by an increase in shareholder lawsuits in recent years (e.g., Kesner & Johnson, 1990). Directors fear that opening up boardroom activity to external scrutiny may also increase their risk of being subject to a shareholder lawsuit. These fears are not necessarily misplaced. Recent efforts at governance reform have included "increasing the liability exposure for directors who fall down on the job and fail to prevent some form of misbehavior by insiders" (Langevoort, 2001: 800). The prospects of boardroom access for firms experiencing crisis are even lower. Leaders in these firms are especially unlikely to expose themselves to unnecessary scrutiny (Weitzel & Jonsson, 1989).

It is true that the vast majority of corporate governance research relies on archival data-gathering techniques. We would, however, be remiss in not recognizing that there exists a small subset of corporate governance studies that rely, at least in part, on primary data (e.g., Daily, 1995b; Pearce & Zahra, 1991; Westphal, 1999; Zahra, 1996; Zahra et al., 2000). Also, many corporate governance researchers will, at some point, have attempted to access primary governance data. Many studies incorporating primary data provide a limited view of corporate governance processes and outcomes. It is typical, for example, for these studies to be based on a single organizational respondent, typically the CEO (e.g., Daily, 1995b; Pearce & Zahra, 1991; Zahra, 1996; Zahra et al., 2000).

Another limitation to advancing the field of corporate governance is the near exclusive reliance on agency theory in extant research. While we certainly do not mean to beat the proverbial dead horse, we feel compelled to reiterate the importance of considering alternative theoretical perspectives. Blair and Stout (2001) recently provided an interesting analysis of why agency theory may be largely ineffective at demonstrating significant relationships between boards of directors and firm performance. They suggest a reconceptualization of the traditional treatment of boards of directors within the agency theory framework.

Agency theorists present the board of directors as a mechanism to protect shareholders from managerial self-interest. In previous research scholars have even conceptualized boards of directors as a second level of agency (see, for example, Black, 1992). Within this framework, directors' primary role is maximizing shareholder value. Blair and Stout summarize this view as follows: "Provided the firm does not violate the law, directors ought to serve and be accountable only to the shareholders" (2001: 407). In contrast to this conceptualization, Blair and Stout note that directors' responsibility is not exclusively to shareholder value maximization; rather, they serve as "mediating hierarchies" charged with balancing the sometimes competing interests of a variety of groups that participate in public corporations" (2001: 409).

Blair and Stout's (2001) analysis suggests that directors need a high degree of discretion in allocating corporate resources. This is as analogous to resource dependence theory as it is to the principal-agent model. This reconceptualization of directors' responsibilities and roles further highlights the importance of incorporating alternative theoretical perspectives in future corporate governance research.

One of the greatest barriers to advancing the field of corporate governance will perhaps be one of the more controversial and difficult to address. It is, however, one that is directly in researchers' control. We refer to this barrier as empirical dogmatism. That is, researchers too often embrace a research paradigm that fits a rather narrow conceptualization of the entirety of corporate governance to the exclusion of alternative paradigms. Researchers are, on occasion, disinclined to embrace research that contradicts dominant governance models and theories (i.e., a preference for independent governance structures) or research that is critical of past research methodologies or findings. This will not help move the field of governance forward.

To advance the study of corporate governance, researchers will need to advance beyond establishing—and protecting—our own fortresses of research. The battle to advance research and practice must be a collective one. To borrow from a military cliche, individual research efforts that do not genuinely embrace the
full scope of tools available to us as researchers will result in continued won battles, with little progress toward ending the war.

CONCLUSION

We recognize that our introduction to this special topic forum has likely raised many more issues than it has addressed. This is, however, consistent with our primary goal. Our intent was to provide a forum for raising issues that might move corporate governance research forward, while at the same time providing a venue to showcase cutting-edge research models and theories. We hope the readers of this special topic forum find that we have accomplished both goals, at least in part.

REFERENCES


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