Understanding Corporate Governance from a Social Constructionist Perspective

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Abstract

The ambiguity and subjectivity of the corporate governance concept motivated the study to explore the understanding of corporate governance from a social reality perspective. Based on the nature of the study, where the subject matter is ambiguous, subjective and complex, social constructionist epistemology is appropriate. Social constructionist epistemology is suitable for the subjective dimension, where seeking the meaning of the subject matter is the objective. Relevant to the characteristic of social constructionist epistemology, interviews are used as the main primary data. Interviews were conducted among experts in corporate governance in Malaysia. The meaning of corporate governance is interpreted based on the text derived from the verbatim transcription of the interviews. Text is used as the main unit of analysis. The emergent themes from the analysis indicate that there is a new paradigm of understanding concerning the concept of corporate governance. The finding of this study revealed corporate governance as a social process that bring forth the meaning of a system that oriented towards economic objective, guided by value in guiding corporations towards proper conduct in order to achieve corporate sustainability. It is suggested that the concept of corporate governance needs modification, where the moral foundation of the corporate governance concept is required. The study offers a social constructionist perspective in seeking the meaning of corporate governance.

Key words: corporate governance, social constructionist, interpretive, qualitative

Introduction

The evolution of corporations, during the limited liability and joint stock company era, initiated the establishment of the corporate governance concept (Davies, 2006). Then, the concept was associated with monitoring. In later years, in particular, the twentieth-century, the dynamic business environment encouraged further deliberation of the corporate governance concept. Direct and control corporations towards accountable and transparency are the two core aims of the concept (Rossouw, 2005). However, of late, there is increasing debate concerning the issue of understanding corporate governance. The debate centres on the ambiguity, subjectivity and complexity of the meaning. Scholars have linked the ambiguity, subjectivity and complexity with the various interpretations of the concept (Sonnefeld, 2004).

In addition, interpretation of corporate governance, according to some, is philosophical, thus, driving the concept to such generalizations, that are subjective and complex (McNamee & Fleming, 2006). This generalisation could be explained by the lack of exploration of the concept. Most of the corporate governance studies focus on positivist approach i.e investigate relationship between governance structure and performance, hence provide gap in understanding the real meaning of the concept. In contrast with the positive approach, this study intent to fill the gap of understanding corporate governance concept based on non positivist i.e interpretive approach. Based on the above argument, this study attempts to explore the meaning of the corporate governance concept from the perspective of social reality. This paper is organized as follows: the paper highlights the concept of corporate governance in the next section, followed by an explanation of social constructionist. Next, the findings and discussion are shared. Finally, the conclusion of the study is presented.

Overview of Corporate governance concept

The evidence of arguments (i.e. from governance scholars) relating to the above contention is noted. Some support the meaning of corporate governance, in accordance with corporate governance codes, where the general description of corporate governance can be categorized into two schools; 1) narrow and 2) broader. First, the narrow school of thought identified the corporate governance concept as a system of direct and control corporations towards the wealth maximization of shareholders. Second, the broader school expands their view of the concept to include responsibility towards other stakeholders. Table 1 below addresses some of the examples of both descriptions.

Table 1: Interpretation of corporate governance

Narrow interpretation	**Broader interpretation**
Relationship among various participants in determining the direction and performance of corporations (Monks and Minow, 1995)	Specifies the distribution of rights and responsibilities for the board, managers, shareholders and other stakeholders and spells out the rules and procedures for making decisions on corporate affairs (KPMG White Study, 2002)
Issues faced by the board of directors such as interaction with top management, relationship with owners and other parties interested in the affairs of the corporations (Tricker, 1994)	Influences affecting the institutional processes including those for appointing the controllers and regulators involved in organizing the production and sale of goods and services (Turnball, 1997).
System by which companies are directed and controlled (Cadbury, 1992; MCCG 2000) Practices of different roles and responsibility in governing corporations to ensure accountability (Cornelius, 2005; Nakano, 2007; Najam, 2006).	Board's juridical responsibilities, financial responsibilities, social obligations, fiscal and social-fiscal obligations, environment responsibilities (Sieben, 2002) How a corporation is governed (Bury & Leblanc, 2007).
Creating a set of principles and a decision-making system to govern the modern corporation (Sullivan & Shkolnikov, 2007).	Balancing of interest among companies and society (Bonn &Fisher, 2005)
Function rests with the board of directors, elected to represent shareholders. The directors are entitled to govern the company and supervise and monitor the managers to promote effective management and ensure accountability (CGFJ Research Institute, 1998).	A stewardship responsibility of directors to provide oversight of the goal and strategies of a company and foster the implementation (Cornelius, 2005),
Collection of acceptable behaviour or practices of different roles and responsibilities (Najam, 2006)	A set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives (i.e. strategy) of the company are set, and the means of obtaining those objectives and monitoring performance are determined (Kirkpatrick, 2006).

Generally, the above perceptions on corporate governance, as observed by the researcher, focus on corporate structure, certain interest groups and wealth maximization. Overall, the evidence of the corporate governance concept, as prescribed above (Table 1), illustrates the function, structure and business objective that are designed towards economic gain. The influence of the 'Friedmanesque dictum' is clearly illustrated. The influence of economic gain is driven by economic theory such as the agency theory. This study argues that the relevancy of economic theory is inadequate to explain corporate governance in today's business environment. This is so because today's dynamic and global business environment involves interaction between society and business. An increase in social power has been noted over the last two decades. Hence, the interest of society should be taken into account in order to balance the social expectation and that of the corporations (Rossouw, 2005). The expectation gap gives rise to the enquiry as to what is the relevant corporate governance meaning from the social constructed view.

Methodology

Given the importance of the issue, related to what is the relevant corporate governance concept, the study explores the issue using social constructionist epistemology. Social constructionist epistemology is guided by the philosophic assumptions of the present study that the research issue (i.e. understanding corporate governance) is subjective and complex. The philosophic assumptions guide the subjective dimension towards an interpretivist approach. As claimed by Creswell (2007), the subjective dimension should be guided by social constructionist assumptions, where the nature of reality is seeking meaning to understand the world in which the subjects live. Table 1 below addresses the social constructionist epistemology that guides the researcher in exploring the issue of the study.

Elements of methods	**Epistemology**
Aims	Invention
Starting points	Meaning
Design	Reflexivity
Techniques	Conversations
Analysis	Sense making
Outcomes	Understanding

Note: source from "Management research an introduction" by Easterby-Smith, M., Thorpe, R. & Lowe, A. (2002). New York: Oxford University Press, p. 34.

Deliberating on the table above, the aim of the study is to explore the concept of governance from the perspective of social reality. In doing so, the starting point of the study requires the researcher to explore the meaning of the social process related to the concept of corporate governance. Essentially, involvement of social process includes human interest, hence, social actors, i.e. experts in the corporate governance, are the main driver of the social constructionist research process. As people are inventors of the meaning of corporate governance, the social process involves interaction with the subject of the study, that is, the experts. The selection of experts is based on the criteria pertaining to the relevancy of the subject with the topic under study, i.e. to suit the features of the study. As the subject matter concerns seeking the meaning of corporate governance, experts who are prominent individuals involved in the Malaysian corporate governance reform are appropriate. Thirteen experts were selected as actors.

The experts are individuals from professional bodies, ethics association, academicians, corporate governance consultants, and institutional investors who are involved with corporate governance guidelines, regulators and institutions in Malaysia. The study used the snowballing technique. The research adopted the Glaser and Strauss theoretical saturation method. The saturation point was reached when the thirteen experts provided no new information concerning the subject matter of the research. Social interaction involves direct interaction or conversation, i.e. interviews. In making sense of the conversation with the experts, the research is designed with an interpretivist approach, where the interpretation of data is based on the words of the experts. The researcher interpreted the data (i.e. based on the interviews) by making sense of the issue. Emergent patterns related to the meaning of corporate governance are the outcomes that answered the research question.

Findings and Discussion

Based on the analysis of the study, the researcher found several interpretations of the meaning of corporate governance. The general interpretation relates corporate governance with the system of running business. Insightful analysis of the findings indicate that corporate governance should be holistic and adaptable. Holistic as described by the experts is inclusive of value. While adaptable, in making sense of the word from experts, is the concept that is able to represent the business society – not a one fit all description of corporate governance, as noted in Table 1 (see narrow interpretation).

Such are the words of the experts that described holistic corporate governance. Corporate governance is:

1. '…a conduct to control the good behaviour of staff and systems and having the stakeholder as the target audience and the controlling element...'
2. '…about running the business morally...'
3. '… not about rules. It is about the principles behind the rules. The principles require a moral or ethical foundation...'
4. '…a system which includes morals...'
5. '…a system of being trustees ….rules of running a company...'
6. '…a system or mechanism which imposes good for business...'
7. '…a control system of how it should be...'
8. '…conformance and performance...'
9. '…standards and practices that merge compliance and voluntary initiatives'.
10. '…being transparent in terms of reporting...'
11. '…anything that is good for the sake of the company...'
12. '…a system that must be carried out by the directors. If directors are not ethically and morally right, the system will fail...'
13. '…doing the right thing...'
14. '…showing exemplary behaviour...'

Adaptable, as expressed by the experts relate to the suitability of the meaning to fit business societies. Several of the experts, in particular expert no. 5, voiced their concern on the issue of corporate governance, by highlighting that the present governance practices do not represent the entire business society in Malaysia. Expert no 5, for instance, believes that the meaning of corporate governance should fit and describe the social reality of the Malaysian business society. He describes the three main categories of interest groups that are directly linked with the process of corporate governance: 1) people, i.e. the market, 2) Small Medium Entrepreneurs (SME), and 3) retailers; the last of which is large in number. As such, governance practices among the abovementioned business societies are significant as they reflect the Malaysian business environment. According to the experts, adaptable corporate governance meaning is required to guide the understanding of the concept to fit all types of business interest group. This is because the group, in particular the retailers, substantially represent the market. Therefore, unethical conduct performed collectively will have an impact on the Malaysian economy. The evidence of the strong influence of the group on the market is stated below:

- '…I am not saying they are doing something illegal but most of their practices and initiatives … they cut corners, they do not mind stretching the envelope or unethical part of corporate governance and these are the people who are in the market structure that put pressure on governance standards...' (expert no.5)

The above quote highlights the importance to adapt the meaning of corporate governance for all types of companies regardless of whether they are public or private listed. The suggestion is made based on the expert involvement with the private companies. He believes that corporate governance is still 'alien' among the private companies. He strongly perceives that the present governance structure is not adequately widespread to improve the nation's governance practices. As he asserts, the private sector holds wider contributions of business in Malaysia compared to the public listed companies.

In sum, social construction analysis from the words of the experts position the interpretation of corporate governance as follows:

1. Inclusive corporate governance constitutes a process oriented way of controlling a system, suggesting that the framework underlines the value of guiding corporations into proper behaviour.
2. Wealth maximization is guided by a system of integrating moral values and economic drive.
3. A sustainable way of governance is the ultimate motive of inclusive corporate governance.
4. The holistic nature of inclusive corporate governance bridges the governance gap, going beyond financial performance.

The above finding reflects a similarity with the literature. Governance scholars such as Rossouw (2005) and Letza, Kirkbridge, Sun & Smallman (2008) emphasise the necessity for a holistic understanding of corporate governance. In fact, the orientation of theory, which is dominated by economic logic (i.e. agency theory), as perceived by the scholars, is obsolete. Letza et al. ((2008), for example, highlight the importance of mid range theories to explain corporate governance as they believe the agency theory is inadequate to explain the governance issue in which the business environment is dynamic and global. The dynamic business environment and global features of the governance issue require a theory that fits to explain the economic and non-economic logic. Rossouw (2009), for example, highlights social contract theory as holistic and adaptable in explaining the governance issues. As the challenging business environment is noted as giving rise to immoral corporate conduct, amoral theory such as the agency theory, identifies the neutrality of moral obligations (neither moral nor immoral) and is insufficient to explain corporate governance.

The present business environment needs to be guided by a moral foundation, where moral theory, such as the social contract theory, is more adaptable and holistic to cope with the dynamic and challenging business environment. Economic theory such as the agency theory, omits moral obligation, thus, social contract theory is crucial as it provides the essential context of moral obligations (Donaldson & Dunfee, 1999). The adaptability of corporate governance is answered by considering the moral obligation of social institutions. The moral obligation relates to a fair agreement and implicit contract with social institutions and corporations. The existence of corporations are not for the sake of the shareholders, but for the purpose of the organization and the society, hence, corporations are bound by the implicit contract towards society (Rossouw, 2005). Going back to the authenticity of the existence of corporations, corporate governance should look at a broader perspective.

Corporate governance was commissioned to guide the financial aspects of governance twenty years ago, now the relevancy of governance needs to revisit social obligation. Society, in general, and stakeholders in particular, deserve to gain their share of reward from the governance of corporations. Hence, corporations need to change their focus towards other aspects of governance, not mainly focus on the financial benefit. Corporations need to refine their duties and responsibility in coping with the demand of globalization and liberalization. As claimed by Davies (2006, p. 6), corporations need to get a 'licence to operate' from society these days. The paradigm of economic scope in understanding corporate governance, as defined in many codes, needs to consider the inclusion of non-economic aspects, i.e. the holistic presentation of corporate governance. Corporate governance should now be more concerned with holding the balance between economic and social goals and between individual and communal goals with the motive of stewardship towards individual, corporations and society (Bonn & Fisher, 2005).

Conclusion

The corporate governance concept was introduced as a system by which companies are directed and controlled. The relevancy of the meaning was influenced by situation factors and, as such, interpretation gives preference to economic gain. However, the focus of the concept has been elaborated over the years. The evolution of corporate governance presents a new paradigm of corporate governance, where the concept has gone beyond a direct control mechanism.

Corporate governance is being re-built to remind companies of why they exist and by whom they are owned. The social constructionist view indicates the two core features of corporate governance, i.e. holistic and adaptable. The emergence of the two core features bridge the expectation gap that corporate governance is a social process, thus, the obligations of corporations include, stakeholders and society. Thus, it can be concluded that the present corporate governance concept, although relevant, requires adjustment. This study suggest further exploration of corporate governance concept in future. In depth study of the concept would be ideal to encourage clarity in understanding corporate governance.

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