"UNDERSTANDING GOVERNANCE AND CORPORATE BOARDS: IS THEORY A PROBLEM?"

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Raymond K. Van Ness, Ph.D. State University of New York at Albany,
Paul Miesing, Ph.D., State University of New York at Albany
Jaeyoung Kang, Ph.D. ABD, State University of New York at Albany

ABSTRACT

This paper focuses on a cross-section of scholarly articles investigating the influence of corporate boards on firm performance. The objective was to use a neutral-theoretic perspective to compare findings and gain insight into plausible reasons for the extensive incongruence between studies and the no-influence findings of others. From our final sample of one hundred fifty-six studies, we identified study theoretic perspectives, most commonly investigated board attributes, and most frequently used performance variables. Studies were compared and contrasted to discover significant areas of agreement and disagreement. We concluded that while scholarly research has contributed richly to an important body of knowledge, the common practice of tethering to a theoretic perspective such as stewardship, agency, or resource dependency theories may inadvertently influence study findings. Additionally, studies relying on only one or two performance measures (accounting, market, or Tobin's q) are inflating the probability of missed or misinterpreted findings. Suggestions for future research are offered.

Keywords: Dominant Research Paradigm, Boards of Directors, Corporate Financial Performance, Agency Theory, Stewardship Theory, Resource Dependency Theory

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1. INTRODUCTION

The normative empirical research paradigm suggests that "good research" must be grounded in and built on extant theory. In other words, good research begins with good theory, and hypothesis testing follows from model building. We reexamine this tradition by investigating the incongruence in corporate governance literature. Multiple studies begin with presumably good theory but arrive at remarkably different conclusions. We ask "why" that is the case for this stream of research, and in our conclusions offer the possibility that other streams might suffer from a similarly narrow view.

Corporate boards have long had the legal authority and shareholder encouragement to proactively oversee executive decision making. Boards with relevant knowledge, skills, and abilities have the potential for proffering unique tactical and strategic advantages to corporations (Beekes, Pope, and Young, 2004; Finkelstein and Hambrick, 1996). They can contribute to a firm's success through three primary roles: the *resource role* wherein they enhance access to critical external resources, the *service role* in which they provide important advice to executive management, and the *control role* in which they provide governance oversight and determine incentives for executive performance (Chatterjee and Harrison, 2005). It is in the third role that boards have been ardently criticized for poor performance. The popular press has not been hesitant to broadcast exhaustive details of unfettered corporate malfeasance suggesting board ineptitude. High profile executive compensation packages, special bonuses, stock options, golden parachutes, and other executive perks have added fuel to public outrage and motivated new government regulations (Grant and Grant, 2008). The current economic downturn, massive layoffs, firm restructuring, corporations teetering on the edge of bankruptcy, and government bailouts add intensity to the perception of executive abuses and the belief that corporate boards are little more than quiescent committees (Van Ness and Seifert, 2007).

"The buck stops here," a well-worn cliché popularized by former U.S. president Harry S. Truman, is often used by corporate and political leaders including President Barack Obama. It is an indication that they are in charge and willing to accept full responsibility for the behaviors and performance of subordinates. "The buck stops here" is also an important theme for reminding corporate boards, as end gatekeepers with ultimate fiduciary responsibility for firm performance, they must not be quiescent committees. In 2002, the United States Congress delivered such a reminder to corporate boards with the passage of the Sarbanes-Oxley Act (SOX). SOX may be the most significant securities legislation affecting publicly-traded firms since the formation of the Securities and Exchange Commission in 1934 (Van Ness, Miesing, Seifert, and Kang, 2009) that, among other things, contains substantial civil and criminal penalties for boards that fail to exercise due diligence (Buccino and Shannon, 2003; Klein, 2003).

The extreme public interest in governance oversight and the actions taken by the United States Government may provide an incentive for more scholarly investigations of the relationship between corporate boards and firm performance. Unfortunately, while the governance literature is already rich with important studies, broad consensus of how boards influence firm performance has remained elusive (Zajac and Westphal, 1996). Scholarly works attempting to link board characteristics, structures, configurations, and attributes to corporate performance have yielded weak or nonexistent findings within individual studies and broad incongruence among studies (Barnhart, Marr, and Rosenstein, 1994). The overriding objective of this project is to identify plausible explanations for this enigma.

2. LITERATURE REVIEW OF GOVERNANCE THEORY

The corporate governance literature can be divided between normative studies that anchor to an overarching theoretical perspective and exploratory investigations that appear to take a theory neutral approach. Overarching theories create an environmental context for researchers as they organize, conduct, and interpret their investigations while theory neutral studies do not presuppose an operational context. Theory anchored studies assist in rationalizing hypotheses but obviously, should not bias the study structure or influence the interpretation of results. Perhaps the reluctance to submit a null hypothesis partially explains the prevalent use of theory anchors as opposed to pursuing an investigation on a theory neutral platform.

The literature reveals a very wide range of theories, but the three most frequently found in our sample were stewardship theory, agency theory, and resource dependency theory. Agency theory is by far the most common anchor for studies in the corporate governance literature (Daily, Dalton, and Cannella, 2003). Occasionally two theories were combined, such as stewardship-resource dependency or agency-resource dependency theory, but these were uncommon. We categorized articles by their ascribed overarching theories, independent variables, and dependent variables. The overarching theories were stewardship (ST), agency (AT), and resource dependency (RDT). A brief explanation of each follows.

Stewardship theory (ST) has its roots in psychology and sociology. It was adapted as a theoretical framework for researchers to examine decision-making, actions, and performance of executives who are acting as faithful stewards for principals (Davis, Schoorman, and Donaldson, 1997; Deutsch, 2005; Donaldson and Davis, 1991). It infers that managers are trustworthy and competent administrators of corporate resources and are best situated to maximize the interests of shareholders since they are most familiar with the intricacies of corporate strengths, weaknesses, opportunities, and threats (Boyd, 1995).

Agency theory (AT) suggests an inherent imperfection in the relationship between capital providers (principals) and fiduciaries (agents) of that capital. It is a long-held concept that argues when corporate ownership is separated from corporate management, behaviors, decisions, and actions by managers will deviate from those required to maximize shareholder value. In other words, it assumes an imminent divergence between the interests of corporate managers and those of shareholders (Aguilera, Filatotchev, Gospel, and Jackson, 2008; Bushman and Smith, 2001; Coles and Hesterly, 2000). This theory was formalized in the early 1970s by Harold Demsetz, Michael Jensen, William Meckling, and others. However, the germination of agency theory can be seen much earlier in the works of Berle and Means (1932). Agency theory continues to be the dominant theoretic-anchor for studies of corporate governance practices and firm performance (Aguilera, Filatotchev, Gospel, and Jackson, 2008).

Resource dependency theory (RDT) emphasizes that resources required by organizations need to be acquired through a network of contacts and the efficiency and effectiveness in bridging network gaps will determine the quality of corporate performance. Resource dependency theory describes organizational success as the ability to maximize power by accessing scarce and essential resources (Pfeffer, 1972; Ulrich and Barney, 1984). Corporate boards can assist organizations in gaining access to important resources that might otherwise be beyond their reach (Brown, 2005; Dalton, Daily, Johnson, and Ellstrand, 1999; Pfeffer, 1972; Pfeffer and Salancik, 1978). Boards are considered important boundary-spanners that secure necessary resources, such as knowledge, capital, and venture partnering arrangements (Ruigork, Peck, and Tacheva, 2007). Diversity of corporate board members has been found to be an important element in this theory since it can lead to broader corporate networks (Siciliano, 1996) and improve financial performance (Waddock and Graves, 1997).

2.1 Board of Directors and Firm Performance

The corporate governance literature is rich with both empirical and conceptual contributions. In this section we present a large variety of articles investigating various aspects of the influence of board attributes/configurations on firm performance. The three most common independent variables in our sample were CEO/COB duality, board independence, and board diversity, and the three most common dependent variables were accounting measures, market measures, and Tobin's q. We next summarize the characteristics of the board of directors since these are presumed to affect firm performance in various ways.

2.1.1 CEO/COB Duality Literature

Duality refers to a situation in which a corporate chief executive officer (CEO) also occupies the position of board chair (COB). Despite substantial and persistent criticism by institutional investors and other large bloc investors since the early 1980s (Westphal and Khanna, 2003), the majority of companies in the United States practice duality (Finkelstein and Mooney, 2003). The probability of the corporate CEO also occupying the position of COB increases with CEO tenure (Coles, McWilliams, and Sen, 2001). The perception of how duality influences a firm's performance varies by the theoretic certitude of the researcher, with stewardship theorists generally being proponents of duality while agency theorists are opponents. Our sample suggests that CEO/COB duality is not an area of prime concern for resource dependency theorists.

Stewardship-oriented researchers have made the following discoveries. Donaldson and Davis (1991) found that duality enhanced shareholder wealth and improved a series of financial ratios, while finding no support for agency theory. Brickley, Coles, and Jarrell (1997) found that there are significant costs associated with the process of separating the positions of chief executive officer and board chair, and clear benefits with the practice of duality. Duality was also found to be advantageous in situations of resource paucity or high complexity (Boyd, 1995). Kim, Al-Shammari, Kim, and Lee (2008) found that duality was positively related to stronger value decisions by boards when contemplating corporate diversifications, particularly those that were unrelated to core-competencies. Using Tobin's q, duality was found to be financially beneficial to firms in vexatious competitive environments (Faleye, 2007).

Conversely, agency-oriented investigations have led to a different set of conclusions. A study by Hayward and Hambrick (1997) concluded that CEO hubris and exaggerated self-confidence as reflected in excessive premiums paid for acquired corporations that are amplified when a corporation practices CEO/COB duality. Duality places the top management officer in charge of many important actives of the corporate board, and Ruigrok, Peck, and Keller (2006) concluded that board independence (from management) is one of the most important prerequisites of decision effectiveness as measured by meeting stated objectives. Dalton and Kesner (1987) posited that CEO/COB duality is a threat to decision-making because when the chief executive officer is also board chair, he or she becomes a major controlling force in the selection of new board members. Shivdasani and Yermack (1999) and Zajac and Westphal (1996) concluded that aggressive monitoring of governance is likely to cease in situations of CEO/COB duality, thus increasing the risk of fiduciary lapses with regard to shareholder interests. Westphal and Khanna (2003) determined that market reaction to decisions by firms adopting a poison pill provision to avoid a hostile takeover bid was significantly more negative when a corporation was practicing duality. A poison pill provision is a strategy used by some management teams and approved by boards when they feel threatened by another corporation that is engaging in an uninvited (hostile) takeover attempt. There are a variety of techniques (pills) a targeted firm can employ to ward off the hostile takeover, but agency theorists generally believe that few of these benefit shareholders as much as they benefit executive management.

2.1.2 Board Independence Literature

Board independence refers to the ability of the corporate board of directors to make decisions independently from the firm's executive management. Board independence is assessed by examining the numerical relationship between independent external board members and total number of board members. Inside and other non-independent board members are negatively related to board independence. Inside board members are those whose primary occupation is with the organization on whose board they sit and other non-independent (sometimes referred to as affiliated or "gray") board members are those who receive significant monetary benefits for non-director related services provided to the firm on whose board they sit. Board outsiders are considered independent board members if they have a limited role with the organization except for board responsibilities. CEO/COB duality and board independence are inexorably intertwined. Stewardship theorists who prefer CEO/COB duality are also in favor of greater insider board representation; conversely, agency theorists who vehemently oppose CEO/COB duality also strongly prefer board seats be occupied by a greater percentage of independent members. Our sample of studies suggests that while resource dependency theorists have not weighed in heavily on the issue of board independence, they are likely to agree with agency theorists since a larger number of independent outside board members may increase the access to valuable knowledge, capital, and venture partnering arrangements.

Stewardship-anchored research by Frankforter, Berman, and Jones (2002) found that when boards had a greater proportion of insiders they were more likely to adopt "shark repellents" (anti-hostile takeover moves) to protect the firm from corporate raiders. Donaldson and Davis (1991) found that boards with stronger executive insider representation were associated with significantly higher firm performance, particularly when the board was chaired by the firm's chief executive officer. Similarly, Arthurs, Hoskisson, Busenitz, and Johnson (2008) found that insiders on the board had a positive effect on IPO pricing. Stewardship by its very nature infers that insiders who are unimpeded by outside directors will be more motivated and offer the best prospects of long-term success (Davis, Schoorman, and Donaldson, 1997). Muth and Donaldson (1998) reinforced this idea with their findings that internal directors are positively related to shareholder wealth and corporate revenue growth.

Conversely, agency theorists consider board independence to be fundamental to the best interests of shareholders, advocating that outside directors who are independent from management control can best represent the shareholder interests (Carter, Simkins, and Simpson, 2003). For instance, outside directors have been associated with lower operating costs for corporations (Mayers, Shivdasani, and Smith, 1997), as well as represent a significant improvement in operating performance (Perry and Shivdasani, 2005) and stronger financial performance (Pearce and Zahra, 1991). Outside directors were associated with stronger controls over CEO compensation packages (Sanders and Carpenter, 1998; Tosi and Gomez-Mejia, 1989; Wright, Kroll, and Elenkov, 2002). Westphal and Khanna (2003) found that independent directors were more likely to disapprove poison pill clauses and more likely to vote to rescind them than were inside directors. They also determined that outside directors were more likely to vote to separate the positions of CEO and COB. Value-oriented risk taking is an important function of business (Wright, Kroll, Lado, and Van Ness, 2002), and there is evidence to suggest that independent boards are more likely to be associated with overall value enhancing strategies (Wright, Ferris, Sarin, and Awasthi, 1996).

Disagreeing with both stewardship theorists and agency theorists, Rose (2005) in a theory-neutral study found no evidence that extent of board independence had any influence on firm financial performance based on a combination of accounting measures and Tobin's q, but did not integrate market measures.

2.1.3 Board Diversity Literature

Corporate diversity is defined as the variation of the age, race, ethnicity, gender, and social/cultural identities among employees within a specific corporation (Marimuthu, 2008). Women and minorities have historically been underrepresented on corporate boards of directors but that began to change in the 1990s (Farrell and Hersch, 2005). A large number of investigations of board diversity in our sample were either anchored to the resource dependency theory or they were theory neutral.

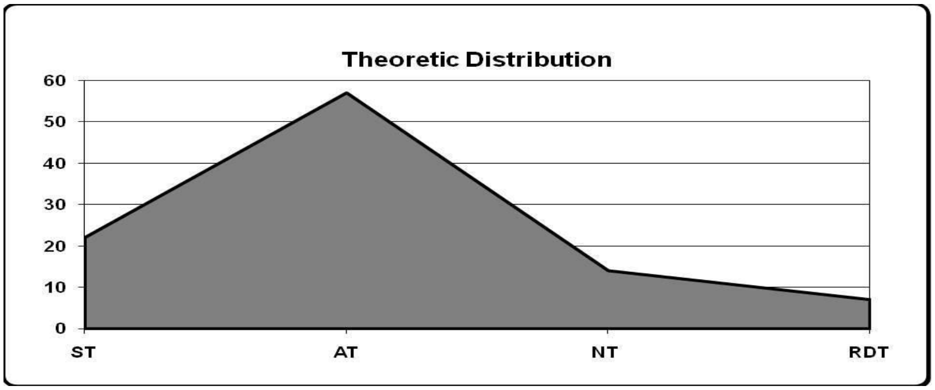
Resource dependency leaning studies found diversity to be positively related to firm performance (Carson, Mosley, and Boynar 2004; Carter, Simkins, and Simpson, 2003; Erchardt, Werbel, and Shrader, 2003; Roberson and Park, 2007). Board diversity provides a bridge to unique resources otherwise difficult if not impossible to reach (Goodstein, Gautam, and Boeker, 1994). A study by Singh, Vinnicombe, and Johnson (2001) found that boards with female directors could be associated with higher revenue and profitability. A study by Siciliano (1996) of not-for-profits found that gender diversity compared favorably with an organization's level of social performance, and a study by Waddock and Graves (1997) linked social performance to financial performance. The inference is that good social performance will lead to stronger financial performance.

Conversely, theory-neutral studies had had decidedly different conclusions. In discussing the mythologies associated with board diversity, Van der Walt and Ingley (2003) opined that while the literature is replete with social and moral support for diversity there is decidedly little evidence to suggest its financial value. Van der Walt, Ingley, Shergill, and Townsend (2006) found little evidence to support a diversity-financial performance link. Similarly, Rose (2007) found no link between female board members and firm financial performance.

3. INVESTIGATIVE METHODS

The overriding objective of this conceptual work is to identify plausible explanations why scholarly studies have incongruent findings about boards of directors and financial performance, and the reasons for the no-findings in others. We closely examined a broad series of academic articles and compared their theoretical perspectives, datasets, variables, and findings. Although our work is conceptual in nature, we sought to ameliorate our thesis by focusing our analysis primarily on empirical articles. Two doctoral students collected approximately four hundred (412) governance studies addressing the relationship between firm financial performance and corporate board attributes. From these, we selected two hundred (approximately half) the articles for our initial analysis. The primary independent variables for these studies were CEO/COB duality, board independence, board diversity, board tenure, board age, board size, and occupational expertise of board members. However, studies focusing on CEO/COB duality, board independence, and board diversity became the prime target for our analysis because they appeared in our sample most frequently. This final step in the selection process narrowed our sample size to one 156 final target studies (TS) that formed the platform for our examination and basis for our conclusions, suggestions, and proposed model.

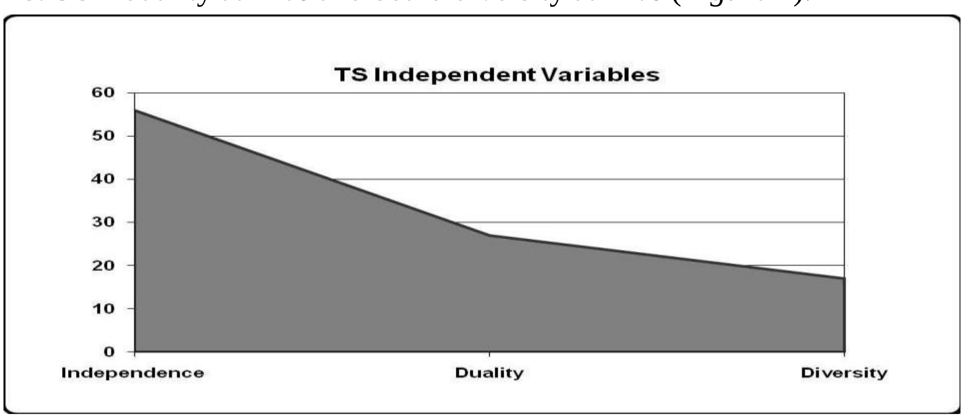
Figure 1



Although 14% of the TS in our sample either explicitly or implicitly disavowed adherence to an overarching theoretical perspective, 86% of the studies in the sample were tethered to a theory. Agency theory (AT) at 57% was most common, followed by stewardship theory (ST) at 22%, theory-neutral (NT) at 14%, and resource dependency theory (RDT) at 7% (*Figure 1 shows the distribution of studies by theoretical framework used*).

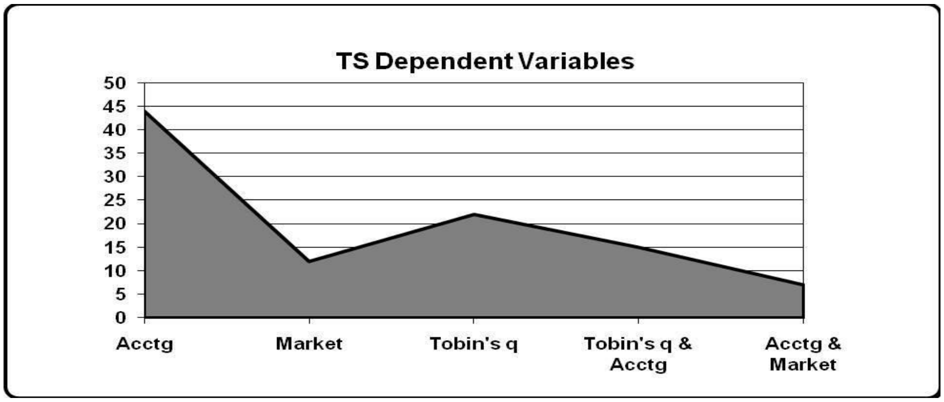
While studies frequently investigated more than one independent variable, we isolated those that had the highest correlation to firm performance or received the greatest emphasis by TS authors. Board independence was the primary independent variable for the TS at 56% followed by CEO/COB duality at 27% and board diversity at 17% (*Figure 2*).

Figure 2



Most researchers in the TS selected accounting measures, market measures, or Tobin's q as their dependent performance variables. The number of companies assessed by our TS ranged from 22 to 1883, with the median number of companies at 258. (All of the following percentages are rounded.) Accounting measures were used in approximately 44% of the TS and it was the most commonly used dependent variable. This was followed by Tobin's q at 22% (Tobin, 1969), accounting measures/Tobin's q combined at 15%, market measures at 12%, and accounting/marketing measures combined at 7%. No study in our sample combined all three measures *(Figure 3)*.

Figure 3



4. ANALYSIS

In this section we present four issues that are considered possible explanations for the vast incongruence in corporate governance studies. Each of the four influences embodies the potential for skewing the direction and magnitude to which corporate boards of directors influence firm financial performance. The four potential skewers are *Theory, Performance Measurements, Endogenous Distracters,* and *Dataset disparity*. We also introduce the idea of *nihility* to describe studies that have found no significant influence of boards on firm financial performance. These studies appear to emphasize the idea that "if there is nothing to be found, nothing will be found." In other words, when studies conclude that there were no significant influences on firm performance by corporate boards, the reason is that boards simply did not influence firm performance.

4.1 THEORY

With few exceptions, studies in our sample confirmed their primary hypotheses with variations in conclusions separated along theoretical lines. Agency theorists confirmed agency problems, stewardship theorists confirmed the value of management-agents, and resource dependency theorists confirmed that board diversity was important to firm performance. Somewhat puzzling was the fact that theory-neutral studies generally found no correlation between board attributes/configuration and firm financial performance. In this regard, the theory-neutral meta-analysis by Dalton, Daily, Ellstrand, and Johnson (1998) is particularly interesting. They conducted an extensive meta-analytic review of the relationship between financial performance and board composition and leadership structure. Their analysis involved 54 empirical studies of the influence of board composition on financial performance and 31 empirical studies investigating the influence of leadership structure to financial performance. Having found no significant relationship in either set of studies, they interestingly suggested that there was little evidence to support either agency theory or stewardship theory.

We believe the study by Dalton, *et al.* (1998) has very important implications. Major theoretic frameworks such as agency, stewardship, and resource dependency have a long and respected history and continue to receive broad acceptance by research scholars. The reliance on a theoretical framework is important and useful for explaining study findings. Additionally, theories often provide a context or framework from which hypotheses are based and empirical results can build on. They are particularly beneficial for scholars who are reluctant to adopt a null hypothesis. Nevertheless, all theories have an interpretative component and certain idiosyncratic dimensions. Exogenous distracters are influences on performance that are not attributable to the boards of directors. The unique characteristics of different theoretical perspectives can serve as conduits for these distracters. Moreover, these exogenous distracters can be amplified when they are aligned with the overarching theories. The potential for misleading findings is immense. Even different studies with identical theoretic perspectives can conceivably result in different findings.

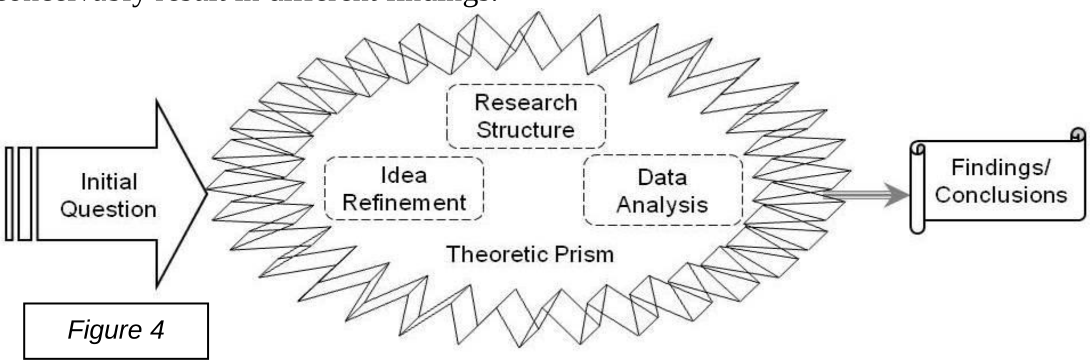


Figure 4

It is not the quintessence of agency, stewardship, and resource dependency theories that is in question but rather the timing of their adoption and application. We posit that the anachronistic adoption of an overarching theory increases the probability of an incommodious conflict between the pursuit of objectivity and theory-associated convictions. In other words, if an investigator tethers or anchors to a theoretical perspective before research questions are refined, the study is designed, and the data are analyzed, the study may be unintentionally skewed by a theoretical prism (*Figure 4*). Hermalin and Weisbach (2000) opined that there are fundamental limitations in theoretic perspectives such as principal-agent modeling (agency theory). They suggested that while theories may provide some insight, they are not useful for predicting or explaining board-specific phenomena. Our analysis affirms their conclusions. Untimely adoption of an overarching theory can confuse findings and distract from objectivity. Overarching theoretical perspectives have the potential of inducing non-neutral refinements in research questions, inadvertently influencing study design so that it finds what it predicts, and/or increasing the risk of interpretation bias. Understandably, most seasoned scholars would suggest that these possibilities are remote and more likely to occur by rookie researchers. However, only a remarkable degree of hubris would enable the denial that theory anchoring never skews or biases studies and we believe that it may occur more often than commonly thought.

In addition to *theory tethering*, we believe there are several other possible explanations for the incongruence between studies. These explanations range from highly probable to unlikely. *Incomplete investigation of performance* is considered highly probable; influences by *exogenous distracters* are also considered highly probable; *disparity in the datasets* of companies studied is considered moderately possible; and the existence of *nihility*, which suggests that there are no measurable influences of boards on firm financial performance, is considered possible but unlikely (*Figure 5*).

Figure 5

Possible explanations for the incongruence between studies rated in terms of probability:

- ↳ Theory tethering – **HIGHLY PROBABLE**
- ↳ Incomplete performance measures – **HIGHLY PROBABLE**
- ↳ Exogenous influences – **HIGHLY PROBABLE**
- ↳ Dataset disparity – **MODERATELY PROBABLE**
  - ✓Industries selected
  - ✓ Sample variations
- ↳ Nihility – no measurable influence of boards on firm performance – **UNLIKELY**

4.1.1 Performance Measures

The techniques used to measure firm financial performance were expressly detailed in our target studies and the unique qualities of each measure selected were clearly emphasized. For example, in cases where *accounting measures* were selected, their stable and finite nature was spotlighted. When *market measures* were selected, their external, detached, and unbiased nature was stressed. And in studies that relied on Tobin's q, its ability to integrate current values rather than the historical values used in accounting measures was emphasized.

However, while each of these three performance measures has its clear advantages, each also has very specific disadvantages. *Accounting measures* are confined by the requirement of using historical data which may not reflect actual values; *market measures* are sensitive to market gyrations and unrelated changes in the external economic environment; and *Tobin's q* is susceptible to estimating errors since several crucial values used in its computation are subjective estimates that can vary by researcher (Barnhart, Marr, and Rosenstein, 1994). A summary of the financial measurement techniques and their benefits and limitations are in *Figure 6*.

Different performance measurements in otherwise similar studies may account, at least in part, for of the variations in findings. In other words, each of the three performance measures has the potential of leading to different interpretations of performance levels, therefore influencing the interpretation of how and to what extent corporate boards influence firm financial performance

Figure 6

Benefits & Limitations of Financial Measurement Techniques

MEASURE	BENEFIT	LIMITATION
Accounting	stable, finite nature	accrual system can mislead with use of historical data
Market	external assessment, detached from firm bias	sensitive to market gyrations and unrelated events
Tobin's q	adds current value, offsets some accrual accounting limitations	several crucial values used are estimates and can vary by researcher

4.1.2 Endogenous Distracters

Influences on performance that are unrelated to the independent variables being investigated is a common problem for corporate governance researchers. These influences are frequently difficult to identify and control for, yet they need to be anticipated when designing a study. One technique of anticipating and identifying some of these distracters is to design a study so that it integrates accounting measures, market measures, and Tobin's q. This is likely to assist in revealing and providing the researcher with the opportunity to highlight otherwise unrecognized endogenous distracters.

4.1.3 Dataset Disparity

Disparity between the corporate datasets used by otherwise similar studies could conceivably produce variations in results between studies. Many, not all, studies in our investigation controlled for industry and while this may alleviate some study disparity other factors such as company size, degree of international presence, and number of directors have all been shown to influence outcomes. Any of these could lead to incongruence in findings between studies.

4.2 NIHILITY

A number of investigators have concluded that boards simply do not exert a measurable influence over firm performance. In other words, if there is nothing to be found, nothing will be found. For example, some researchers suggest that the lack of findings may be largely due to the fact that boards meet infrequently thus any sustainable, meaningful influence over corporate performance is unlikely (Mace, 1986; Useem, 2006). Others believe that the problem is not so much the frequency of meetings but rather the fact that board meetings are fundamentally cosmetic and likely to result in little or no meaningful action (Baldwin, Bagley, and Quinn, 2003; Lorsch and MacIver, 1989). The idea of nihility was reinforced by the Dalton, *et al.* (1998) meta-analysis mentioned earlier, in which no significant influence of corporate boards on firm performance was identified.

However, since an impressive number of scholarly studies have found both positive and negative influences of boards on firm performance, we reject the idea of nihility. Certainly, the ambiguity within studies and the incongruence between studies is difficult to defend. Nevertheless, we believe that the existence of a board/firm performance relationship is sufficiently well established to invalidate nihility. We searched for common characteristics in studies concluding with "no-influence" findings and discovered that they were all theory neutral (NT) and most used Tobin's q to assess the quality of performance. While we believe that the NT approach is most objective, we posit that studies combining a NT framework with the use of Tobin's q as the sole tool for investigating firm financial performance will increase their probability of concluding their study with nihility. In other words, Tobin's q is inadequate as the sole measure of performance.

4.3 INCONGRUENCE

Studies that tether to an overarching theory frequently discover what they predict, and this is an interesting phenomenon worthy of careful deliberation. Are these studies simultaneously affected or infected by theory bias and exogenous distracters? Of course, researchers who are concerned about the quality of findings will distinguish between those that emanate from *endogenous factors (dimensions of performance internally relevant to the study)* and those which result from *exogenous distracters (dimensions of performance that are driven by influences external to the study)*. However, it would appear that little consideration has been given to the potential for multifarious findings when exogenous distracters interact with internal biases. In other words, the combination of anachronistic adoption of an overarching theory and the unintentional inclusion of exogenous distracters is a recipe for inconsistent findings. The probability of exogenous distracters seeping into a study is amplified when the researchers are teetering on the edge of theory myopia and relying on an inadequate set of performance measures.

We posit that the unfortunate consequences of this potent combination (study bias and exogenous distracters) are ambiguity within studies and incongruence between studies. Early adoption of a theoretical perspective biases the study and this predilection is amplified when exogenous distracters are not detected and controlled. We suggest that study bias can be controlled by resisting the integration of an overarching theory until the study is complete and relying on it exclusively as an aid in explaining findings. Additionally, assessing corporate performance using a combination of accounting measures, market measures, and Tobin's q may minimize the influence of exogenous distracters. However, using only one or two of these performance measures maximizes the probability of undetected exogenous distracters.

Figure 7 illustrates the perceived affect on a researcher's ability to detect and neutralize exogenous distracters by selecting a single performance measure for assessing corporate financial performance versus employing multiple measures; i.e. a combination of accounting measures, market measures, and Tobin's q.

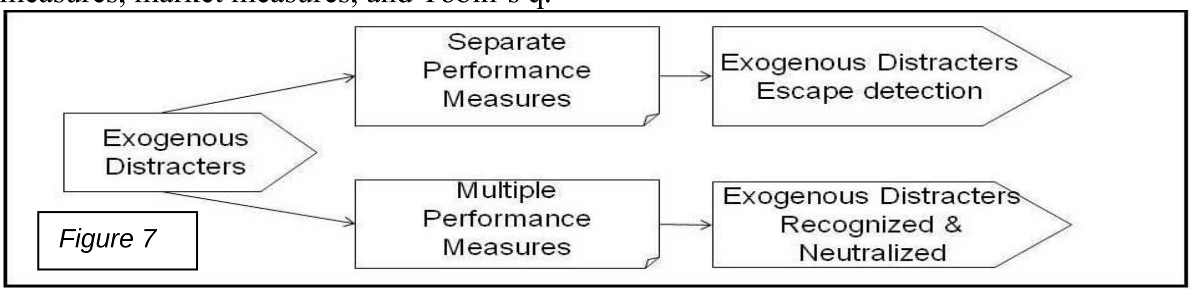


Figure 7

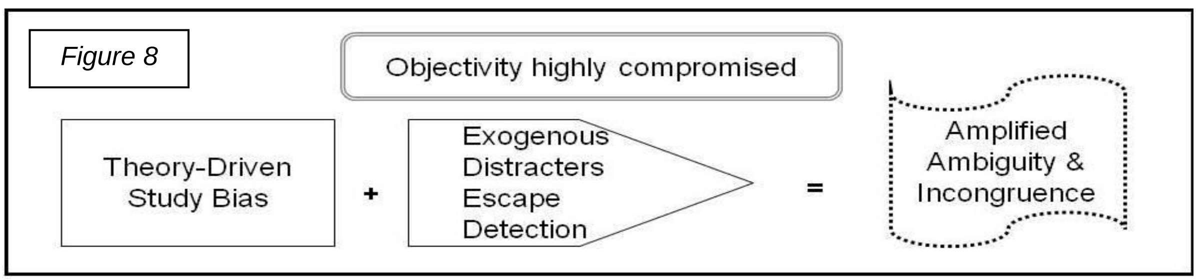
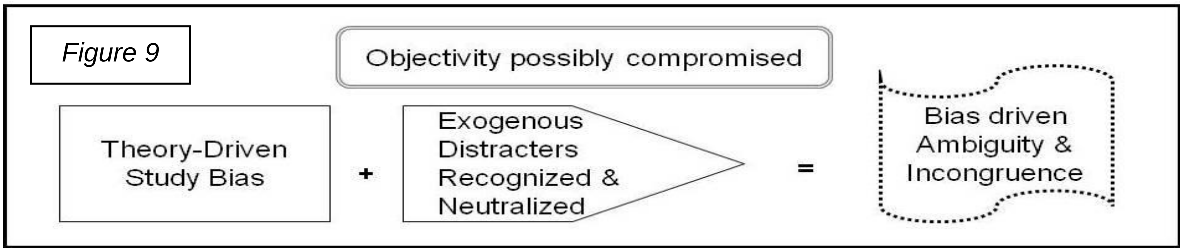


Figure 8

Figure 8 illustrates the negative influence on study design, analysis, and interpretation that can occur when an overarching theoretical perspective is combined with undetected exogenous distracters.

Although controlling for exogenous distracters by using a multiple measures approach to assessing firm financial performance alleviates some of these problems, research that is tethered to an overarching theoretic perspective nonetheless continues to be at risk for bias, ambiguity, and misinterpretation (see *Figure 9*).



5. SUMMARY, LIMITATIONS, AND SUGGESTIONS FOR FUTURE RESEARCH

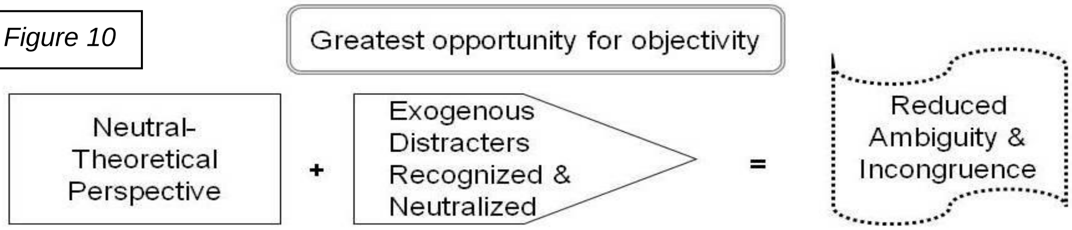
The corporate governance literature is rich with fascinating, important, and informative scholarly works. This influential body of literature also presents a sizable paradox to academicians as even a cursory comparison of the literature reveals an impressive degree of ambiguity between study findings. Determining a reason or reasons for the enigmatic contradictions within the literature is imperative to clarifying the relationship between corporate boards of directors and firm financial performance. The existence of such a significant degree of incongruence is perplexing and it casts a shadow of unreliability on governance oversight studies.

The normative empirical research paradigm suggests that "good research" must be grounded in and built on extant theory. A blanket challenge to this long-standing belief is not our intention. However, we suggest that regarding corporate governance research this might not be the only or even the most appropriate course of action. Using a theoretic prism as the framework for refining research ideas, designing studies, and analyzing data significantly strengthens the probability of inadvertent prejudice. While established theories are often comfort zones for investigators, perhaps it would behoove researchers to pursue a theory-neutral approach. While our study does not confirm that investigations tethered to such theoretic buoys as stewardship, agency, and resource dependency always activates a study bias, we do believe that there is sufficient evidence to infer its probability. The corporate governance literature is replete with a vast number of studies leaning on a specific theory and then finding almost exactly what they hypothesized. While some might argue that this is not an indication of bias, we caution against the immediate dismissal of this possibility. Theory tethering that is myopia in disguise may account for a significant element in the incongruence between studies of varying theoretic perspectives.

A second problem we discovered was related to choice of performance measurements. Corporate performance was generally assessed by using only one category of measurement such as accounting, market, or Tobin's q. Two of the three were seldom used in combination and never were all three integrated. It is suggested that simultaneously using *all* of the three measures offers a greater potential for discovering important information about how and to what extent different boards influence firm financial performance and for illuminating the areas of endogenous distracters.

In summary, neutralizing the theoretical premise may immunize the study against excess bias and using a combination of accounting measures, market measures, and Tobin's q may heighten awareness of exogenous distracters (*Figure 10*).

Figure 10



Future studies might be larger and pursue a more rigorous empirical approach to assessing the incongruence within the governance oversight literature. For instance, future studies with larger corporate datasets can perform more thorough comparisons explaining differences between theoretic tethers by controlling for such contingencies as firm size, board size, industry, global reach, etc. Another approach would be to perform a cluster analysis of specific board attributes, characteristics, and configurations to see what firm performance patterns emerge.

The issue of corporate board influence on firm financial performance has been exhaustively studied for decades and yet ambiguity and incongruence continue to prevail. The lack of broad consensus in the literature is a beacon to researchers. Understanding how and to what extent different corporate boards influence firm financial performance is important in multiple arenas but particularly to the investment community and to society in general. Clearly identifying these relationships can reinforce the integrity of corporate governance literature and satisfy the crucially valuable quality of scholarly curiosity for the research community.

We believe our study contributes to the literature by shedding light on how future studies might be strengthened and reduce the degree of ambiguity within studies and the sizable incongruence between studies. Only a convergence of conclusions will be useful to us and to our constituents

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