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Corporate Governance and Financial Performance: Theoretical and Philosophical Predicaments in Research

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Abstract
Theories and philosophical approaches in research are crucial to the understanding of the overall perspective from which the study is designed and carried out. However, inconsistencies in theory and duality in philosophical paradigms leads to predicaments as to which approach is suitable in a certain area of inquiry. This paper examines some of the theoretical and philosophical predicaments faced by researchers in corporate governance. This is achieved by identifying and discussing controversies in theories and philosophical approaches applicable in corporate governance studies. A review of theoretical literature shows lack of a unitary perspective to explain the relationship between corporate governance and firm financial performance. Consequently, researchers may have to adopt a multi-theory approach by taking views of property rights agency, resource based and stewardship and stakeholder's theories to understand different perspectives of corporate governance. The multiplicity of theories and inconsistencies of expected relationships between variables also creates dilemma to researchers in predicting the relationships between corporate governance variables and firm performance. The duality of philosophical paradigms and divergent assumptions of ways of knowing also creates dilemma as to which is the best approach to apply in corporate governance research. This study found that most corporate governance studies opts for objectivism position in ontology which leads to positivism view in epistemology, associated with value free axiology, deductive approach and application of quantitative methods. This is in contrasts to the choice of subjectivism position in ontology which leads to the selection of interpretivism stance in epistemology and consequently value laden position in axiology. Subjective approach also leads to inductive approach and application of qualitative methods of data collection and analysis. It is therefore concluded that identification of ontology at the start of the research process is crucial in determining the choice of the research design.
Keywords: Corporate Governance, Theory, Philosophy,

1.0 Introduction

Theoretical frameworks and philosophical approaches are crucial in determining the overall perspective from which research in social sciences is designed and carried out. A theory has been defined as a set of interrelated concepts, definitions and propositions that explains or predicts events or situations by specifying relations among variables (Cooper and Schindler, 2003; Kerlinger, 1986). According to Gill and Johnson (2002), a theory is a network of hypotheses advanced so as to conceptualize and explain a particular social or natural phenomenon. Consequently, each hypothesis presents and statement about the relationship between two or more concepts. Arising from these definitions, theories are central to the development of the key concepts, variables and their possible interactions to present a systematic view of the phenomena. However, theories by their nature are not content or topic specific and researchers have to articulate the specific concepts and variables considered to be important in an area of inquiry. Some theories are also inconsistent in the way they predict interrelationships among variables. Besides the inconsistencies theories also have limitations which make them insufficient to explain the overall perspective of interrelationships in a certain area of investigation. These issues pose challenges to researchers while conceptualizing and designing a particular study.

Research philosophy is described as the foundation of knowledge on which underlying predispositions of any study are based (Burke, 2007). Different authors indicate that the philosophical positions adopted in a study determines the logical plan of inquiry from the research design, data collection, analysis and interpretation of results (Saunders et al., 2009; Sekaran, 2003; Cooper and Schindler, 2003). Selecting the right research philosophical stance is important in increasing reliability and validity of the findings (Pathirage, et al., 2008). There is however a clear dichotomy in philosophical approaches resulting into a dilemma as to which approach is best and relevant to a particular area of study. The divergences in assumptions associated with philosophical approaches such as ontology, epistemology and axiology, creates predicaments to researchers as to which method is suitable in a line of inquiry and consequently the techniques of data collection, analysis and interpretation.

The ultimate concern for researchers in corporate governance is to establish the key theories and philosophical approaches relevant in this area of inquiry. This study therefore identifies and discusses the key theories in corporate governance, variables arising from the theory and the predicted interrelationships and the controversies associated with the theory. The study also examines the dichotomy of philosophical approaches and their relevance in corporate governance research. The paper is divided into five sections. Section 1.0 presents the introduction; section 2.0 discusses the methodology that was used in this study while section 3.0 defines the concept of corporate governance and theories underpinning research in this subject area. Section 4.0 analyses key philosophical approaches in social sciences and that their application in corporate governance research. Section 5.0 presents the conclusion and the recommendations derived from this study.

2.0 Methodology

The methodology adopted in this study involves a review and discussion of the theories that guide research in corporate governance. This involves identification of key theories, their core principles, key concepts, variables, predictable relationships and shortcomings of the theory. The study also discusses the duality of philosophical approaches, their assumptions and application in corporate governance research.

3.0Theories of Corporate Governance

Corporate governance has been defined as the ways in which suppliers of finance to corporations assure themselves of getting returns on their investment (Shleifer and Vishny, 1997). A widely used definition is derived from to the Cadbury Committee which defined it as the system by which companies are directed and controlled to ensure maximum return to shareholders (Mallin, 2007). Consequently, corporate governance frameworks specify the distribution of rights to income, rules and procedures for making decisions in corporate affairs and responsibilities among different participants in the corporation, such as the shareholders, corporate boards and managers (OECD, 2004).Given these definitions, most of corporate governance studies focus on examining the different ways through which shareholders ensure shareholders get maximum returns of their investment.

While there are numerous plausible proxies for corporate governance, the ownership structure and corporate boards are considered to be the key mechanisms of used by shareholders to ensure maximum returns on investment and increase in firm value. Ownership structure has been measured using the size and identity of shareholders (Thomsen and Pedersen, 2000; Wei, et al., 2005). Corporate boards indicators widely used include the size board size, percentage of outside directors, gender composition (Adusei, 2011; Chaghadari, 2011; Yermack, 1996). Financial performance has been measured using several indicators such as accounting based ratios, market value and efficiency indicators. Literature survey shows that several theories have been used to to predict interrelationships between corporate governance and firm financial performance are: the property rights theory, the agency theory, the resource based theory, the stewardship theory and the stakeholder's theory. These theories are discussed in the following subsection.

3.1The Property Rights Theory

The property rights theory was developed by Coase (1960) and advanced further by Alchian and Demsetz (1973). The theory asserts that the size of property rights determines the choices open to decision makers and consequently the economic performance. The property rights have been defined as the rights to use, to earn income, control, and transfer or exchange the assets (Kim and Mahoney, 2005; Libecap, 1989). The theory views the sources of imperfections in the market as unclearly defined and insecure property rights, which make it difficult to enforce and to monitor managers. The theory therefore emphasizes the importance of allocation of property rights as it gives incentives to the owners to monitor managers, influence decision making and consequently the financial performance. The theory also stipulates that property rights could be owned privately, by the state, or held in common by the society, and that different holders use the rights distinctively.

The property rights theory is crucial in corporate governance research as it provides the theoretical basis for conceptualizing and predicting the firm performance as a function of the size of ownership and economic vested interests among different types of owners. The unit of analysis is a firm and the focus is on property rights shared by various investors as they define the incentive and ability to maximize use of the resource. The size of ownership is considered an important variable as it defines the holder claims from the firm's income and decision making through voting rights (Grossman and Hart, 1988; Thomsen and Pedersen, 2000). The identity of the shareholder is also an important variable as owners differ in their vested interests in the firm, resources, and ability to monitor managers which could impact on financial performance (Thomsen and Pedersen, 2000; Wei et al., 2005. Consequently one line of empirical inquiry focuses on examining the interrelationships between corporate governance and firm performance using a combination of the size of ownership and the identity of the shareholders as the key independent variables (Omran et al., 2008; Ongore, et al., 2011; Thomsen and Pedersen, 2000; Wei, *et al.,* 2005).

The property rights theory predicts that the state as an owner will not perform as efficiently as private ownership due to the wide separation between ownership and control and focus on social and economic objectives. The individual shareholders are expected to have no impact on firm performance as they do not have incentives to influence performance. The theory however has several limitations which make it insufficient to explain the relationship between corporate and firm financial performance. The assertion that residual control rights of an owner an asset is the ability to exclude others from the use of that asset is violated in practice in modern companies as the decision making is delegated by shareholders to the managers. The managers are therefore empowered to control the firm which leaves shareholders as mere suppliers of capital. The theory also puts more emphasis over the distinction between public and private ownership and therefore overlooks diversity of private investors and their possible influence on corporate performance.

3.2Agency Theory

The Agency theory developed by Jensen and Meckling (1976) recognized conflicts of interest between owners and agents in modern corporate entities due to the divergent goals arising from wide separation of ownership and control. Fama and Jensen (1983) indicate that the managers possess superior knowledge and expertise about the firm and are therefore in a position to pursue self-interests rather than shareholder interests. According to La Porta et al. (2000), managers expropriate shareholders through asset stripping, diversion of corporate opportunities, overpaying executives and use the profits of the firm to benefit themselves rather than the investors. Consequently, shareholders interests are compromised if managers maximize their interest at the expense of firm profitability and market value.

Agency theory also recognizes that in a large corporation with widely dispersed ownership, small shareholders do not have the capacity and resources to monitor the managers. Jensen and Meckling (1976) asserts that the principal can limit divergences by establishing appropriate incentives for the agent and by incurring monitoring and bonding costs to protect owners interests. The mechanisms proposed to reduce conflicts in corporate entities however yield conflicting results. The theory asserts that agency conflicts could also be reduced by inducing managers to own shares in a company. However, Fama and Jensen (1983) argue that large ownership may entrench managers leading to expropriation of corporate wealth which could decrease firm value and returns. The agency theory also identifies concentrated ownership as a mechanism to reduce agency conflicts as they are considered to be more active in monitoring managers due to the size of ownership (Shleifer and Vishny, 1997). The reasoning underlying this approach is that diffused ownership leads to low incentives for small shareholders to monitor, control or influence managers. However, several authors argue that controlling shareholders may extract private benefits from firms at the expense of minority shareholders (Barclay and Holderness, 1989; Dyck and Zingales 2004).

Jensen and Meckling (1976) assert that agency problems can be resolved with appropriately designed contracts by specifying the rights belonging to agents and principals. Fama and Jensen (1983) refer to such contracts as rules which specify the rights of each agent in the organization, performance criteria on which agents are evaluated and remunerated. However given the problems associated with incompleteness of contracts, the theory provides the use of internal and external mechanisms to protect shareholders interests. Two recognized governance mechanisms used are compensation schemes and corporate boards. Incentive and compensation schemes are considered desirable when the managers have a significant informational and skill advantage which makes monitoring by the principal difficult. The theory specifies attributes necessary to make the board effective in supervising managers and include: a small size and diverse board with at least a third of the members being non executive and separation of roles for the Chief Executive Officer (CEO) and the chairman of board. The governance attributes identified are widely used as independent variables while investigating the relationship between corporate governance and financial performance of corporate entities.

However the predicted interrelationships between these corporate board variables and firm performance yield conflicting results. Board size has been measured by the total number of directors (Adusei, 2011; Chaghadari, 2011; Yermack, 1996). However, it is notable that there is no optimal size of the board but some authors specify a small board to include of a maximum of seven to nine members to function effectively (Lipton and Lorsch, 1993; Yermack, 1996). A smaller board is considered more effective in coordination and in decision making (Yermack, 1996). However, some studies indicate that a larger board is more effective in monitoring and advising managers as organizations exist in complex business environments (Pfeffer, 1972).

Diversity in corporate boards is often measured by the percentage of Non Executive Directors (NEDs) serving on the board (Adusei, 2011; Chaghadari, 2011). The (NEDs) are considered crucial in firm financial performance due to their role in monitoring and preventing conflict of interest between managers and shareholders (Chaghadari, 2011; CMA, 2002). According to Fama and Jensen (1983) they are more effective as they are concerned with maintaining their integrity and reputation in the labor market. The NEDs are also considered crucial in facilitating resource exchange between a firm and its external environment which could enrich corporate strategies and decision making (Pearce and Zahra, 1992). The relationship between NEDs and corporate performance is therefore expected to be positive. However, a frequent criticism of NEDs is that they do not have sufficient knowledge of the company's business to enable them give strategic leadership in a firm's fundamental business (Bozec, 2005). The insider directors are therefore considered to be more effective than the NEDs as they possess superior information necessary for decision making. From this perspective, a large proportion of NEDs would have a negative impact on firm performance.

Diversity should also entails reflecting the structure of the society, gender balance, ethnicity and diverse professions to enable a firm respond effectively to the dynamic of business environment. Under this consideration, corporate entities are expected to include women directors in their corporate boards to bring new perspectives useful in strategy formulation and understanding of certain markets. Women directors are also expected to bring in additional expertise, market networks and ethical views crucial in decision making and consequently firm performance (Letting et al., 2012). According to Srindhi et al. (2011) boards with more women have greater public disclosure and better oversight of managers. However, critics of the gender diversity argue that board diversity should not be limited to gender balance, alone as the skills, professional qualifications and experience are the fundamental criteria for performance (Yasser, 2012). The role of gender diversity in corporate boards has therefore remained controversial.

The agency theory also emphasizes separation of the position of the CEO and that of the chairman of the board. According to Fama and Jensen, (1983) combining the role of CEO and chairmanship would provide CEOs with undue opportunity to influence decision making in corporate boards. The CEO duality would therefore weaken the board independency and consequently monitoring of managers. On the contrary, stewardship theory asserts that managers are trustworthy and good stewards of a firm's resources and work to attain a higher level of corporate profits (Donaldson and Davis, 1994). This implies that combining the two roles would enhance the performance of a firm.

The Agency theory is crucial in corporate governance research as it utilizes constrained principal- agent relationships to generate a mix of governance variables which could enhance firm performance. The theory identifies managerial shareholding, concentrated ownership and corporate boards and managerial compensation as key variables in influencing firm performance. The theory also places greater emphasis on the economic incentives and vested interests of the contracting parties. One of the concerns in over this theory is that it empowers corporate boards to control the firm which leaves most shareholders outside the decision making process in a firm. The theory also focuses on the principal - agent conflicts in a firm which is narrow is as it considers shareholder and managers as the only two players in the firm could influence financial performance. However conflicts in a firm could arise from: minority- majority shareholders, shareholder-creditor and shareholder- employee interactions. These types of conflicts can result into reduced returns to investors as well as the corporate value.

3.3The Resource Based Theory

The resource based theory focuses on the importance of resources as a critical factor for a firm to have a competitive advantage. The basic proposition of resource based theory is that there is need for linkages between the firm and outside resources. Pfeffer (1972) argues that firms need to exert control over their environment by co-opting the resources needed improve firm performance. The theory is derived from Penrose's (1959) definition of a firm as a collection of physical and human resources crucial for its growth and performance. Barney (1991) defines the specific characteristics of resources that are most likely to create and sustain competitive advantage to an entity to include: all assets, capabilities, organizational processes, firm attributes, information, and knowledge controlled by a firm.

A key argument of the resource dependence theory is that organizations attempt to exert control over their environment by co-opting the resources needed to survive (Pfeffer and Salancik, 1978). The resource based theory gives a clear theoretical base for conceptualizing the influence of resources and capabilities attracted from large shareholders and corporate boards to firm to financial performance. The theory has been used to hypothesize the relationship between the state, institutional, individual shareholders and firm performance. Using this theoretical base, Thomsen and Pedersen (2000) argue that large foreign institutional shareholders have good monitoring capabilities; bring technical and managerial expertise and help firms to expand market networks which could enhance firm performance positively. However, this relationship is inconclusive as Aguilera and Jackson (2003) argue that their financial focus and emphasis on liquidity makes them unwilling to commit to a long-term relationship in a company which could influence financial performance negatively. Under this theoretical framework, large domestic institutional shareholders are also considered a crucial resource in improving firm financial performance due to their role in monitoring of managers, focus on profits and bring additional expertise to a firm (Ongore *et al.,* 2011; Mishari *et al.,* 2012; Uwuigbe and Olusanmi, 2012). This would imply that the relationship between institutional share ownership is positive. However, Wei, et al. (2005) indicates that some institutions are largely owned by the state and may not focus on profit goals.

Corporate boards are also considered to be an important link between the firm and the essential resources that a firm needs from the external environment for superior performance. The appointment of outsiders on the board helps in gaining access to resources critical to firm success (Johnson et al., 1996). The outside directors are considered crucial as they bring resources to the company in the form of information, skills, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy. The directors also serve to connect the firms with external factors by co-opting the resources needed to survive in competitive environments (Pfeffer and Salancik, 1978). However, according to (Bozec, 2005) non executive directors do not have sufficient knowledge of a company's fundamental business to give it a strategic leadership. The insider directors are therefore considered to be more effective as they possess superior information crucial for enhancing financial performance. From this perspective, a large proportion of NEDs would have a negative impact on firm performance.

3.4The Stewardship Theory

The stewardship theory considers managers to be good stewards of the corporations and diligently work to attain high levels of corporate profit and shareholders returns. Davis et al., (1997) argue that stewards derive a greater utility from satisfying organizational goals than through self-serving behavior. The theory suggests that managers tend to be more motivated to act in the best interest a firm than in their private interest. The theory is based on the assumption that the interest of shareholders and the interest of management are aligned and therefore management is motivated to take decisions that would maximize performance and the total value of the company (Davis et al., 1997). The stewardship theory therefore suggests that managers should be given autonomy based on trust, which reduces the cost of monitoring and control of the managers and directors. Under this theoretical framework, executive directors can influence performance positively as they understand a company's business better, leading to efficiency in decisions making.

The stewardship theory is credited for uniquely focusing on governance structures that facilitate rather than monitor and control. The theory therefore takes a more relaxed view of the separation of the role of chairman and CEO, and supports the appointment of a single person for the position of chairman and CEO and a majority of executive directors rather than NEDs. Thus the validity of interrelationship between corporate boards and firm performance has to be evaluated with due consideration to the principles of the stewardship theory. However, the stewardship theory contradicts the agency theory as managers are considered to pursue their own interests which are detrimental to firm performance.

3.5Stakeholder Theory

The stakeholder's theory holds that corporations serve a broader purpose than just maximizing the wealth of shareholders. It is therefore considered an extension of agency theory given the need to take care of stakeholders key to the achievement of a firms objectives through improved customer relations, employee motivation and supplier stability. The theory articulated by Freeman (1994) directs how managers operate and emphasizes the need to have corporate accountability to groups or individuals that interact with a firm and that affect or are affected by the achievement of the firm's objectives. Freeman et al. (2004) indicates that the theory encourages managers to articulate the shared sense of the value they create, and what brings its core stakeholders together. This propels the firm forward and allows it to generate outstanding performance, determined both in terms of its purpose and service to its stakeholders.

Consequently, organizations are expected to take into account the interests interest groups linked to it through social, environmental and ethical considerations (Donaldson and Preston, 1995; Freeman et al*.,* 2004). However, one of the key concerns in corporate governance is to identify the relevant stakeholders. According to Freeman et al. (2004), a stakeholder is any group of individuals who can affect or be affected by the activities of the firm, in achieving its objectives. Clarkson (1994) argues that any stakeholder is relevant if they have invested in a firm and their investment is open to risk from the activities of the organization. Wheeler and Sillanpaa (1997) identified stakeholder as varied groups comprising of investors, managers, employees, customers, business partners, local communities, civil society, the natural environment, future generations and non-human species.

The stakeholder theory is relevant in corporate governance studies as it directs managerial behavior in corporate entities. It recognizes stakeholders as a mechanism to ensure efficient operation of a company. Freeman (1994) argues that the managers react to pressures put forth by stakeholders as it gives them legitimacy and relevance. The current governance approaches also underscore the economic value created by people who come together and cooperate to improve firm performance. Managers must therefore develop relationships and inspire their stakeholders to give their best to enhance the value the firm. Consequently many firms have developed governance practices highly consistent with the stakeholder theory.

The stakeholder theory like the resource dependency theory, proposes the representation of the various interest groups on the organization's board in order to attract crucial resources from the environment. According to Turnbull (1997), they are considered instrumental to corporate success as their participation in corporate decision-making can enhance returns, efficiency and corporate value. The involvement of stake holders also ensures consensus building and to avoid conflicts in a firm (IFC, 2009). The involvement of stakeholders in corporate management is therefore expected to contribute positively to firm performance. However, the key limitations of the stakeholder theory in corporate governance studies is to identify the relevant stakeholders who have legitimate interests on the firm and can be affected by company's policies and operations. The theory has also been criticized for putting too much burden on managers by making them accountable to many stakeholders without specific guidelines for solving problems resulting from conflicting interests.

In summary, it is apparent from the review of the theories that each of theory gives prominence to a precise view on how corporate governance influences financial performance. The property rights theory gives prominence to the identity and size of property rights while agency theory focuses on the conflict of interest between the principals and agents. Contrary to the agency theory, the stewardship theory views managers as stewards and recommends alignment of interest between the steward and organizational objectives. The stakeholder theory considers the interests of different groups of stakeholders as crucial to firm performance. Resource based theory underscores the importance of resources to give organizations a competitive advantage. Consequently, large block shareholders and corporate boards are considered crucial in attracting resources and expertise required by corporate entities. It is therefore evident that theoretical literature shows lack of a unitary approach to explain the relationship between corporate governance and firm performance.

4.0 Research Philosophy

Research philosophy is described as the foundation of knowledge on which underlying predispositions of any scientific inquiry are based. Different authors conclude that philosophical approaches adopted in a study determines the systematic plan of inquiry from the research design, data collection, and analysis techniques to result interpretation in answering research questions (Saunders et al., 2009; Sekaran, 2003; Cooper and Schindler, 2003). Selecting the right research philosophical position is therefore important in increasing reliability and validity of the results. Proponents of philosophical paradigms indicate that scientific research is based on some philosophical approaches such as epistemology, ontology and axiology (Saunders et al., 2009; Guba and Lincoln, 1994; Becker, 1996). The philosophical approaches give rise to differences in research methodological approaches and generate debates as to which philosophy is suitable for a particular subject. The divergences in philosophical approaches are discussed in the following subsections.

4.1 Ontology of Research

Ontology is defined as claims and assumptions that are made about the nature of reality, what exists, what units make it up and how these units interact with each other (Burrell and Morgan, 1979; Saunders et al., 2009). According to Guba and Lincoln (1994) the key ontological concern is to identify the nature of reality and what can be known about it. A clear distinction exists between objectivism and subjectivism as two ontological opposing positions which are accepted as producing valid knowledge. The two approaches may create a dilemma to researchers in making choices of the approach to follow as both are accepted as producing valid understanding of the nature of reality. Empirical philosophers such as David Hume (1711–76) held that reality subsists within the objects of perception and it can be constructed by making conjunctions between different events (Guba and Lincoln, 1994). This perspective has been adopted by objective researchers who believe that what constitutes the reality can only be understood by studying relationships that are given meaning through the empirical analysis of concrete and causal relationships (Mendy, 2007). The objective researchers also assert that reality exist independent of the observer of the phenomena they are investigating (Burrell and Morgan 1979; Saunders et al., 2009).

Subjectivists on the other hand hold that reality is a projection of human experience, perceptions and consequent actions of those social actors concerned with their existence. The subjective researchers also believe that reality is a continual process in that through the process of social interaction these social phenomena are in a constant state of revision (Saunders et al., 2009). The subjectivists therefore stress the necessity of studying the details of a phenomenon to understand the reality or perhaps the reality working behind them (Remenyi, et *al.,* 1998). This philosophical stance challenges the notion of objective knowledge that can be understood through causal relationships. According to Husserl (1960) knowledge created could merely be regarded as an expression of the manner in which the subjective scientist has subconsciously imposed a personal reference frame on the world, which is quite often, wrongly regarded as lying in an external and separate sphere.

Identification of ontology at the start of the research process is important as it determines the choice of the research design and methods of data analysis. Based on the literature, the most fundamental difference between objective and subjective ontological approaches is how researchers search for the reality. Given the research tradition observed in corporate governance studies, the ontological position adopted is objectivism as most researchers focus on studying causal relationships that are given meaning through the empirical analysis. This is supported by a large number of studies in corporate governance which examines the relationship between ownership structure and firm performance (Ongore, et al., 2011; Wei et al., 2005; Pervan, et al. 2012; Uwuigbe and Olusanmi, 2012). A second line of study also examines the relationship between corporate boards and firm performance (Chaghadari, 2011; Latief et al. 2014; Letting et al., 2012; Rashid et al., 2010; Shukeri et al., 2012).

4.2Epistemology of Research

The second philosophical approach in research is epistemology which is concerned with what constitutes acceptable knowledge in a field of study, the nature and methods of acquiring knowledge through the research process (Burrell and Morgan, 1979; Saunders et al., 2009). It has been defined as the branch of philosophy that studies the nature of knowledge, its presuppositions, foundations, extent and validity (Schostak, 2008). These definition raises questions concerning how reality can be known, the relationship between the knower and what is known, the process of knowing and the possibility of that process being shared and repeated by others in order to assess the reliability and validity of the findings (Guba and Lincoln, 1994). The predicaments which may face the researchers arise from the splitting up of the epistemology approach into positivism and interpretivism which are two contrasting ways of discovery of knowledge.

Positivism has been described as an approach under which valid knowledge is based on verification by way of using clear operational definitions, objectives, hypothesis testing and replicability (Anderson, 1983; Saunders, et al., 2009). According to Hunt (1962) positivism is unique since different investigators with varying attitudes, opinions and beliefs can ascertain the truth content of the theories laws and explanations. The rationale behind this philosophical approach is that evidence, as opposed to thought or discourse, is required to be able to make a satisfactory claim to have added to the body of knowledge (Remenyi et al., 1998). Weber, (2004) indicates that positivists tend to use large amounts of empirical data, selected randomly that can be analyzed statistically to detect underlying relationships. Explanations under positivists approach demonstrate causality and research progresses through hypotheses which can be tested for association or causality (Pathirage, et al., (2008).

In contrast, the interpretivists believe that the qualities they ascribe to the objects they research are socially constructed and are products of their life-worlds (Healy and Perry, 2000; Weber, 2004). Researchers using this philosophical approach acknowledge that they have to participate in real-world life to some extent so as to better understand and express its emergent properties and features. Consequently, the observer is part of what is being observed and human interest is the main drivers of the inquiry. According to Pathirage et al., (2008), sampling in this approach requires small numbers of cases chosen for specific reasons and the explanations tend to increase general understanding of the phenomenon under investigation.

The epistemological position that a researcher adopts is one of choice and has methodological consequences. The corporate governance research leans towards positivist approach as they seek to establish causal relationships using operational definitions, objectives and hypothesis testing. Researchers in this line of inquiry use theories such as property rights, agency and the resource based theories to develop hypothesis which are then confirmed or rejected (Wei et al*.,* 2005; Pervan, et al., 2012; Uwuigbe and Olusanmi, 2012; Shukeri *et al.*, 2012). The subjective researchers critical of positivism would argue that rich insights in corporate governance and firm performance would be lost if such interrelationships are reduced entirely to the prediction of theory alone. The researchers therefore acknowledge that firms which are the unit of analysis might have their own peculiar characteristics that can influence firm performance and may require in depth scrutiny.

4.3 Axiology of Research

Axiology is recognized as a philosophical stance concerned with judgments about value. Heron (1996) argues that researchers demonstrate axiological skill by articulating their values as the basis for making judgments about what research they are conducting and how they go about doing it. Consequently, the role that values play in all stages of the research process is of great importance in making research results to be credible. However the classification of axiological approach into value free and value laden may cause predicaments to researchers. However, Pathirage, et al. (2008) indicates that in value free research, the choice of what to study and how to study, is determined by objective criteria, while in value laden research choice is determined by human beliefs and experience. According to Guba and Lincoln (1994), objectivity responds to the positivist demand for neutrality and requires a demonstration that a given inquiry is free of bias and personal values. Heron's (1996) suggests the researchers may have to write their own statement of personal values in relation to the topic of study which informs decisions making and conclusions reached.

On the other hand, research is considered to be value laden where the researcher is influenced by the world views, cultural experiences and upbringing. Consequently, the choice of axiological approach is a reflection of the epistemological position taken by researchers. It can be argued that most studies examining the relationship between corporate governance and financial performance adopt value free axiological position which is associated with objective and positivism approaches. Values and biases are prevented from influencing outcomes as researcher outline methods and procedures to follow. Through statistical analysis, the use of regression model with a robust standard error option controls for individual characteristics which could be sources of bias and errors in data values.

4.4Induction versus Deduction Approach in Research

Induction and deduction are also categorized in research as two distinct approaches to discovery of knowledge (Saunders *et al.,* 2009: Burney, 2008). Several authors indicate that deductive research proves findings and conclusions based on well-grounded theories, recognized facts and involves generation and use of quantitative data, testing of hypothesis, and analysis of causal relationship (Collins and Hussey, 2003; Gill and Johnson, 2002; Pathfage, et al., 2008). Saunders et al. (2009) outlines sequential stages through which deductive research progresses and indicates that a researcher begins by identifying theories that inform the subject area, develops hypotheses and conducts research in order to test whether the theories and hypotheses can be proven true or false with specific cases. Accordingly, deductive reasoning follows a top down approach as it begins by identifying a *theory* about the topic of interest and narrows into more specific hypotheses that can be tested to *confirm* or reject of the theoretical propositions.

On the other hand, Heit, (2009) argues that inductive reasoning begins with specific observations of the phenomenon, and progresses analytically to broader generalizations and theories based on the observed cases. Gill and Johnson (2002) claims that the justification for an inductive approach in the social sciences research revolves around the explanation of social phenomena grounded on observation and experience. With this method, a researcher identifies patterns and trends amongst a set of data, which is then used to formulate some hypotheses to explore, and finally develop general conclusions or theories (Gill and Johnson,2002, Pathfage et al., 2008; Saunders et al., 2009). The approach therefore takes a bottom up approach, as it starts with specific cases on the ground and works its way up to the abstract level of theory. In sharp contrast to the deductive tradition, theory is the outcome of induction process in research.

Inductive reasoning is considered to be more open ended and exploratory while deductive reasoning is narrower as it is generally used to test or confirm hypotheses. Saunders et al. (2009) argue that it possible to combine deduction and induction within the same of research.

However, Orton (1997), admit that although research is a function of both inductive and deductive analyses, researchers must present their research as either inductive or deductive. Within the corporate governance disciplines, deductive reasoning is widely used as researchers formulate hypotheses which are made operational and tested. The empirical results confirm or reject the theory and leads to empirical generalization.

4.5 Qualitative Versus Quantitative Approaches in Research

The above-mentioned philosophical approaches lead to a distinction between qualitative and quantitative methodologies and in reference to sample size, data and analysis. Accordingly to Smith (1988), quantitative research is based on meanings derived from numerical and standardized data and involves counting and measuring of events and performing the statistical analysis. The main concern of the quantitative approach is that measurements are reliable, valid, and generalizable in its clear prediction of cause and effect (Cassell and Symon, 1994). Consequently, groups studied are larger, randomly selected and the types of data collected are in numerical form and the principal tool for data analysis is linear regression which aims to test hypotheses, looking at cause effect, and making predictions among variables. This approach also allows generalizations of results from a sample to an entire population of interest (Pathirage et al., 2008).

Qualitative research on the other hand aims to understand and interpret social interactions and focuses on the study of the whole and not variables. Several characteristics of qualitative inquiry distinguish it from the quantitative approach. Saunders et al., (2009) indicate that approaches used in data collection include open-ended responses, in depth interviews usually conversational rather than structured while the type of data collected includes words, images, participant observations, field notes, and reflections. Pathfage et al., (2008) also indicates that groups studied are smaller and not randomly selected and the types of data analysis involve identification of patterns, features, themes.

The methodologies largely followed in corporate governance studies depends on research questions and objectives of the study. Most of the studies examine the interrelationships among corporate governance variables and firm performance. The empirical approach largely followed is deductive as it involves identification of theories that inform the subject area, generation and use of quantitative data, testing of hypothesis, analysis of causal relationship. This approach also leads to quantitative approach in reference to the sample size, data collection and analysis. It is apparent from literature that the authors use large samples, and data is analyzed using regression analysis . For instance, Wei et al., (2005) uses a sample of 5,284 firm years to examine the relationship between China's partially privatized companies and firm performance. Pervan et al., (2012) also used a total of 1,430 observations while examining the relationship between Ownership and Performance in Croatian Listed Firms. Uwuigbe and Olusanmi (2012) also uses data from 31 listed companies for the period 2006-2010. Researchers also examining the relationship between corporate boards and financial performance also use a similar approach. Shukeri *et al.* (2012) used a sample of 300 public listed companies in examining the influence of board of directors and firm performance. Letting et al. (2012) used a sample of 40 companies while examining the relationship between Board Diversity and Performance of Companies Listed in

Nairobi Stock Exchange

5.0Conclusion

The purpose of this paper was to analyze predicaments that researchers face in both theory and philosophical approaches in corporate governance. It is apparent that theoretical literature shows lack of a unitary approach to explain the relationship between corporate governance and firm performance. The property rights theory focuses on the identity and size of property rights as the key variables that influence firm performance. Agency theory is centered on the shareholders-managers conflicts. In contrast to agency theory, the stewardship theory considers managers to be good stewards who act in the best interest of a firm. The resource based view places emphasis on resources acquired by firms from external environment to create competitive advantage and enhance corporate value. The stakeholder's theory considers the role of stakeholder in influencing financial performance. Consequently, researchers may have to adopt a multi-theory approach by taking perspectives of property rights agency, resource based and stewardship theories to derive a more holistic approach in examining the interrelationships between corporate governance and financial performance. Some theoretical propositions also yield inconsistent predictions. For instance, while agency theory argues that managers pursue their private interests and therefore influence performance negatively, the stewardship theory considers managers to be good stewards who act in the best interest of a firm. Institutional investors are considered to influence performance positively as they are considered to be endowed with resources and skills crucial to performance. However it is also argued that large controlling shareholders may extract private benefits from the firm which could eventually reduces firm performance.

The dichotomy of philosophical approaches creates dilemma as to which approach is best suited in an area of inquiry. This study observes that the identification of ontology at the start of the research process is critically important as it determines the choice of the research design and methods of data analysis and interpretation. It is apparent most corporate governance studies largely adopt objectivism ontology which leads to positivism epistemology, largely associated with value free axiology, deductive research approach and consequently, quantitative research methods. This is opposed to the choice of subjectivism ontology which leads to the selection of interpretivism epistemology, value ridden axiology, inductive approach and the application of qualitative methods of data collection and analysis.

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