

The Emerging Reality of Corporate Governance: Theoretical Challenges and Alternative Thinking

William Sun, PhD
Reader in Corporate Governance and Responsibility
Leader of Corporate Governance and Sustainability Research Group
Faculty of Business and Law
Leeds Metropolitan University
Email: x.sun@leedsmet.ac.uk

Introduction

Corporate governance issues have been a wide public concern over last three decades due to the outbreak and spread of corporate fraud, corporate failure and collapse, excess of executive remuneration, abuse of management power, and corporate social and environmental irresponsibility. The failure of corporate governance in preventing the 2008 global financial crisis has fuelled more debates on the effectiveness of current corporate governance rules, principles, structures and mechanisms (Sun, et al., 2011). Prior to the financial crisis, mainstream corporate governance perspectives like the shareholder model and stakeholder theory that suppose to represent the reality of corporate governance had already been seriously questioned (e.g., Letza, et al., 2004; Ghoshal, 2005; Marnet, 2007). The criticism against the conventional orthodoxies on corporate governance points out very limitations of the prevalent economic logic and rationalist approach to understanding the complexity of corporate governance practices along with a strong claim of an elegance, purity, certainty and universality of governance form and structure serving as a truly ideal model. Either the shareholding model or the stakeholding model constrained by a dualistic mindset tend to stabilize, solidify, generalize, idealize, and rationalize complex individual living experiences in corporate governance practices that are eventually dynamic, fluid, situational, realistic and often emotionally driven. The dominant approach to corporate governance is largely homeostatic, idealistic, narrowly defined, and ideologically biased, what Pettigrew called an ‘ahistorical, acontextual, and aprocessual research’ and ‘timeless and contextless generalities’ (Pettigrew, 1985, p. 35).

Over the last two decades the alternative ways of theorizing corporate governance departing from mainstream corporate governance theories have been pursued in the academic circle, including, for example, the political model (Gundfest, 1990; Pound, 1993; Roe, 1994), the cultural perspective (Maruyama, 1991; Hollingsworth, Schmitter and Streeck, 1994; Porta, et al., 1997), and the processual approach to corporate governance (e.g., Chia and Sun, 2001; Letza, et al., 2004; Kirkbride, et al. 2008). The general trend of those new approaches to corporate governance brings about new angles and fresh insights to understanding the dynamics and heterogeneity of corporate governance practices, which eventually suggests the *emergent* nature and properties of corporate governance reality in contrast to the entitative, prefixed, solid and relatively enduring nature and properties of corporate governance—what the conventional theories and approaches have presupposed. Given that mainstream theories have failed to explain or understand corporate governance practices as evidenced in the global financial crisis, it is urgently needed to develop a theory of corporate governance emergence (or in short, ‘emergence theory’) as an alternative way of understanding corporate governance reality (Sun, 2009).

This paper aims at explaining and clarifying what the theory of corporate governance emergence is and how it is philosophically justified, why emergence theory provides more

appropriate explanations on corporate governance issues, and how emergence theory helpsto develop a comprehensive understanding of corporate governance practices. In the following section, the limitations of dominant models of corporate governance are highlighted and their philosophical roots examined. Then, in the next section, the alternative emergence theory is explained along with a presentation of the ontological and epistemological process models. Following that is an illustration of how we may understand corporate governance issues like power and regulation differently based on the emergence theory. Finally, the key elements of emergence theory are summarized, and some analytical questions, implications and research methods are briefly discussed.

Why Mainstream Corporate Governance Models Fail Their Explanatory Power

Current extensive analysis of corporate governance has generated diverse views and insights and resulted in the creation of different theoretical models. Hawley and Williams (1996) found four major views in the corporate governance debate, namely, the finance model, the stewardship model, the stakeholder model, and the political model. Based on Blair's (1995) typology, Keasey, et al. (1997) summarised four competing models, including the principal-agent, or finance, model, the myopic market model, the abuse of the executive power model, and the stakeholder model. In Clarke's edited book *Theories of Corporate Governance: The Philosophical Foundations of Corporate Governance*, three major theories of corporate governance are recognised, namely, agency theory, stakeholder theory and stewardship theory.

Various theoretical models in the current literature on corporate governance can be basically categorised into two different perspectives: the shareholder perspective and the stakeholder perspective, based on the purpose of the corporation that those models suggest. For example, the finance model, the principle-agent model, the myopic market model, agency theory and stewardship theory all belong to the shareholder perspective, as they share the common assumption that the purpose of the corporation is the maximisation of shareholder wealth. The abuse of the executive power model, the political model and stakeholder theory are within the stakeholder perspective, as they believe in a broad sense of stakeholding welfare as the purpose of the corporation. Such a convenient taxonomy has been widely used in modelling corporate governance (e.g., Prabhaker, 1998; O'Sullivan, 2000; Kakabadse and Kakabadse, 2001; Friedman and Miles, 2002). The shareholder perspective can be viewed as the dominant model and the stakeholder perspective as its main challenger. There is a general trend that the recent debate on corporate governance by mainstream research scholars has been polarised between supporters of the shareholding perspective and supporters of the stakeholding perspective, with both perspectives perceived as if there were a clear-cut and stable boundary in between the two paradigms. Both camps in the debate explore specific issues of corporate governance and each offers its own diagnosis as the 'true' cause of corporate governance defects and attempts to find an optimal solution to the problems. While both perspectives offer very different and often opposite views and analysis of corporate governance issues, two differing systems of values and assumptions are embedded in both shareholding and stakeholding perspectives, such as shareholder value vs. stakeholder value, private business vs. public interest, economic interest vs. social interest, market efficiency vs. social efficiency of the economy, self-interest human behaviour vs. altruist human behaviour, self-regulation vs. state regulation, and market governance vs. hierarchical forms of governance.

Though corporate governance is mainly theorized in a much dichotomised way, both perspectives are however constructed upon the common entitative conception of the corporation. The shareholder perspective assumes corporate actors, like shareholders and managers, as homogeneous individual entities conducting corporate behaviours and taking actions. This is an individual entity conception of the corporation. The stakeholder perspective presupposes a 'real' corporate entity with its own mind, will and behaviour, a social entity conception of the corporation. Both conceptions indicate that understanding the corporation resides on an either-or

choice in between the individual entity and collective entity, and between the economic entity and social entity. In extreme cases (such as in agency theory), the corporation is viewed as a bundle of assets where the subject of the corporation, i.e., human being, is missing, or the subject is confused with the object. In this respect, the corporation is regarded as purely physical, material and substantive, and thus, entitative.

The individual or corporate entity constructed in mainstream theories is driven by certain rationality for corporate action and governance with pre-defined goals and preborn human nature. For example, economic rationality is embedded in both the shareholder perspective and the instrumental aspect of stakeholder theory. It is assumed that all individual actors of, or in relation to, the corporation makes decisions and choices based on rational calculations to pursue and maximise their own interests. In economics, the famous metaphor for rational choice is the prisoners' dilemma, based on the assumption of self-interest human behaviour and utility maximisation for any decision making. Even in the normative aspect of stakeholder theory, there must be a rational choice based on some seemingly pre-given principles, such as the social efficiency for economic activities, social welfare, and a certain moral value. Such a rationality assumption in corporate governance is consistent with the 'normative-rational' model in orthodox organisational analysis. The corporation is regarded as a bounded social system and is normatively rational (Cooper and Burrell, 1988), characterised by pre-conceived goals, rational actions, a linear causal relationship between actions and outcomes, competing alternatives for choices, best solutions and satisfactory outcomes (Mayntz, 1976).

Associated with the entitative and rationalist conception of the corporation, we have seen some paradox claims and assertions in the current corporate governance debate. The first assertion is the ideal model claim. It is argued that there is only one ideal model existing for corporate governance, either the shareholding model or the stakeholding model. Both sides of the debate regard their own model as perfect (or at least relatively perfect) and superior to the others, and is thus, the only objective 'truth' in the world. The second assertion is the optimal governance structure claim. Markets and organisational hierarchies are regarded as genuine alternatives of optimal or appropriate governance structures and mechanisms. The third assertion is the universal and unitarist governance claim. Market governance or hierarchical governance is seemingly universally applicable to all situations, regardless of context. Traditionally, a unitarist hierarchical relationship (fiat, supervision, and monitoring) has long been advocated to be more suitable for all corporations. In the principal-agent model, the principal-agent relationship (a purely contractual relationship) is assumed to be existent in all organisations and at every level of management.

From the data available in the current literature, it is easy to find that the claims for the superiority of either the shareholding or stakeholding model, and for the optimal structure of either market governance or hierarchical governance, are empirically unsupported. We can always find sufficient counter-evidence against these assumptions. It has been found that the orthodox assumption of economic rationality and efficiency underpinning most of corporate governance analyses has been criticised by a number of scholars. There has been increasing doubt in the literature about the ability of economics and its dominant economic logic to explain such complicated social phenomena as corporate governance. The much deeper problem with the shareholding and stakeholding perspectives is the intrinsic dualistic and split mode of thinking in understanding and theorising corporate governance. Such logic is not justifiable in theory, nor supported in the practical experiences.

Thus, the current assumptions underlying the mainstream shareholder and stakeholder perspectives are little valid, if not useless. The fundamental limitation of the entitative and static modes of thinking in corporate governance research is that the supposed ideal models, of either shareholding or stakeholding, are abstractly generalised without the concrete processes of time, space and context within them. The advocated theoretical models seem to be pre-given with no historical linkages and developments, and pre-fixed with no temporal changes from the past towards the future. Their principles and values are seemingly taken-for-granted and believed to

be universally applicable and workable in a single global marketplace across all contexts and societies (such as the convergence assumption prevailed in the turn of the new century). The governance structures and mechanisms are determined by the 'rational' choice between dichotomised alternatives, such as market governance or hierarchical forms, and self-regulation or state regulation.

Upon further examination, we may find that the validity issues of mainstream corporate governance theories are rooted in the conventional modes of thought and their deeper philosophical commitments to conventional substance philosophy. The individual or corporate entity as a realistic being, a concrete and solid substance, is but a small version of the traditional Western modes of thinking rested upon the Parmenidean worldview of permanent 'being' and the Platonic reality of 'ideal forms'. While the Parmenidean cosmology of being reality is characterised by pre-existence, solidarity, discreteness, clear-cut boundary, stability and permanence, the Platonic mode of thought makes a further distinction between reality and appearance by referring the former to some general, universal, and ideal forms, with no individual and contextual differences. Such a being-realist reality ontologically excludes moving, becoming, change, activities and experiences. As being is supposed to be permanent and fully filled in space, there are no time and space dimensions in such an 'eternal' reality. The dominant philosophy of time and space in the West is the Newtonian concept of absolute space and time, conceiving space and time as fixed and stable containers for things to be located within, and being senseless and independent of change (for more details, see Sun, 2009).

The difficulties with substance philosophy are that it is counter-experiencing and counter-logical in assuming that a thing does not change within itself over time and that the future already exists in the present, as the future and the present remain the same (for more details, see Rescher, 1996). It is hardly to explain how a solid, atomic and unchangeable entity could act by itself. While substance philosophers presuppose time and space as an externally imposed order on objects and events, and as a singular, mechanistic, objective and independent instrument for measuring and calculating things, they simply take these assumptions for granted and forget that these are useful products of social construction. They also ignore the importance of different personal experiences of time and space in reality, the very subjective spatiotemporal meanings in social lives. Those drawbacks fundamentally challenge the validity of substance philosophy and its application to framing and theorising corporate governance. The difficulties of substance philosophy cannot be resolved by itself, and yet, we can only find an easy solution in the alternative process philosophy.

Corporate Governance Emergence: The Ontological and Epistemological Models

The Processual Conception of the Corporation

The emergence theory of corporate governance as an alternative way of viewing and understanding the reality of corporate governance resides in process metaphysics, which has long been the Western competitive philosophical intelligence and the fundamental challenge to the dominant tradition of substance metaphysics (James, 1909, 1911; Bergson, 1903, 1911; Whitehead, 1929, 1933. For a basic introduction to process philosophy, see Rescher, 1996). The core differences between the processual conception of the corporation and the entitative conception of the corporation can be seen on both ontological and epistemological sides.

The first and foremost difference between the two conceptions is ontological. The conventional entitative view suggests that the corporation is a substantial entity, or is constitutive of individual atomic entities. As an entity, it presupposes a timeless and contextless corporate governance reality located in a simple spatial container of the globally convergent marketplace. The processual view, however, suggests that corporate reality is constitutive of, or is reducible to, processes rather than substances. For individual actors, the processes are not just physical processes (e.g., the body of development over time and associated physical materials), but also

mental processes, such as the inherently changeable and unfixable inner experiences, cognitive affairs, interactions and interrelationships with others, and the reweaving of individual values and beliefs.

Corporate processes unfold and manifest in the networking of individual minds, ideas, actions, interactions, events and activities, which are changeable over time and changing under different conditions and circumstances in different contexts and locations. Corporate governance is intended to order and to channel corporate/individual actions, interactions and transactions towards certain ends. But in doing so, it comes out to be an emergent order and temporary stability, due to the processual nature of human minds and human actions as the ongoing state of flux and instability with its own internal impetus and interconnections. The seemingly substantial reality of corporate governance, like shareholding or stakeholding value, and hierarchical or market governance structure, is that rules and regulations are only explicit stability patterns of variable processes of corporate governance, and thus, subordinate to processes and changes.

The second difference between the processual and entitative views of the corporation is epistemological. Within the entitative view of the corporation, knowledge generation is assumed to be an objective, rational, 'scientific' and accurate representation of corporate reality. In process thinking, the processual reality of corporate governance could be more apprehensible by our direct experiences than our conceptual thoughts. Our explicit knowledge cannot be claimed to exactly represent the inherently indeterminate and unrepresentable processes. Furthermore, knowledge itself as our mental activities and cognitive affairs is also processual in character, due to our unfixable thinking, indefinite descriptions, incomplete information, and limited functioning of language.

Thus, the shareholder model and the stakeholder model do not (and cannot) 'mirror' the constantly changing and transforming processes of corporate governance. They might be a snapshot of corporate governance reality sometimes and in somewhere. When they claimed to be of representational knowledge and accepted in a society, they are actually the outcomes of our intellects rather than our pure experiences, and the outcomes of social construction rather than of 'scientific' revelation. Such theories as explicit knowledge are nevertheless useful though, in the sense that they are an artificial means for the convenience of our human life in attempt to control and manipulate what is eventually dull, chaotic and uncontrollable in the corporate governing processes. Knowledge is our collective construction that represents the cumulative efforts of civilisation in the process of progressive and increasingly sophisticated conceptualisation and theorising, based on the organising logic of division, location, isolation, fixation and categorisation.

The Ontological Process Model of Corporate Governance

With the processual view of the corporation, a conceptual framework in understanding the processual reality of corporate governance is presented by a three-dimensional model of the corporate governance process (see figure 1), which incorporates three basic ontological dimensions of social reality in a processual framework, namely, time, space and context.

A temporal dimension in corporate governance means that we need to understand how certain corporate governance structures and mechanisms are becoming and emerging from their historical developments (historical roots plus contingent factors and free choices all occurred in the developing process). We also need to understand how the present process of corporate governance continuously changes and merges with other processes and becomes a new process, and how the continuity and identity of the corporate governing process is maintained through a series of stabilised patterns.

Considering the spatial dimension, a corporate governance process is maintained and identifiable in its wavering patterns. Such stability in process thinking does not mean that a corporation is a static entity in which governance values and systems remain the same or are

maintained over time with little changes. Rather, the stability is a relatively stabilised pattern of governing processes, which is intrinsically dynamic over time.

A contextual dimension in corporate governance means that we need to take into account all the involved actors and contextual factors and the processes in understanding the corporate governing process. We also need to see that all the actors and factors are eventually interconnected in a systemic whole of governing processes and that the macro-processes of societal systems are essential in shaping the corporate governance practices.

In the three-dimensional ontological model, corporate governance is understood as a complex, dynamic and continuously changing network of interrelationships among all business and non-business actors with an explicit, or implicit, concern about how the corporation is directed and controlled. The corporate interrelationships are part of the systemic whole of societal interrelationships, shaped and influenced by a complex of historical connections and conditions, internal impetus of change, and current environmental and contingent factors, with a trace of dynamically stabilised patterns manifested in a certain format or shape.

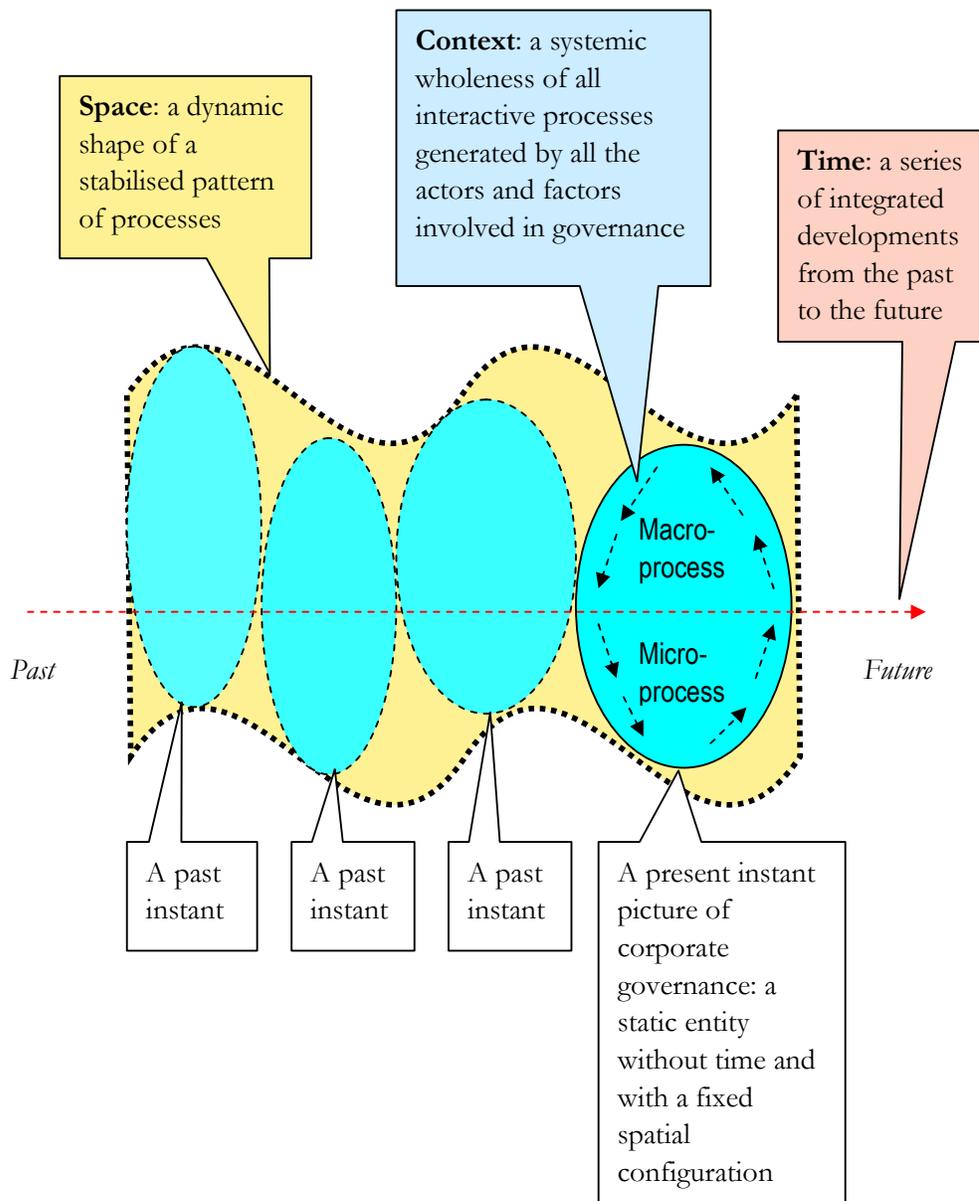


Figure 1: A Three-Dimensional Process Model of Corporate Governance

What is emphasised in the ontological process model is the changing nature of corporate interrelationships, and thus, the changing nature of the corporation and corporate governance over time. It includes the transformation of individual actors, their minds, behaviours and actions; and the alteration of the corporation, its goals and objectives, its governance structures and mechanisms, and its business and social performances. The change is both vertical and horizontal. Vertically, the change is driven or influenced by the internal (and micro-level) and external (and macro-level) factors in a context. Horizontally, all the internal and external factors are themselves shifting and changing over time. Therefore, a complete understanding of corporate governance needs to examine the ongoing processes of interrelationships in a local context, their historical developments, and their changing patterns. The vertical and horizontal analyses cannot follow the traditional research ideology of representationalism and should not presume the objectivity, rationality, and universal applicability of a specific research object of the governing process.

The Epistemological Process Model of Corporate Governance

The above-mentioned three-dimensional process model is valid in understanding all realities, including the natural world and the social world, since any reality contains the ontological factors of time, space and context. However, unlike the natural world, corporate governance is not merely the reality of physical materials, like a bundle of assets. Rather, corporate governance is a social reality consisting of human minds and relations and driven by individual and collective minds and ideas. Therefore, in the three-dimensional process model, the most important element in the contextual analysis is the reality of mentally interactive activities and processes, which can be analytically divided into the micro-level practical-experiential process and the macro-level ideal-constructive process.

The practical-experiential process is a series of individual or collective minds/ideas driving individual experiences and activities and coping with corporate governance practices in ordinary daily life. The practical experiences are not just in the form of apparent and observable sensations driven by explicit minds and ideas, but are also in the shape of directly encountered experiences driven by implicit minds, intuitions and the sub-consciousness. The practical-experiential process is the starting point of understanding corporate governance, but is not a full picture of corporate governance reality.

In the social reality of corporate governance, individual minds contribute to social or collective minds through social interactions and constructions, but, in turn, are shaped and constrained by the social minds and constructs. Thus, the practical-experiential process is inseparable from the ideal-constructive process, namely, a continuous process of collective world-making—ideal productions, selections, and revisions associated with a cluster of systemic ideas such as ideologies, paradigms, and perspectives. Both the practical-experiential process and the ideal-constructive process interplay in a processual and systemic whole.

The practical-experiential process may serve as indicators, triggers and stimulators to form certain ideologies/paradigms by some interested and powerful people or groups. And the ideal-constructive process may, in turn, shape and influence individual experiences and practices of corporate governance by affecting perceptions, feelings and beliefs in the micro fields such as in the sub-consciousness, cognition, psychology and emotion. As contextual processes, both the practical-experiential process and the ideal-constructive process are continually changing and transforming from the past toward an uncertain future, and thereby, new patterns of

experiences/practices of corporate governance are emerging and unfolding and new constructs are produced and selected.

This dual process model of governance construction (see figure 2) highlights the nature of corporate governance reality as a world-in-making process performed and/or manipulated by individual and collective minds and ideas. It is more epistemological than ontological in the sense that the representation of ideology (i.e., systemic ideas) instead of the ideology of representation plays a significant role in the reality making process of corporate governance.

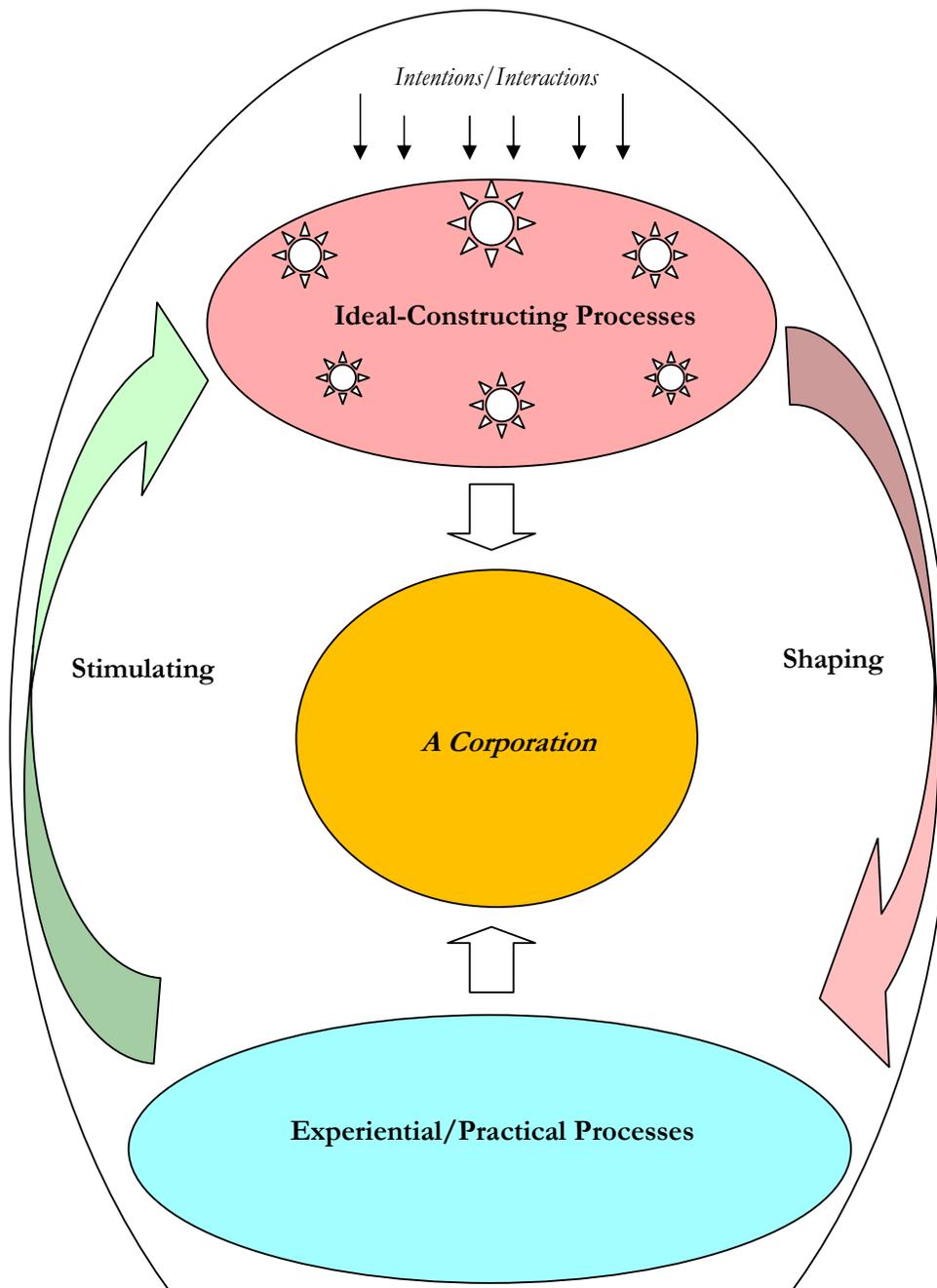




Figure 2 A Dual Process Model of Corporate Governance Construction

Illustration: Understandings of Power and Regulation in Corporate Governance

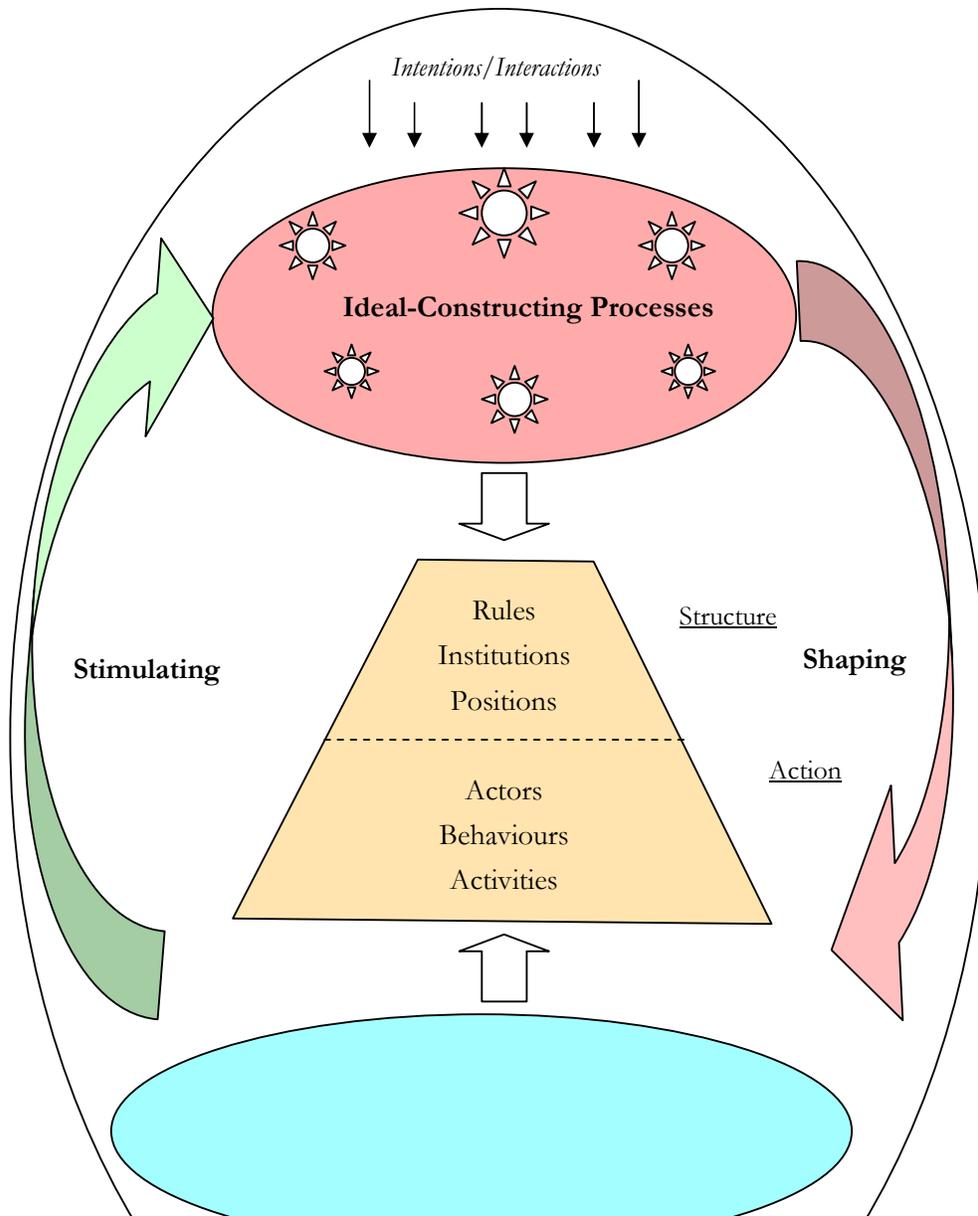
Conventional theories of corporate governance are grounded upon the substantial and entitative view of corporate reality as ‘structure’ and ‘action’. The term ‘structure’ includes rules (corporate laws, bylaws, and regulations), institutions (government agencies, public committees, corporations, and corporate internal organisations) and positions (roles, posts and statuses of directors, CEOs, other managers, employees and other stakeholders). The term ‘action’ includes corporate participants and actors (as agencies), their behaviours, and their business activities upon objects (materials and means of production). For both shareholding and stakeholding perspectives, structure and action are basis and starting points in understanding the corporate reality and for diagnosing problems with corporate governance, and also the returning points attempting to solve these identified problems. For example, mainstream research in corporate governance has concentrated on revising corporate regulations, such as amending company laws and setting up voluntary codes, and how to improve governance structures and mechanisms, such as increasing non-executive directors, and setting up various committees under the board. Attention is also given to restraining CEOs’ possessed power and rising remuneration, and how to involve stakeholders in business decision-making and monitoring processes.

While mainstream theories have been looking inward on refining and adjusting such structure and action to improve corporate governance practices (for example, corporate governance principles and codes prevalent in the last two decades), they often take the principles and values of ‘structure’ and ‘action’ for granted, as if corporate governance were pre-given and nothing beyond those boundaries. Time, space and context, the three interrelated key features of process, are missing in the structure/action view of corporate governance. They have little concern with what lies behind the appearance of structure and action, such as certain beliefs, values, cultures, social conventions, and ideologies, and why and how structure and action have been formed in the first place. As a result, the understanding of corporate governance is not just static, but also superficial, and the diagnoses of, and solutions to, the problems with corporate governance are often misleading and unworkable in practice.

Looking at the mutually influenced processes of ideal construction and practical experiences in corporate governance mentioned previously, we can see that ‘structure’ and ‘action’ do not compose the complete picture of corporate governance, but only the tip of the iceberg. They are also not the only matters of corporate governance. More fundamental issues reside in what is behind them. ‘Structure’ and ‘action’ are but instantaneous outcomes of the interplay of the dual process, and are temporarily stabilised patterns and regularities from the processual interactions, subject to the continuing changes of the two processes. Thus, the understanding of corporate governance needs to go beyond ‘structure’ and ‘action’ to see the

underlying logic and themes of practical experiences and ideal constructions, how they actually produce ‘structure’ and ‘action’, what key elements play into the constructing processes, and what strategies are used for the competing constructions that shape the ‘structure’ and ‘action’ (see figure 3 for the illustration on the place and position of structure and action in the dual process model).

The mainstream theorists tend to believe (as evidenced in both the shareholding and stakeholding models) that two central issues with corporate governance are the managerial abuse of power and the lack of sufficient regulations, which are also the key debates in the 2008 global financial crisis. Thus, the solutions to the problems are simple: more rules and regulations, more punishment for inappropriate behaviour, and information disclosure and transparency. The collapse of Enron and WorldCom in 2001 and 2002 resulted in the very strict rules from the Sarbanes-Oxley Act enacted in the USA. There has been strong arguments in the academic circles that corporate governance is a science, rather than an art, the science of mathematics (as economists often assert) or the science of information and control (Turnbull, 2002). From those arguments, corporate governance is only a matter of decision making upon various choices by precise calculations based on the rationality of economic efficiency. In other words, corporate governance is only a matter of information and if all of the corporate information is open to the public, corporate governance issues would disappear. Such diagnoses and solutions exactly reflect the structure/action view of corporate governance.



Experiential/Practical Processes

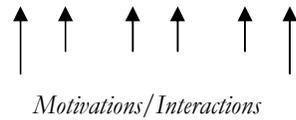


Figure 2 'Structure' and 'Action' in the Dual Process Model of Corporate Governance

However, these apparent 'insights' from the mainstream perspectives have not worked well in corporate governance practices. After the enactment of the Sarbanes-Oxley Act in 2002, corporate fraud has not disappeared. In reality, the number of corporate collapses has increased dramatically between 2007 and 2009, encompassing a period of financial crisis. This means that corporate governance is not simply a regulation issue, because it is certainly more than regulation.

Is information another key issue in corporate governance? It should be an important issue, but is not the only issue. In fact, it is not even a primary issue. This is because information is not a natural thing; it is far beyond an issue of human ability of dealing with information overload or natural bias and errors. Information can be a result of different perceptions and understandings of the same phenomenon, and can be a result of sophisticated social, cultural, political and psychological influences, intentional or unintentional distortions and manipulations in the process of generating, transmitting and interpreting information. In corporate practices, information disclosure and transparency does not provide much help to attract shareholders or other stakeholders to be involved in corporate governance, or to prevent managers' abuse of power. Information asymmetry and information failure are the key issue in the financial markets, which contributed to the financial crisis (Schwarcz, 2011).

On a processual view, corporate governance is manifested in power, interest, rule and information. But these are not objective and fixed things 'out there' for people to discover, possess, use, or handle through certain organisational structures and mechanisms, or technical tools (e.g., information systems). Rather, power, regulation and information are processes in relationships between all the participants and actors, and are subjective experiences conditional on dynamic interactions and changes. Foucault (1979) insightfully argued that power is not something to be possessed, power must be exercised, existent in relationships and expressed in actions. Power, as exercised, is not simply an obligation or a prohibition on those who 'do not have power'; instead, it is manifested in the reaction and reflection to the given pressure in their attitudes, willing and intentions, in their subjective experiences.

The outcome of power and governance is transmitted in the process of obeying, disobeying, negotiating, debating, and compromising. External forces and pressures are only possibly influential on individual perceptions and reactions, as one of elements of individual 'enactment' to their environments. Such an understanding of power explains why the traditional corporate governance structure has failed. The seemingly guaranteed hierarchical structure of internal monitoring has been increasingly unworkable in practice, for shareholders do not actually possess much power as supposed. Their power and interests depend on their relationships with directors and managers, as well as employees, suppliers, customers, and other stakeholders, whose understanding of the relationships is very much affected by changing, shifting and competing ideal constructions.

In many cases, shareholder power has been lost in the context of relationships with chief executive officers, because under the Anglo-American business context, CEOs do not have direct and close relationships with shareholders, and shareholders are less motivated to maintain such close relationships, but more interested in attending to stock markets. Under the idea of managerialism, a paradigm and ideology that began in the 1950s, CEOs seem to be more powerful, as they legitimately control the selection of directors and deliberately maintain close relationships with these directors and other managers and some other key stakeholders, such as the government.

Yet, social relationships are not supposed to be static and relatively enduring, but dynamic and changing, as individual relationships with others depend on individual perceptions and understandings, which are inextricably bounded by the individual properties of experiences, what Taylor (1985) calls 'subject-referring properties'. Individual experiences cannot be exactly repeated over time and across contexts, and individuals have unfixable motivations associated with uncertain circumstances, and are in the process of continuous learning, developing and interacting with others. Hence, individual understandings and interpretations, as both responses to local contingencies and the 'enactment' of environments (i.e., interpreting whatever they think their environments are, or consist of; referring to Weick, 1977, 1979), are necessarily implicated in defining individual relationships and actions. This means that under closer scrutiny, individual relationships and actions are self-governed patterns that emerge from the combination of their own historical experiences, present understandings, local conditions and multiple possibilities. This corresponds with the process philosophy's metaphor of 'organism' (Bergson, 1903, 1911) that has its own self-determined driving forces. Human beings experience life-processes in their own activities, in their own acts of free will, rather than driven and determined by external forces.

Given the very subjectivity of meaning-generations and mind-dependence of social relations and actions, the belief of corporate governance that can be clearly prescribed and specified in rules, regulations or agreements, such as corporate laws, company articles and private contracts and then effectively implemented in practice is too simplistic. Governance that relies on maintaining a fixed definition by the provision of rules is impossible to practise and sustain in the long term. There is no doubt that governance is often embedded within contextual rules for guiding behaviours and actions. However, in the process of applying the rules to practice, interpreting governing rules depends on the perceptions of the individual actors and complex social interactions. Rules can never 'provide for their own interpretation independently of those agencies whose interpretations instantiate, signify or imply them' (Clegg, 1989). Therefore, governance is not simply a rule-reification and rule-implementation, but a process of rule-adaptation to local conditions within specific contexts.

Concluding Remarks

What Is the Emergence Theory of Corporate Governance

To sum up, the theory of corporate governance emergence begins with the basic assumption that the nature of a corporation is a business process within the entity, rather than a business process of the entity. Here, process is a terminology used in process philosophy and implies self-driven, autonomous and continuing changes and transformations, rather than a commonsensical idea of process where a clear-cut, discrete and relatively enduring entity (an individual or a social entity) undergoes a transition across time and space by external forces. In process metaphysics, entity is viewed as a stabilised effect of ongoing processes slowed down by conscious sensation, abstract conceptualisation and collective construction. Entity is in essence process, both of which are interchangeable at the bottom level.

Therefore, the corporation is not as solidly entitative in the whole, or in part, as conventionally presumed, but rather a loosening network of interrelationships and interactions

among all the business and non-business actors, which is complex, dynamic, and continuously evolving and developing. The existing corporation is an ongoing sequential continuity of processual patterns emerged from actions, inactions, interactions, transactions, and counteractions of all the actors. Such processual patterns are emerging in corporate governing processes.

In the theory of corporate governance emergence, corporate governance is a continuous process of ordering and controlling actions and activities generated in corporate inter-relational webs through collectively constructed governing rules and instruments. With defined and redefined intentions from a series of mindsets and experiential practices, corporate governance aims at channelling corporate activities towards certain ends, and in so doing, it is continuously shaped and reshaped by the dynamic interrelationships of all the actors. In this sense, corporate governance is always redefined by the emergent properties of changing interrelationships and all the activities of the actors involved in the business process. The change of interrelationships is not only driven by the interactions and mutual influences of all the actors involved, but also by the internal changing impetus of these actors that are self-determinate and self-creative in a systemically co-ordinated process. By that means, all the actors themselves are not fixed at all, but continuously changing, as a result of reweaving their 'webs of beliefs and habits of actions' based on their new experiences obtained through their interactions (Tsoukas and Chia, 2002, p. 570).

There are three ontological dimensions in a corporate governance emerging process: time, space and context. Corporate governance is a reality of interrelationships of all the interconnected actors in the systemic whole of a society. In such interrelationships, the actions, inactions, interactions, transactions, and counteractions of the individual and the group actors are all driven by their internal impetuses of change (such as by human genes, instincts, motivations and intentions), conditioned by their historical connections (past developments), shaped by environmental factors (such as political power, technology, and societal crisis), and influenced by future expectations (individual and/or collective). Such interrelationships are emerging from a mix of historical conditions, an internal impetus of change, and contingent factors. They are evolving and contiguously developing over time and moving towards an uncertain future. The changing interrelationships have a trace of dynamically stabilised patterns manifested in a certain format or shape, such as localised and specific forms and structures of corporate governance.

The theory of corporate governance emergence suggests that for a genuine and complete understanding of corporate governance, it is needed to examine the ongoing processes of interrelationships, their developments, and their changing patterns. The key analytical questions in such an examination would be: Who/what are the actors and factors involved in the corporate governing process? How do they interact with each other? What are the driving forces behind their actions, interactions and transformations? How, and to what extent, are these forces driving the changes? What are the patterns of the corporate governing processes of evolution over time? How stable or dynamic are the patterns and why? Overall, examining any practice of corporate governance and understanding its issues and problems and possible solutions to them rely best on the integration of five interconnected ways of analysis: (1) internal impetus of change, (2) historical development and evolution, (3) current societal systems, values and drivers for the changes, (4) future expectations and possible scenarios, and (5) contingent factors. As a holistic mode of thinking, such analysis is to understand deeply and comprehensively how corporate governance is driven by internal impetus for change, conditioned by historical development, shaped by societal systems, influenced by future expectations, and interrupted by contingent factors. Based on the comprehensive analysis and direct experiences, certain patterns of corporate governance may emerge from research and the spatial shape of corporate governance can be identified. Any problems should be understood and possible solutions to the problems should be considered within such an analytical framework.

What Means Good Governance

In the emergence theory, there are no standard answers to what good governance is and how a corporation should be governed in the best way. The key theme is that corporate governance is socially constructed based on political power. Corporate governance is judged on the social construction of 'faith'. Any positive changes in corporate governance towards better 'serving the public good' will follow once people realize how the corporate governance we know as 'real' was socially constructed and once we employ a processual framework of time, space and context, leading to reflexive dialogue. Living in a processual reality, we cannot 'mirror' corporate governance practices accurately, and cannot construct corporate governance ideally. To improve corporate governance one should not force-fit corporate reality into the established abstract templates. We need to dive into the underlying living experiences and processes that comprise corporate practices to understand the internal impetuses and environmental dynamics that drive the processes and changes of corporate reality.

As a social construct, corporate governance problems cannot be solved based on scientific measures and universal recipes. Rather, the explicit change of corporate governance can be initiated and triggered in the sense of collective construction and discourse formation. The key factor in context-making is to find or create a more powerful 'attractor' to compete with the dominant 'attractor' and to shift the old one to the new one to create a new context. Corporate governance and control must be realised through our collective representations—representations of our will, desire and sense-making, representation of a specific mode of thought and social convention, and the representation of social negotiation, selection endorsement and rationalism. In the ideal construction process, corporate governance is not seen as universally good, but as partial, selective and interested.

Research Methods Concerned

The theory of corporate governance emergence is a very new theory, so new that it is a different mode of thinking grounded in process philosophy instead of conventional dominant substance philosophy. It moves away from the traditional mechanistic, static, linear and purely rationalistic modes of thinking and analysis (often referred to Newtonian 'scientific' methods) towards an organic, dynamic, complex and reflexive mode of thinking in corporate governance. In the emergence theory, a holistic and multi-disciplinary approach is encouraged. Direct experiences are the first sources of analysing and understanding the corporate governance process. However, the sources from the traditional empirical methods, such as observations and experiments, can be useful in a way that they should not be regarded as isolated value-free facts in a simple location, but as individually explicit experiences (sensations and interpretations) embedded in a matrix of cultural, historical and personal relationships and connections. The empirical data may serve as possible triggers that lead to a further rich apprehension of the reality, and as symbols and indicators possibly leading beneath the surface of their appearances.

As socially constructed processes, corporate governance changes can be facilitated by Participatory Action Research (PAR) that involves all relevant parties in actively examining together currently experienced problematic actions in order to change, transform and improve it (McRitchie, 2010). They may do so by critically reflecting on the historical, political, cultural, economic, geographic and other contexts which make sense of it. For example, executive remuneration of a corporation can be discussed among those who concern with it, normally including shareholders, managers, employees, creditors and other key stakeholders. Agreement would not be made until all the participants in the discussions are reasonably (or emotionally) satisfied by a comprehensive examination and understating of the remunerative context in the corporation and its surrounding society and its historical evolution. Remuneration could be high or low, depending how it is justified and collectively accepted. In the participative research process, action is researched, changed and re-researched. It is a co-research process by and for

those involved and impacted. It is a genuinely democratic or non-coercive process whereby those impacted determine the purposes and outcomes of their own inquiry.

References

- Bergson, H., 1903. *An Introduction to Metaphysics*. London: MacMillan.
- Bergson, H., 1911. *The Creative Mind*. New York: Citadel.
- Blair, M. M., 1995. *Ownership and control: rethinking corporate governance for the twenty-first century*. Washington DC: Brookings Institution.
- Chia, R. and Sun, X., 2001. *A processual perspective on corporate governance*. Paper presented at the British Academy of Management Annual Conference, Manchester, September.
- Clegg, S. R., 1989. Radical revisions: power. *Discipline and Organizations*, 10(1), pp. 97-115.
- Cooper, R. and Burrell, G. 1988. Modernism, postmodernism and organisational analysis: an introduction. *Organisation Studies*, 9 (1), pp. 91-112.
- Foucault, M., 1979. Politics and reason. In L. D. Kritzman ed, *Michel Foucault: politics, philosophy, culture*. London: Routledge.
- Friedman, A. and Miles, S., 2002. Developing stakeholder theory. *Journal of Management Studies*, 39 (1), pp. 1-21.
- Ghoshal, S., 2005. Bad management theories are destroying good management practices. *Academy of Management Learning and Education*, 4 (1), pp. 75-91.
- Gundfest, J., 1990. Subordination of American capital. *Journal of Financial Economics*, 27, pp. 89-114.
- Gundfest, J., 1993. Just vote no: a minimalist strategy for dealing with barbarians inside the gates. *Stanford Law Review*, 45, pp. 857-973.
- Hawley, J. P. And Williams, A. T., 1996. Corporate governance in the United States: the rise of fiduciary capitalism. Working Paper, Saint Mary's College of California, School of Economics and Business Administration.
- Hollingsworth, J.R., Schmitter, P.C. and Streeck, W., 1994. Capitalism, sectors, institutions, and performance. In: *Governing Capitalist Economies*, J. R. Hollingsworth, P. C. Schmitter and W. Streeckeds, Oxford University Press, New York, pp. 3-16.
- James, W., 1909. *A Pluralistic Universe*. Lincoln: University of Nebraska Press.
- James, W., 1911. *Some Problems of Philosophy*. Lincoln: University of Nebraska Press.
- Kakabadse, A. and Kakabadse, N., 2001. *The geopolitics of governance*. Hampshire: Palgrave.
- Keasey, K., Thompson, S. and Wright, M., 1997. Introduction: the corporate governance problem—competing diagnoses and solutions. In: K. Keasey, S. Thompson and M. Wright, eds., *Corporate Governance: Economic and Financial Issues*. Oxford: Oxford University Press.
- Kirkbride, J., Letza, S., Sun, X. and Smallman, C., 2008. The boundaries of governance in the post-modern world. *Northern Ireland Legal Quarterly*, 59 (2), pp. 161-75.
- Letza, S., Sun, X. and Kirkbride, J., 2004. Shareholding versus stakeholding: a critical review of corporate governance. *Corporate Governance: An International Review*, 12 (3) July, pp. 242-62.
- Marnet, O., 2005. Behavior and rationality in corporate governance, *Journal of Economic Issues*, 39(3), pp. 613-32.
- Marnet, O., 2007. History repeats itself: The failure of rational choice models in corporate governance. *Critical Perspectives on Accounting*, 18, pp. 191-210
- Maruyama, M., 1991. Contracts in cultures. *Human Systems Management*, IOS Press, Netherlands, vol. 10, pp. 33-46.
- Mayntz, R., 1976. Conceptual models of organisational decision-making and their application to the policy process. In G. Hofstede and M. S. Kassem, eds., *European Contributions to Organisation Theory*. Amsterdam: Van Gorcum, pp. 114-25.

- McRitchie, J., 2010. Research methods for a liberating corporate governance. Available at <http://www.amazon.com/Research-Methods-Liberating-Corporate-Governance/forum/Fx536JJZS6X72E/TxAFM3FE13U955/1/ref=cm_cd_dp_ef_tft_tp?_encoding=UTF8&s=books&asin=0773438637&store=books> [Accessed 15 December 2010].
- O'Sullivan, M. A., 2000. *Contests for corporate control*. New York: Oxford University Press.
- Pettigrew, A. M., 1985. *The Awakening Giant: Continuity and Change in ICI*. Oxford: Basil Blackwell.
- Porta, R.L., Lopez-de-Silanes, F., Shleifer, A. and Vishny, R.W. 1997. Trust in large organizations. National Bureau of Economic Research Working Paper No. 5864, Cambridge, MA.
- Pound, J., 1993. The rise of the political model of corporate governance and corporate control. *New York University Law Review*, 68 (5), pp. 1003–71.
- Prabhaker, S., 1998. Governance and stakeholding. *New Economy*, 5 (2), pp. 119-22.
- Rescher, N., 1996. *Process Metaphysics*. Albany, N.Y.: State University of New York Press.
- Roe, M., 1994. *Strong managers weak owners: the political roots of American corporate finance*, Princeton, NJ: Princeton University Press.
- Schwarcz, S. L., 2011. Information asymmetry and information failure: disclosure problems in complex financial markets. In: W. Sun, J. Stewart and D. Pollard eds., *Corporate governance and the global financial crisis: international perspectives*. Cambridge: Cambridge University Press.
- Sun, W., 2009. *How to govern corporations so they serve the public good: a theory of corporate governance emergence*. New York: Edwin Mellen.
- Sun, W., Stewart, J., and Pollard, D. eds., 2011. *Corporate governance and the global financial crisis: international perspectives*. Cambridge: Cambridge University Press.
- Taylor, C., 1985. *Philosophy and the human sciences: philosophical papers*. Cambridge University Press.
- Tsoukas, H., and Chia, R., 2002. On organisational becoming: rethinking organizational change. *Organization science*, 13 (5), pp. 567-82.
- Turnbull, S., 2002. The science of corporate governance. *Corporate Governance: An International Review*, 10 (4), pp. 261-277.
- Weick, K. E., 1977. *Enactment processes in organisations*; B. M. Staw and G. R Salancik eds., New directions in organisational behaviour. Chicago: St Clair Press.
- Weick, K. E., 1979. *The social psychology of organising*. Addison-Wesley, M.A.: Reading.
- Whitehead, A. N., 1929/1978. *Process and Reality*; Cambridge University Press.
- Whitehead, A. N., 1933/1961. *Adventures of Ideas*. Harmondsworth: Penguin.