PHRONETIC RESEARCH - METHODOLOGY THAT MATTERS TO CORPORATE GOVERNANCE RESEARCH

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ABSTRACT

Corporate governance is an area of social life where values, power and conflicts have been acknowledged as inherent, legitimate and perplexing in a distinctive manner in different social contexts. Yet, mainstream social science approach takes epistemic, context independent stance based on predictive and rule based theory that often neglects what human beings consider as right and proper to do. On the other hand, phronetic concept and methodology acknowledge context, values and power in social and organizational research and raise the importance of case studies in addressing issues of viable corporate governance. The aim of this paper is to explore possibilities for the implementation and development of phronetic methodology in the area of corporate governance research. Our assumption is that possibilities that phronetic methodology offers have only been partially exploited in research on corporate governance. In order to explore the issue,we analyze literature contributions in the area of corporate governance from phronetic methodological perspectives that have been developed by Jennifer Rowley, Paul Gibbs and Bent Flyvbjerg in social and organizational research. The analysis shows that phronetic methodology has not been fully exploited in corporate governance research. Consequently, the value-rationality standpoint it employs could contribute in searching for answers that are practical, prudent and capable of changing the reality of corporate governance.

KEYWORDS: *corporate governance, phronetic methodology, power, values*

1. INTRODUCTION

Although the issue of convergence vs. divergence of corporate governance systems continues to attract the attention of researchers, a growing body of literature on hybrid systems that combine characteristics of outsider and insider corporate governance model has emerged over the last decade. In addition, more recent studies emphasize the difference between formal and informal components of a corporate governance system, taking into account the influence of culture and tradition within particular national contexts. In order to encompass all these various characteristics of national corporate governance systems and contexts, the case study method has been proliferating in research, bringing along the question of generalizability of research results and validity of theory to the forefront of today's organization research. At this point, we introduce the notion that social science, in general, and specifically in research on corporate governance, should not and cannot follow epistemic approach as practiced by natural sciences in their attempt to produce explanatory and predictive theories. Rather, knowledge should offer contextually relevant answers that are practical, prudent and capable of changing the reality of corporate governance since the immanent traits of corporate governance include values, interests, power and influence that interfere in a way that is specific in different cultural contexts. That is the rationale

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behind our attempt to examine possibilities to employ and develop a phronetic methodology for the purposes of corporate governance research.

The term 'phronetic social science' was articulated by Bent Flyvbjerg (2001), who referred to Aristotle's theory and philosophy of phronesis as a practical virtue for analyzing and changing social phenomena. Flyvbjerg employed the methodology in studies of megaprojects, city management and organization of democracy and its public and private institutions (Flyvbjerg, Landman, and Schram 2012). He addressed (2006, p. 382) the cases of phronetic research that was conducted in the organization of the firm, accounting, organization of science and technology, organization of government organization of consumption, insurance and risk, space and architecture, policing, poverty and welfare, sexual politics and psychology, then in research on ethics, responsibility, organization of labor and municipalities. Jennifer Rowley and Paul Gibbs (2008) looked for useful phronetic models and concepts in the literature on the learning organization and organizational learning. As they found out that there is the paucity of reference to wisdom in that literature, they developed the theme of practical wisdom and the essence of the practically wise organization.

Building on the contributions in phronetic organizational research, and particularly on conceptual and methodological work of Flyvbjerg, and conceptual work of Rowley and Gibbson the one hand, and the emerging literature in phronetic corporate governance research on the other, in this paper we examine how concept and methodology of phronetic organization research could be further developed for the purposes of corporate governance research.

2. METHODOLOGY

Firstly, we introduce some notions on 'phronetic social science'. Secondly, basic remarks from the literature on theoretical and philosophical background of phronetic research in corporate governance are presented. And, thirdly, we review recent literature in the phronetic corporate governance field from the methodological point of view. The list of literature that has been analyzed encompasses some of the newest contributions that explicitly addressed phronetic approach in corporate governance research. That is by no means a comprehensive list of literature that could be relevant for phronetic corporate governance research. Comparison of literature has been performed along the lines of the methodological guideline developed by Flyvbjerg and conceptual work of Jennifer Rowley and Paul Gibbs , leaving the space for adding new lines of comparison i.e. the development of phronetic corporate governance research in particular, and phronetic methodology in general.

3. "PHRONETIC SOCIAL SCIENCE"

From the point of view of history and philosophy of methodology, explicit emergence of phronetic methodology is more significant than one could conclude from its recent practical employment. It started back in ancient and medieval history when cornerstone of nowadays the dominant stream of scientism had been adopted and developed. Now, it challenges the scientific society itself to reconsider its values and power to change the reality of scientific life – which point to choose on the scale between social engineering and social participation.

Flyvbjerg (2001), a leading international expert in the field of programme management and planning, articulated the term 'phronetic social science'. He borrowed the term 'phronesis' from Aristotle and used it in a sense of ethical-practical wisdom or prudence. Although there have always been researchers in social science who, more or less deliberately, employed some aspects of phronetic approach, Flyvbjerg was the first who developed a phronetic methodology and explicitly employed it in his research of social phenomena. He made a clear delineation between social and natural science in terms of fruitfulness of methodology that each science employs. Thus, while epistemological methodology is advantageous in producing cumulative and predictive knowledge in natural science, phronetic methodology is advantageous in analyzing and changing social phenomena that rely on values and power of social actors. Consequently, for each science there is a specific type of rationality – in natural science an instrumental rationality yields better

results while in social science value rationality is more fruitful. Moreover, he emphasizes that it cannot be expected from social science to follow epistemic methodology of natural science in producing cumulative and predictive type of knowledge, in order to prove its validity. On the contrary, social science should analyze social phenomena taking into consideration values and power in order to change reality.

Flyvbjerg's ideas on power, rationality, optimism, misrepresentation, delusion, deception, mass media, as well as ideas he drew from Habermas and Foucault have been widely incorporated into project planning and management in order to foster social participation while changing reality. From the organizational point of view, he also developed methodological guidelines for phronetic organization research that represent a starting point for further phronetic organization research. In each case, building on Aristotle's ethical tradition, Flyvbjerg formulated specific four value-rational questions that participants in research are expected to answer from an individual perspective:

a) where are we going,
b) is this development desirable,
c) what, if anything, should we do about it, and
d) who gains and who loses, and by which mechanisms of power?

According to the methodology, the answers are by no means expected to be complete but rather used as an input for further discussion in analyzing social phenomena.

4. PHILOSOPHICAL AND THEORETICAL BACKGROUND OF PHRONETIC RESEARCH IN CORPORATE GOVERNANCE

Philosophy and the theory of corporate governance already accommodate themselves to the reality that values and power are issues that matter in a globalized world, with big corporations, media, financial institutions, political players and international organizations having significant power to shape the society in line with their values. They acknowledge that corporate governance is a playground where interests of owners, capital, work, environment, politics, local community and other corporate stakeholders are continuously interfering at the organizational level. These aspects are encompassed mainly by philosophy and theory that lay behind political theories of corporate governance. On the other hand, if perceived from an individual perspective, as different persons follow different values, have different interests and exert different degree of power, it cannot be expected that there are universally best answers or answers that would be equally acceptable for all in all situations, in terms of gains and losses that emerge from changes in corporate governance reality. Hence, the philosophy and theory of corporate governance should take into account differing values and power of different corporate stakeholders and individuals, since they could prefer different paths of corporate governance development and undertake different steps to change a corporate reality.

While issues of values and power in the area of corporate governance were researched to a considerable extent, it is only recently that phronetic approach itself has been employed in this area of research. David Perkins and John E. Timmerman (2005) critically examined, from a Christian perspective, the virtuism/situationism debate on the role that virtual personal character plays in business and corporate governance. They put emphasis on the identification and cultivation of character as the primary basis for ensuring ethical behavior, thus serving as the basis for making a better reality. Alejo José G. Sison (2008) thoroughly presented Aristotelian philosophical foundations of today's corporate governance. He places the discussion of corporate governance in the economic, legal and cultural context with an emphasis on subjective ethical human practice and presented a series of case histories.

In his conceptual paper Grassl (2010) showed how Aquinas' views on the structure of the moral act can be reconstructed and applied to the process of decision making in management in a way that harmonizes instrumental rationality and personal morality. The paper opens up a field of empirical research by introducing the interplay of deliberative and prescriptive stages in deci-

sion-making and should be revisited for the purposes of further development of phronetic methodology in decision-making in management, and in corporate governance, as well. Ignacio Ferrero and Alejo José G. Sison (2012) carried out a survey on virtue in the area of business and management in which they charted the evolution of ethics articles from 1980-2011 and established clusters of authors and themes, supplying it with a solid philosophical and anthropological foundation. Jowere Mukusha (2012) engaged in a philosophical ethical analysis on the impact of good corporate governance as the key to sustainable development in case of Zimbabwe that could be employed elsewhere.

Wendelin Küpers and David Pauleen (2013) have addressed the importance of multidimensional approach while practicing the phronetic approach. They analyzed works of other researchers from the following perspectives: historical continuum and spiritual and religious traditions, limits of practical wisdom and the status of embodied prâxis, sowing seeds for phronetic approach in hostile ground, acceptance and legitimization of wisdom, and emerging wisdom research agenda, especially in the fields of organization and leadership.

From the theoretical perspective, in the corporate governance literature there are several major theoretical frameworks: agency, stewardship, resource dependence, stakeholder and managerial-hegemony. They emerged from various disciplines such as finance, economics, accounting, law, management and organizational behavior.

Yet, so far there has been no theory of corporate governance emerging from any discipline rooted in phronetic approach. A useful starting point for the inclusion of values, power and control into the corporate governance analysis is the literature overview presented by Shann Turnbull (1997), which deals with models of analyzing corporate governance from the perspectives of culture, power and cybernetics. While he argued that the literature acknowledges the importance of value consensus in keeping together participants in transactions on the basis of mutual trust and confidence, he found that power, on the contrary, was a neglected issue that has been only partly included in political models of corporate governance. As to the cybernetic models of analyzing corporate governance, he reminds that these models are dependent upon information and control architecture of social institutions, and control is dependent on power. An interesting trait of the cybernetic approach is the inclusion of complex dynamic environment into complex control systems.

Corporate governance theories have been approached from the phronetic stance in the work of Jeanetha Brink (2006). She categorized the theories such as agency theory, managerial hegemony, stewardship theory, external pressures, stakeholder theory, theories of convergence, critique of shareholder value, post-Enron theories, but also presented the following theories based on the changed society of the minimal state: new public management, good governance, socio-cybernetic system, self-organizing networks. In the area of theory of the firm, values and power are included as part of informal social structures and personal relationships within the social capital theory of the firm (Chisholm and Nielsen 2009). Furthermore, a view of the firm as a common good built on the Aristotelian-Thomistic tradition (Sison and Fontrodona, 2012) has recently emerged as very promising for the corporate governance research.

In order to enable further discussion on what could be named as phronetic corporate governance theory, we briefly review some recent concepts emerging from the area of management, organization and leadership. Thus, Rendtorff (2010) discussed recent approaches in the theory and philosophy of management in a complex society in the case of Denmark. In addition to the general theory of organization, which is built on systems theory and polycontextual understandings, he emphasized two additional dimensions – conceptualization of a concept of leadership based on virtues of integrity, dignity, and judgment, as opposed to management, and understanding how the strength and power of discipline are embedded in the management technologies of corporate religion and existentialism. This is a good example of how considerations of elements of theories and philosophical concepts can help contextualize the importance of the emergence of values-driven management and corporate governance in a complex national context.

Po-Keung Ip (2011) articulated a concept of Kingly Governance based on Confucian core moral elements of benevolence, rightness, ritual following, wisdom and trustworthiness, and as-

sessed the concept against the practice in today's China. In addition, Nicolai Foss and Peter Klein (2013) have recently made important and promising reconsideration of Hayek's work. Although their notions are meant to be used by organization researchers working on the micro foundations of routines and capabilities, Hayek's work is important for phronetic organization research as well. Not only did Hayek criticize the rationalist model of designed action, but he also raised the issue of how to enable the best use of tacit knowledge (phronesis being an aspect of tacit knowledge) in a more subjectivist i.e. constructivist and sense making way. Simultaneously, virtue ethics has been increasingly applied in theoretical and empirical business researches, at different levels of analysis and from various perspectives - at the individual level concerning management behavior and decision models, at the organizational level in creating organizational climate, communities and at the society level in measuring the impact of business on the environment in which it operates (Fontrodona, Sison and Bruin, 2013).

5. METHODOLOGICAL ISSUES IN PHRONETIC CORPORATE GOVERNANCE RESEARCH – RECENT LITERATURE CONTRIBUTIONS

Flyvbjerg's (2006, b) a guideline for phronetic organization research is a good starting point to examine how issues of values and power could be approached in phronetic corporate governance research as well. His suggestions concern the following: focusing on values, placing power at the core of analysis, getting close to reality, putting emphasis on little things, looking at practice before discourse, studying cases and contexts, asking 'how' and 'why' questions, moving beyond agency and structure, and dialoguing with a polyphony of voices. On the other hand, we acknowledge the contribution of Jennifer Rowley and Paul Gibbs (2008) concerning the concept of wise organization. They developed the concept as an extension of the concept of learning organization, which encompasses a plethora of diversifying values and interests of corporate stakeholders. According to the authors, organization is capable of learning through the process of practical wisdom associated with the seven pillars of wisdom: understanding dynamic complexity; developing personal wisdom competency; deliberating towards ethical models; refreshing shared sustainable vision; group wisdom dynamics; deliberated praxis; and embodied learning. Both concepts we use as, to date, the most comprehensive and as a reference point for the assessment of newer contributions in phronetic corporate governance research.

Different authors have emphasized different aspects of phronetic methodology in corporate governance research and we now turn to a chronological overview of their contribution. Nayak, Maclean, Harvey and Chia (2007) explored the lives and careers of Indian business elites from a practice perspective. They found that corporate governance has been shaped by mediating symbolic forms embedding complex web of connections between national values, individual dispositions and institutional practices. It is the symbolic forms, as a synthesis of values, which seems to be promising in further development of phronetic methodology.

Cairns, Sliwa and Wright (2010) developed an example of a critical scenario method that could be used by managers in international business. The method is based on Flyvbjerg's social science interpretation of the concept of *phronēsis* and explicitly puts in use the four questions that he defined as relevant to be answered in social science research. The method has been developed for educational purpose to foster mainstream and alternative discourses, but is suggested to be used in practice for solving complex problems in a globalised economy, beyond that of profit maximization. Also, as it takes into account different perspectives, it is particularly suitable for corporate governance practice.

Colombo (2011) explored virtue as a necessary supplement to legal rules and regulation of corporate enterprise. He analyzed corporation and corporate law from the perspective of virtue ethics and suggested that corporations and company law should enable more space for corporate officers to act free in exercising the virtue behavior. As the prevailing legal approach to corporation is contractarian, which adopts nexus-of-contracts view of corporation that puts emphasis on economics, rules and regulations, he broadened the approach by articulating a vision of corporation as a nexus-of-virtue, which focuses on virtue-ethics. In future research it would be interest-

ing to examine if this approach has any common methodological points with studies conducted in informal institutions of corporate governance.

Arjoon (2012) in his essay on Aristotelian-Thomistic approach to corporate governance and ethical decision-making analyzed eight peer-reviewed journal articles that addressed ethical deficits which cause moral failings. He promotes the idea that virtue ethics, human dignity and natural law ethical principles of subsidiarity, solidarity and the common good should be integrated into business practice as a corrective to some aspects of market behavior.

Garah, Beekun, Habisch, Lenssen and Adaui (2012) provided an exploratory overview of papers focusing on practical wisdom for management in different contexts from Islamic traditions, both from academic and practitioner-oriented perspectives. They demonstrated that the Islamic tradition offers valuable practical wisdom insights into multiple areas, including leadership, human resource management, action learning, knowledge transfer, and business ethics. As the authors noted, some basic questions need to be explored further, such as the relationship between the origins of religious wisdom traditions in a relatively simple socio-economic context and their adaptability to today's globalized economy.

Ruwhiu and Cone (2013) used a narrative approach in their study of culturally bounded pragmatic leadership in the world of Maori philosophy, ethics and knowledge (wisdom). They contributed to a deeper understanding of culturally specific behaviors that are reflective of good practice and rely on indigenous logics. The approach employed in this study is advantageous particularly in those cases where leadership practices are under significant influence of culturally specific behavior.

Verhezen (2013) explicated how wise decision-making might be incorporated in a model of corporate governance and analyzed how to embed the notions of accountability and responsibility in corporate governance. He focused on the issue of legitimacy of the corporate board stemming from law, customs and norms, that designates the power (formal and informal authority) and the obligation (formal accountability and informal responsibility) to board members, enabling them to create a wise leadership. As Verhezen argues, wise leadership constitutes the basis for transactional economic value. Therefore, it is a challenge for future research to examine how concepts of bounded rationality and wise decision-making could be embedded within one theoretical corporate governance concept.

While almost all these literature contributions in phronetic corporate governance research addressed some specific issues and aspects of phronetic methodology, the work of Cairns, Sliwa and Wright (2010) deals more explicitly with the phronetic methodology itself. However, when tentatively assessed against the lines of phronetic methodology developed by Flyvbjerg and pillars of wise organization developed by Rowley and Gibbs, their relative contribution could be perceived in a more organized way, as represented in Table 1. The elements of comparison that have been extracted from each contribution concern those that the authors more or less explicitly emphasized in their work. It doesn't mean that other elements are not present in their research, but they are rather implicitly included.

In terms of coverage of suggested elements, the closest to the approaches of Flyvbjerg, and Rowley and Gibbs are contributions of Nayak, Maclean, Harvey and Chia (2007), Cairns, Sliwa and Wright (2010), and Ruwhiu and Cone (2013), all covering almost all the elements. Next to them are approaches of Garah, Beekun, Habisch, Lenssen and Adaui(2012), and Verhezen (2013), with differing and half coverage of suggested elements. And, lastly, contributions that partially overlap with Flyvbjerg, and Rowley and Gibbs approaches, covering the similar elements, concern Colombo (2011) and Arjoon (2012).

Table 1: *Corporate governance phronetic research literature (contributions)*

Flyvbjerg's lines of employing phronetic methodology	Nayak, Maclean, Harvey and Chia (2007)	Cairns, Sliwa and Wright (2010)	Colombo (2011)	Arjoon (2012)	Garah, Beekun, Habisch, Lenssen and Adaui (2012)	Ruwhiu and Cone (2013)	Verhezen (2013)
Focusing on values	✓	✓	✓	✓	✓	✓	✓
Placing power at the core of analysis		✓					✓
Getting close to reality	✓					✓	
Putting emphasis on little things							
Looking at practice before a discourse	✓	✓	✓	✓	✓	✓	
Studying cases and contexts	✓				✓	✓	
Asking 'How' and 'Why' questions	✓	✓		✓	✓	✓	✓
Moving beyond agency/ structure dualism	✓		✓			✓	
Dialoguing with a polyphony of voices							
Rowley and Gibbs's pillars of wise organization							
Understanding dynamic complexity	✓	✓					
Developing personal wisdom competency	✓	✓				✓	✓
Deliberating towards ethical models	✓	✓	✓	✓		✓	✓
Refreshing shared sustainable vision	✓					✓	✓
Group wisdom dynamics	✓	✓				✓	
Deliberated praxis	✓	✓	✓	✓		✓	✓
Embodied learning		✓					
Type of research/ Method used	Exploratory	Methodological	Exploratory	Critical analysis	Exploratory	Narrative	Critical analysis
Corporate governance issues/areas of further extension/ employment of the research	Symbolic forms	Critical scenario method for complex problem solutions	Nexus-of-virtue	Promotion of virtue ethics in practice	Contextuali-zation in a simple national and global context	Significant culturally specific practice	Conceptu-alization of new concepts

On the other hand, when assessing which element proposed by Flyvbjerg, and Rowley and Gibbs has been covered most by recent research, the following elements emerged: focusing on values, looking at practice before discourse, asking "how" and "why" questions, deliberating organizational behavior towards ethical models and practice. It seems that values and practice are still the main concern of recent research, as suggested by Flyvbjerg, Landman, and Schram (2012), and Jennifer Rowley and Paul Gibbs (2008).

It seems that value informed perspectives and the notion of practical wisdom need further theoretical and methodological development, and phronetic methodology itself is yet to be developed, either through further employment of Flyvbjerg's methodology, extensions of existing works of other researchers or emergence of new approaches. As indicated in Table 1, further extensions/employment of existing research of various types (exploratory, narrative, critical analy-

sis) could be expected in the following areas/issues: symbolic forms, critical scenario method for complex problem solutions, nexus-of-virtue, promotion of virtue ethics in practice, contextualization in a simple national and global context, sinificant culturally specific practice, and conceptualization of new concepts. Relatively less employed lines of phronetic methodology are those that are listed as follows: placing power at the core of analysis, getting close to reality, putting emphasis on little things, studying case and contexts, moving beyond agency/structure dualism, dialoguing with polyphony of voices. From organizational point of view following traits of organization are still to be examined: understanding dynamic complexity, developing personal wisdom competency, refreshing shared sustainable vision, group wisdom dynamics, and embodied learning.

6. CONCLUSION

In this paper we explore the prospects of employing and developing phronetic methodology in the area of corporate governance research. Phronetic methodology in social science has been developed by Bent Flyvbjerg on the basis of Aristotle's philosophical concept of phronesis in a sense of behavior that relies on value judgment, practical wisdom or prudence, in a dynamic and complex context. Since corporate governance is a playground where interests of owners, capital, work, environment, politics, local community and other corporate stakeholders and individuals continuously intersect at the organizational level and across society, on the one hand, and since different persons follow different values, have different interests and exert a different degree of power, prefer different paths of corporate governance changes in terms of gains and losses they expect on the other, phronetic methodology appears to be a missing approach or, better to say, a proper match when it comes to research in the area of corporate governance.

The most recent theoretical and conceptual contributions open a range of possibilities for development of phronetic corporate governance theories and varieties of phronetic methodologies, one could say – as many as there are different corporate governance practices. The most developed methodological approaches till nowadays have been brought by Flyvbjerg, Landman, and Schram (2012), and Jennifer Rowley and Paul Gibbs (2008). Their suggestions have been used to review contributions of recent emerging literature on corporate governance that explicitly addresses elements of phronetic methodology i.e. values and power. It appeared that phronetic methodology is in its early stage of development in the area of corporate governance, and a diversity of approaches are yet expected to emerge in order to come to answers that could be used as an input for further discussion in analyzing corporate governance.

Further extensions/employment of existing studies of various types could be expected in the following areas/issues: symbolic forms, critical scenario method for complex problem solutions, nexus-of-virtue, promotion of virtue ethics in practice, contextualization in a simple national and global context, significant culturally specific practice and conceptualization of new concepts. In addition, there is room for future research to employ those lines of phronetic methodology that have been less emphasized in the existing research, such as placing power at the core of analysis, getting close to reality, putting emphasis on little things, studying case and contexts, moving beyond agency/structure dualism, dialoguing with a polyphony of voices. From the organizational point of view, challenging issues are the following traits of wise organization: understanding dynamic complexity, developing personal wisdom competency, refreshing shared sustainable vision, group wisdom dynamics, and embodied learning.

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