



Qualitative research in finance

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Abstract

This paper provides an overview of qualitative research to encourage finance researchers to apply a more diverse approach to current research practices. Social science researchers recognize that research questions should determine what research paradigm is best for each study. Imagine the benefits to finance if we expand our empirical sources of data to include what people have to say, which then allows us to explore the complex reasoning behind these conversations. It is the intent of this paper to enhance our current research practices in finance through the use of qualitative methods and to view this approach as an invaluable supplement or prelude to existing practices.

Keywords

Finance, qualitative research

I. Introduction

Some of the best seminars start off with the speaker introducing their research topic by sharing a conversation they had with an influential person such as a market maker, fund manager, chief financial officer (CFO), or other market leader. The speaker could be missing a great research opportunity. If only the speaker had approached this opportunity more formally by doing a qualitative study, there might be many other things discovered that could be the focus of an empirical study. Scientists who conduct clinical trials to see the effect of drugs or compounds on treatment versus non-treatment groups would love to be able to conduct their research more directly. What a physicist would give to be able to ask the atoms, molecules, and compounds what they are doing. In finance we can do this – we can ask the CFO, board members, the market makers, fund

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managers, and the other market leaders what they are doing. Imagine the benefits to finance if we expand our empirical sources of data to include what people have to say, which then allows us to explore the complex reasoning behind these conversations.

Lintner's 1956 study of dividend policy began as a qualitative research study. The study's conclusions regarding dividend policy still hold true today, over 50 years since he published. He approached his inquiry inductively, open to find out what "presidents, financial vice-presidents, treasurers, controllers, and directors" at selected industrial companies had to say about dividend policies. From these field interviews, he "set up a theoretical model of corporate dividend behavior" (1956). Literally, the rest is history as we look back to his ground-breaking finance research.

Approaching finance research deductively through statistical modeling of large-scale numerical data sets is currently considered common practice (Gippel, 2013). This approach is often framed upon a hypothesis that is designed to allow the researcher to broadly measure and predict. Generalization and replication of the results further enhance the quality of the work. Qualitative research is based on a very different frame of meaning construction that allows the researcher to explore and better understand social science issues at a deeper level. What people say and write and how they behave can be just as valuable to the researcher. It is interesting to consider that there is likely to be more of this type of data than the other. Which approach is best? No one method is perfect; rather, we need to use the best method for the question at hand. In Lintner's case this was the qualitative approach and it produced results that are credible and still regarded as the state of the art more than 50 years on.

2. Applying qualitative methods

Often we find finance relying on the use of such research methods as standardized surveys, questionnaires, and statistical theoretical models. These practices have proven their worth and have come to define the discipline of finance. Yet other paths of inquiry remain as we strive to explore new knowledge. So how might the finance researcher apply a more diverse approach to the collection of empirical data using qualitative research methods? For the casual user, qualitative research may be seen as an expedient way to include a one-on-one interview, facilitate a focus group, or write observational notes of a single case. This view of using a limited range of qualitative data sources would suggest a lack of knowing how to best apply qualitative research as an empirical process. The goals of quality and credibility are not the sole domain of quantitative inquiry, as all forms of research should strive to promote the pursuit of high scholarly standards.

To engage in qualitative research in a credible high-quality manner, the researcher must adopt an entirely different way of thinking. We need to extend our research practices beyond data collection methods so that we may conceptualize and apply complex methodological frameworks into our design. Qualitative inquiry means staying inductively open to the unknown while exploring, seeking to discover or enhancing a deeper understanding of intricate social relationships. This different way of thinking includes the adoption of the concept of "researcher as instrument", a metaphor used by Geertz (1975) to emphasize that research and researcher are intertwined at many levels. The concept refers to the researcher taking time to reflect on their role in the research and what they, as an individual, bring to the research. This process of reflexivity engages the researcher in viewing their role in the construction of meanings. In qualitative research, the construction of knowledge and meanings during data collection and analysis is directly controlled by the researcher who functions as the human instrument for the study. This direct engagement of the researcher into the study stands out as a fundamental difference with quantitative research, where the researcher typically strives for deductive objectivity through distance and detachment. The researcher being

the instrument represents the design choice of using a human instrument rather than constructing a non-human instrument. Researchers commonly recognize that there is a philosophical divide between quantitative and qualitative inquiry (Bredo, 2009; Ercikan and Roth, 2006). This divide is most evident when addressing the positioning of the researcher in the study as an instrument. By allowing for a different way of thinking about research, the “researcher as instrument” can explore the complexities of deeper understandings of human interactions that are accessed through the direct involvement of the researcher.

The lens that the researcher uses to examine the research issue represents a theoretical orientation that best aligns the researcher to the study; for example, studying an organization and trying to answer questions by looking at the shareholder culture would use a qualitative ethnographic approach. The researcher has the opportunity to consider a wide range of theoretical orientations that may be used to design and conduct a study. Figure 1 displays a continuum of theoretical research orientations, including positivism, pragmatism, constructivism, post modernism, and critical theory (Denzin and Lincoln, 2005; Gibson and Brown, 2009). For a detailed description of these theoretical orientations, see Patton (2002) and Schwandt (2007). The objective side of the continuum is associated with quantitative inquiry, and the lived experiences side of the continuum aligns with qualitative inquiry. Mixed methods research draws upon both sides of the continuum in varying degrees. This rich diversity of philosophical frameworks represented throughout the continuum guide a researcher’s design decision making.

Each framework contains a different language of meanings for such terms as theory, generalizability, transferability, trustworthiness, validity, credibility, reliability, and ultimately how we define trustworthy robust research (Koro-Ljungberg et al., 2009). Inappropriately using quantitative

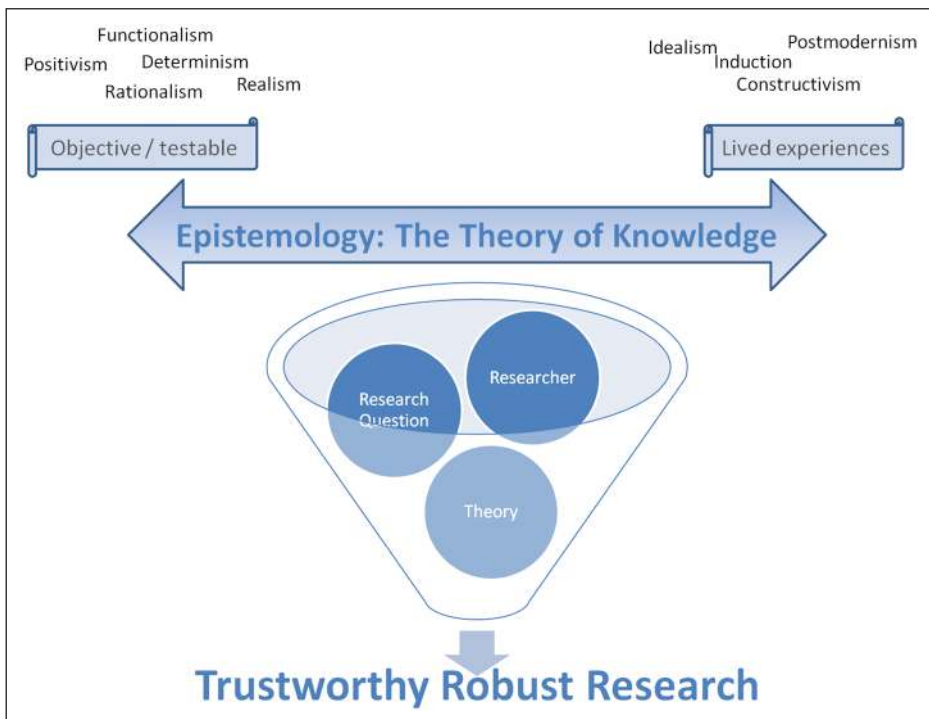


Figure 1. Divergent theoretical orientations.

terminology in a qualitative study, or vice versa, can mask and confuse meanings and misrepresent philosophical distinctions. For example, it is appropriate to use generalizability in a quantitative study, but not in qualitative research. Such misuse weakens the utilization of both qualitative and quantitative research methods and diminishes the quality of a study. As suggested in Figure 1, our ability to appropriately apply different research language meanings is measured by the level of our skills to approach the formation of research questions that can be studied through a fusion of the researcher with the appropriate theoretical orientation.

In response to issues of quality and credibility, qualitative research methods continue to evolve through interdisciplinary applications. The suggestion of adopting standards of qualitative practice remains highly contentious (Freeman et al., 2007), but the debate has shifted to promote consideration of self-imposed standards within loosely knit disciplines. Modern qualitative research has become more formal and credible, with practices that an empirical finance academic would struggle to comply with – to wit the case of the finance academic keeping a record of every variable they used and then discarded in predictive return studies.

Qualitative research does not need to replace traditional empirical finance work. It can enhance our current research practices in finance as an invaluable supplement or prelude, as in the Lintner (1956) paper. By thinking outside our comfort zones we may be able to shift our views of research to explore these other levels of inquiry. Finance researchers considering the incorporation of qualitative methods are faced with a branching path of design decisions that shape research quality and credibility. The researcher's approach and the framing of both a qualitative and a quantitative study require clearly articulating an upfront purpose and focus. However, there is an important distinction in the approach to the purpose and focus of a study that quantitative and qualitative researchers must take. Essentially, quantitative researchers form research questions and hypothesis to deductively explore causal relationships or to prove or disprove a top-down theoretical model. Qualitative researchers, on the other hand, strive to explore, examine, or discover new understandings inductively (Creswell, 2009). This careful crafting will guide these many complex and ambiguous design decisions that the qualitative researcher will experience during fieldwork. It is vital that the qualitative purpose and focus are clearly written and consulted throughout each stage of the study. Through this diligent up-front thinking, a foundation will be formed that will guide the researcher in producing trustworthy work. As the qualitative researcher continues to frame the study, more and more design decisions are encountered. It takes time for the researcher to gain access and establish a level of trust in the naturalistic setting. These fieldwork decisions ultimately support the presentation of credible, compelling research (Patton, 2002; Schram, 2006).

A qualitative design is fluid rather than linear. Flexible emergent design allows the researcher to build on insights and explore increasingly deeper understandings. At any stage of the study, the researcher has the option to modify data collection and analysis. Often shifts between deductive and inductive inquiry trigger emergent design shifts (Miles and Huberman, 1994; Patton, 2002). With this freedom to explore new paths of inquiry comes a formidable responsibility of concurrently maintaining the highest standards, which in turn further strengthens the quality and credibility of the work. Hence, diligent ongoing monitoring of the "researcher as instrument" is required to promote trustworthiness of the work.

Building a robust qualitative study design requires a credible link between the qualitative data and the qualitative findings. To accomplish this we draw upon multiple data sources to support pathways exploring deeper understandings. This can help to overcome the skepticism that often greets qualitative research (Patton, 2002). Figure 2 represents the concept of data triangulation through the collection of three different types of qualitative data: field observations, site

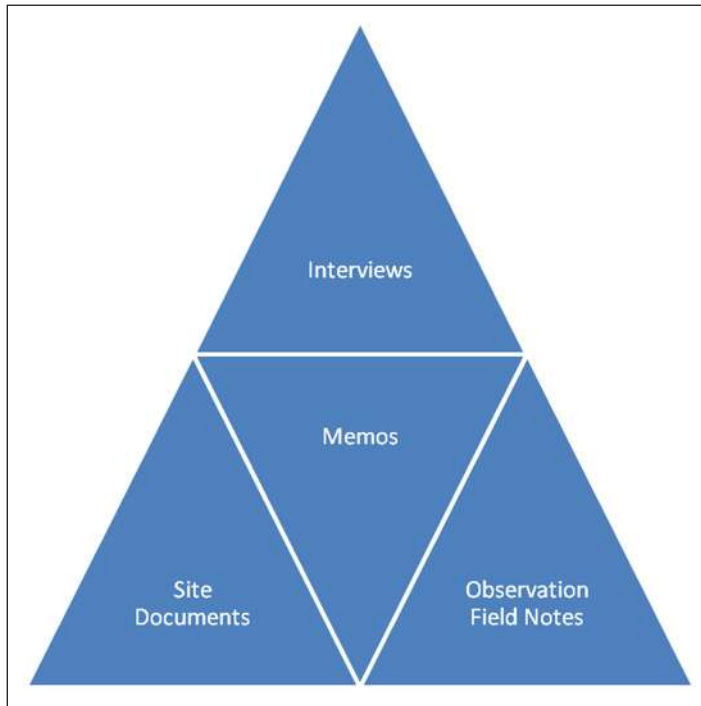


Figure 2. Building credible evidence from multiple data sources.

documents, and interviews. Each of these examples of data takes many forms and increasingly can be gathered online in digital format.

Drawing upon multiple data sources must not become a search for causal meanings to prove or disprove an argument. Rather, data triangulation offers multiple ways, or windows, to explore deeper understandings. When adopting triangulation into the study design, particular consideration should be given to the inclusion of all four sources of data that are represented in Figure 2. Through this comprehensive use of data triangulation, the credibility and trustworthiness of a study is enhanced with transparent connections of evidence to the study design, analysis, and interpretation of findings (Anfara et al., 2002).

Memos provide an essential source of evidence regarding the role of “researchers as instrument” and are featured in Figure 2 at the center of the triangle. This data source represents an audit trail of the fluid journey taken to discover and explore deeper understandings. “Memos are cumulative and meant to be personally useful; they should reflect thinking in progress rather than polished ideas intended for others. Make them your own” (Schram, 2003). The writing of memos becomes part of the analysis process for the researcher and requires a self-discipline to capture the journey. “They move the analysis forward and as such are just as important to the research process as data gathering itself” (Corbin and Strauss, 2008). Incorporating field practices to promote memo writing are crucially important to track and capture progress in a study and as a form of analysis. Follow the admonition: write early, write often.

Three forms of memo writing are recommended as a means of managing and tracking throughout a study: methods, reflections and analytic. Methods memos are used to record emergent design decisions and to describe the reasoning behind such changes. Reflections memos represent a personal researcher journal of reflexivity. This serves as a self-monitoring function of “researcher as

instrument.” Analytic memos are helpful for gauging shifts between inductive and deductive reasoning as the researcher investigates and interprets multiple meanings. Adopting this aspect of qualitative fieldwork into a quantitative study would be particularly testing for the quantitative researcher, such as the empiricist in finance, who would be required to carefully document each design decision, interpretations of results, and their positioning of self. We are sure that readers would be very interested in seeing all the variables that a finance empiricist has tried and then discarded in the endeavor to predict asset returns.¹

Other forms of triangulation may be used in a qualitative study, such as researcher, methods, and/or theoretical triangulation (Patton, 2002). Regardless of the type of triangulation employed, the intent of examining different paths is to illuminate understandings in unique ways so as to better explore multiple meanings. The integration of quantitative information into a qualitative study, such as demographic numerical data, is an acceptable qualitative practice to further enhance the use of a wide range of data sources and the related exploration of multiple meanings, keeping in mind that steps should be taken in the use of numbers to avoid potential design problems and that “... the use of numbers by itself doesn’t make a study ‘mixed methods’” (Maxwell, 2010).

Purposeful sampling represents another potential distinction in the practice of qualitative research. The qualitative researcher is interested in a small sample that explores an issue in depth. There are no rules that govern the size of the population sample in a qualitative study. Purposeful sampling involves strategically selecting “information-rich cases” that provide unique knowledge regarding the “issues of central importance to the purpose of the inquiry” (Patton, 2002). Since each qualitative study is a unique naturalistic inquiry, the purposeful sample is designed around an exclusive logic that serves a particular purpose. However, things are not too different for the quantitative researcher whose samples often suffer from selection bias rather than being classic random samples. An example here is the study of all firms who have made a takeover bid, or all firms that made an initial public offering, or share repurchase or debt issue. All of these studies have a form of self-selection bias. As discussed earlier in the Linter study (1956), the selection of key industrial representatives was a purposeful sample of information-rich cases.

It is interesting to consider that in qualitative fieldwork, what appears on the surface to be a rather straightforward task of asking questions will draw the qualitative researcher back to theoretical considerations of what knowledge is and how it is obtained. Kvale and Brinkmann (2009) offer guidance in interviewing through the metaphors of the interviewer as a miner who collects knowledge and the interviewer as a traveler who constructs knowledge during their journey. Constructing, collecting, or gathering data symbolize subtle distinctions of theoretical positioning by the researcher with the study. Other more obvious interviewing tips to consider include:

- avoid leading questions;
- no hunting for your answer;
- dichotomous questions have limited value (Patton, 2002).

Avoid questions with hidden meanings; for example, asking people whether they would fund further education with debt will draw a different response than asking about investment in further education, as debt has a negative connotation.

Analysis of qualitative data represents one of the more challenging aspects of qualitative research. As we push inductively to remain open to multiple paths of meanings and deeper insight, we must also concurrently recognize our shifts to deductive reasoning. These shifts between inductive and deductive reasoning support the emergence of complex social meanings and the interplay of testing and affirming interpretation. Hence, a degree of tolerance with ambiguity is a recommended skill for

the qualitative researcher. “Understanding an issue from within a larger set of relationships imparts a significance to what otherwise might seem to be contradictory, random ideas or events. This takes time and the forbearance not to seek closure too quickly” (Hill, 2007). Analysis may be likened to making sense of a puzzle. Start by gathering and placing all the small pieces of the puzzle on a table. Immerse yourself in the task as you strive to construct a picture. Unlike the manufactured puzzle with only one picture, your analysis of the pieces will likely generate different pictures. Did I really get it right? Does it make sense to others?² Questions like this encourage the researcher to keep digging and interrogating the evidence.

The use of qualitative data analysis software (QDAS) continues to increase in functionality and popularity. In the 1970s and 1980s it was common practice to analyze text data using scissors to cut and paste, and to use colored highlighters to identify patterns. Today, QDAS provides sophisticated tools to allow qualitative researchers to develop a complex web of connections throughout their data. From these connections, qualitative researchers build relationships and construct deeper meanings. QDAS allows us to be as creative as we can be in the ways we look at our data. It also provides audit trails and transparent access around the analysis.

An old criticism of qualitative inquiry by positivist social science researchers is that such work is soft and lacking scientific value. In response to these misconceptions, Anfara et al. (2002) demonstrate transparent strategies to link a qualitative study’s research questions to data sources, and evidence of findings. Tables are used to visually link specific research questions with interview questions. A matrix table may also be used to link code structures, findings, and sources for data triangulation. These visual presentations offer greater access to the credible logic and reasoning within a study and provide a compelling way to promote “... public inspection of qualitative studies—to encourage analytical openness. [The purpose of the tables are to support] qualitative research to be written with enough clarity and detail so that someone else is able to judge the quality of the study and accept or refute the findings” (p.33). Table 1 and 2 demonstrate how this may be applied in a qualitative study to strengthen the presentation of credible findings.

Finally we note that all research involving human subjects must obtain ethics approval from the researcher’s university. The three main principles underlying ethics approval are respect, beneficence, and justice for the participants of the study (U.S. Department of Health, Education, and Welfare, National Commission for the Protection of Human Subjects of Biomedical and Behavioral Research, 1979). Anyone who questions the need for this type of ethics review is directed to two high-profile studies; the Milgram Obedience study at Yale University in the 1960s and the Zimadro Prison Experiment study at Stanford University in the 1970s (McBride, 2012).

3. Conclusion

As social science researchers it is our duty to promote and adhere to the highest standards of practice. We must avoid the convenience of cherry picking a design for our study from various research techniques. Rather, we should allow the research questions to determine what path is best for each study. From here we make the design choice of quantitative, qualitative, or mixed methods. Each option offers an array of empirical insights to support our quest for new knowledge. Regardless of our choice, social science researchers share the challenge of growing professional pressures to produce research that is published with increasingly limited organizational support and tighter deadlines. Such pressures potentially hinder our shared pursuit of high quality. Alas, there are no shortcuts for a serious researcher.

It is our intent in this article to share an overview of interdisciplinary research practices in social science that may benefit research practices in finance. From this discussion, creative insights may be sparked for future research. As we stated in the introduction, imagine the benefits to finance if

Table 1. Connecting the data and the research questions. (b) Linking data sources to findings.

Data types	Data sources	What are you trying to find out?
Interviews	PI, P2, FGI	Show how the interview questions align to the research question/s e.g. Interview Questions 1–5 are related to Research Question 3
Observations	Stock exchange Boardroom Planning Meetings	These observations are related to Research Question 4 These observations are related to Research Question 5 These observations are related to Research Question 6
Documents	Legislation	Show how this legislation helps you answer your research question/s
Memos	Annual reports	e.g. Evidence supporting the study focus
	Company website	e.g. Vision and mission, products, services
	M1–8	Audit trail of emergent design
	A1–12 R1–6	Findings and interpretation of multiple meanings Researcher as instrument

P = participant; FG = focus group; M = methods; A = analytic; R = reflections.

Table 2. Linking data sources to findings.

Data source	Finding #1	Finding #2	Finding #3	Finding #4
I:1 Interviews	X		X	X
Focus group		X		
Observations	X		X	
Documents		X	X	X
Methods memos	X	X		
Analytic memos	X	X	X	X
Reflection memos	X		X	

we expand our empirical sources of data to include what people have to say, which then allows us to explore the complex reasoning behind these conversations. We may also consider the benefits of greater involvement of qualitative researchers engaging in finance research. By drawing from the strengths of different research orientations, we can position ourselves to consider how we might adopt new practices. As researchers, we must strive to be open to new approaches, sharing our expertise and, when in doubt, to ask for assistance when venturing into new country as a traveler.

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Notes

1. See here Foster et al. (1997), who discuss the perils of data snooping in this context.
2. As discussed earlier, techniques such as researcher triangulation can help increase the rigor and credibility of research findings. Having two or more researchers independently analyze the data sources and come to the same conclusions is very comforting.

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