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# Boardroom leadership: The board of directors as a source of strategic leadership[1]

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**Abstract**: The aim of this paper is to bring together some of the foundational and recent literature interlinking corporate governance and the leadership role of the board of directors. Strategic leadership is widely assumed to be a responsibility that defaults to the Chief Executive Officers (CEOs). However, in practice, what most CEOs do is strategic management rather than strategic leadership. While strategic management does share key aspects of strategic leadership CEOs are expected to prioritize the managerial side over the leadership side. This is just one of the situations in which the boardroom assumes the leadership role. This paper discusses how boards of directors conduct the process of strategic leadership in their organizations. In recent years there has been an increasing interest among scholars to understand how boards strategize from a behavioral point of view. This growing interest has resulted in the development of various typologies regarding boards' involvement in the strategic leadership processes.

**Keywords**: board of directors, corporate governance, strategic leadership, agency theory, principal agent problem, stewardship theory, board typologies.

**JEL codes**: G30, G34, M14.

## Introduction

The board of directors is the highest administrative body of a company. For that reason its duties constitute the central axis of corporate governance (Du Plessis, Hargovan, & Harris, 2018). The board of directors is at the apex of the organization. Their duties include both internal and external functions, such as monitoring senior management and being involved in the strategic direction of the enterprise. As stated by Banzato and Volpp (2016), the board of directors is a small group of people at the top of an organization whose decisions dramati-

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cally affect the company´s outcomes. The idea of the director board, and corporate governance itself, dates back into several millennia (Evans & Letza, 2017).

According to Pugliese and others (2009), in the last four decades research on the relationship between boards of directors and strategy has proliferated. For these researchers there is little theoretical and empirical agreement regarding the question of how boards of directors contribute to strategy. Their studies illustrate that research on boards of directors and strategy evolved from normative approaches to behavioral approaches which aimed to analyze the impact of board processes and dynamics on strategy-making. Dimopoulos and Wagner (2018) builds the case that the power of the board to determine CEO's continuation or turnover is a commonly used device by with the board exercises its authority. There are situations in which governance deviance is considered as a progressive measure—such as when the management is evidently incapable of a badly needed course correction and when a firm is collectively defined in terms of its entrepreneurial identity motives (Aguilera, Judge, & Terjesen, 2018).

Despite gaps in knowledge around the role and nature of the board involvement in strategy and strategic development, there is much support for the notion that the strategic role of the board is a vital practice of governance (Demirag, 2018; Ferkins, Shilbury, & McDonald, 2005). Although researchers have previously recognized that a board's involvement in strategy related issues is critical to creating and maintaining shareholder value, relatively few studies have been undertaken in this area. Despite the consensus in the governance literature that boards should play an active role in strategy, Atkinson, Kochetova-Kozloski and Webb (2012) conclude that little research exists documenting the extent to which this is occurring. Boards in corporations with a significant number of individual investors seem to be more concerned about interventions in not just strategic issues but also in tactical and operational management. Institutional investors, on the other hand, employs proxy advisors as the front-end of their change leadership efforts (McCahery, Sautner, & Starks, 2016).

This paper aims to be a literature review on the way boards conduct the strategic leadership process in their organizations. In what follows the discussion has been organized to address the main concepts of strategic leadership, theories of corporate governance and the main functions of a board of directors as presented by different researchers. In section 1 it presents much of the theoretical discussion on the degree to which a board of directors should be involved in formulating and implementing strategy. Section 2 addresses the functions of the board, highlighting the changing expectations. Section 3 is devoted to elaborating the role of strategic leadership in the functioning of the board. On how the board perceives this role is the focus of section 4. Section 5 elucidates the theoretical typologies of board involvement when it comes to strategizing. This section identifies the central ways by which the boards of directors carry out the strategic function in their companies. In section 6, the ideas presented in the previous sections are integrated to bring home the importance of strategic leadership as a board function and the challenges for the board to do the same. While doing so it points out the increasing disenchantment in the literature with agency theory as a means to understand boardroom behavior and also the rise of alternatives like stewardship theory.

## 1. Theoretical background

The various theories of corporate governance serve as a basis to adequately understand the way a board of directors should conduct strategic leadership in an organization. According to the studies by Pugliese and others (2009), theories such as agency theory, stewardship theory, resource dependency theory, and managerial hegemony theory have ascribed different responsibilities to boards with regard to strategy. Their studies show that scholars have regularly highlighted the disagreement in the empirical research on the relationship between boards and strategy. For them the controversy over the nature of directors' strategic role still seems to be topical after several decades of research (Pugliese et al., 2009). In many emerging markets, the boards were constituted of members nominated by the founders, political parties, governments, etc. Depending on their short- or long-term stakes in the financial performance of the corporation, they show various levels of interference in strategic management and leadership (Black, De Carvalho, Khanna, Kim, & Yurtoglu, 2018).

According to Ferkins and others (2005) agency theory is characterized by the situation in which an individual (the principal) engages another person (the agent) to undertake a service for them and in doing so delegates some of the decision-making authority to the agent. The authors state that this theory is mainly concerned with the risks the principal faces: agent opportunism (acts of self-interest at the principal's expense), and adverse selection (agent's lack of ability to meet performance expectations). The authors further argue that the threat of agent opportunism exists because the two parties potentially have divergent interests or goals for the firm (Ferkins et al., 2005).

Agency theory conceptualizes managers as self-interested agents that should be closely monitored and it posits that boards affect strategic choices by preventing managers from acting opportunistically at the expense of shareholders. More recent research indicates that activist owners, securities analysts, and various other external governance forces too may deter managers from acting opportunistically (Shi, Connelly, & Hoskisson, 2017). The interest mismatch between employees and owners, although presented as a given, is not true in every organizational context; say, sometimes it could be the result of an informational asymmetry (Omar, Sell, & Rover, 2017).

According to Pugliese and others (2009) following the agency theory means that boards are not expected to initiate and implement strategies, as it would make boards of directors co-responsible for strategic decisions and it would jeopardize the required distance between board members and managers. Also, even as boards wish to reap the benefits of managerial excellence, it nevertheless does not want to be seen as the cause of a corporate meltdown (Panda & Leepsa, 2017). Board involvement in strategy appears to be in somewhat of a conflict with the agency theory. Pugliese and others (2009) conclude that according to this theory, boards are expected to contribute to strategy only through ratifying and monitoring strategic decisions.

Stewardship theory is more normative in nature than the agency theory (Subramanian, 2018). It may come closer to an organic process in certain situations such as when women family members are those who manage the corporation (Memili, Fang, & Butner, 2017). In contrast to agency theory, Ferkins and others (2005) state that stewardship theory considers situations where managers, as stewards, are motivated to act, not out of self-interest, but in the best interests of their principals. According to the authors, stewardship theory negates the so-called agency costs by assuming that a steward's behavior will not depart from the interests of the organization. This theory supports the idea that a steward's behavior is based on co-operation, pro-organizational and collectivistic actions, since this type of behavior is placed as a higher priority than self-serving behavior (Ferkins et al., 2005). The true reflection of board leadership in corporate governance is probably seen in terms how much of stewardship it exhibits to attaining the corporation's mission (Knapp, 2018).

As stated by Pugliese and others (2009) the stewardship theory challenges the rationale of agency theory by arguing that the interests of managers and board members do not necessarily collide. In this perspective, the role of boards is to empower managers, also in the strategy-formulating process. The authors further argue that this perspective conceptualizes managers as intrinsically motivated agents acting in the best interest of the firm. Accordingly, boards are defined as organizational bodies that may support empowered managers in strategy formulation and implementation (Pugliese et al., 2009). Variations of this idea may be found in different cultural contexts—the Jewish Covenantal Theory is one such example (Wesley & Plaskoff, 2017).

Another dominant theory, the resource dependency theory (RDT) suggests that board members are in an excellent position to contribute to strategic decision making by providing access to resources upon which firms depend (Hillman, Withers, & Collins, 2009). The original perspective from Pfeffer and Salancik (1977) stressed the ability of directors to provide access to resources otherwise unavailable to the firm, and the potential of board members to create linkages between the firm and its environment. This theory is in a manner complementary to the resource-based view of the firm (RBV) founded by Edith Penrose. The focus of RBV is on internal organizational resources whereas the focus of RDT is those resources residing in the organizational environment but the organization is uniquely advantaged to leverage them—thanks to the board of directors (Babelyte-Labanauske & Kriauciunas, 2018).

Finally, according to Ferkins and others (2005), managerial hegemony theory asserts that, while the board has power by legal right, the real responsibility for the organization is assumed by management. The authors argue that this theory is conceptually aligned to the agency theory. In this perspective, the board's most important function is to ensure that management acts in the best interest of shareholders rather than to prevail over it. Even if they wish the CEO and the management dominate the board and this, in practice, creates a passive board (Manna, Sahu, & Gupta, 2019). In other words, ambitious boards should find alternative ways by which to exercise their leadership intent.

## 2. The current and the emerging functions of the board

Bainbridge (2015) classifies the specific functions of a board of directors into three broad categories: management, oversight and service. For the author, the management function is a required aspect in most legislations worldwide, in that a board of directors is the formally designated body to direct the affairs and businesses of a corporation. To perform this function, the board of directors delegates the ordinary operations to senior management and in doing so, it must perform the oversight and monitoring function. According to Bainbridge (2015), this aspect is derived from the agency theory, according to which, the board of directors has been designated by the shareholders to protect their interests against the actions of senior management, which could, under wrong stimuli, act against those interests. Finally, the author indicates that a board of directors provides a service function to shareholders and mainly to management, by facilitating business links with financial institutions and political connections with authorities, and by providing specialized knowledge in complex matters (Bainbridge, 2015).

For Ingley and Van der Walt (2001), the five main functions of the board are: (1) providing strategic direction and values; (2) approval of planning; (3) monitoring and control of performance; (4) ensuring organizational capability; and (5) awareness and compliance with legal responsibility.

In accordance with OECD´s principles of corporate governance (2015), the board of directors is primarily responsible for achieving an adequate financial return for the shareholders of the company and for effective management oversight. To accomplish this, the board must conduct an appropriate direction of corporate strategy while preventing conflicts and reconcile the demands of the various stakeholders of the organization.

In the same line of thinking, the Andean Development Corporation (2013) states that the board has as its general functions: the (1) strategic definition of the organization; (2) management oversight; (3) governance of the company; and (4) supervision of a series of specific subjects such as control systems, risk management, prevention of conflicts of interest and institutional ethics, among others.

The UK Institute of Directors (2001) points out that the board of directors is essentially a deliberative body, which nevertheless delegates a wide range of authority to management for the fulfillment of the corporate purpose, it holds its responsibility for all actions taken in the company. Therefore, the board of directors must fulfill four main tasks: (1) the establishment of the vision, mission and institutional values; (2) the establishment of the corporate strategy and the organizational structure; (3) the controlled delegation of powers to management; and (4) the exercise of responsibility towards shareholders and other relevant stakeholders.

All the above definitions regarding the responsibilities of the board of directors explicitly require the involvement of the board in the strategic process which is analyzed in the following sections.

## 3. Strategic leadership in the board function

Vera and Crossan (2004) argue that strategic leadership theory refers to the study of leaders at the top of the organization. Yukl (2013) points out that traditional literature about leadership has been concerned with managers and their subordinates as they interact in organizations, but in recent years there has been an increased interest in understanding how top executives can transform their companies to adapt to a complex environment and stay competitive. This new perspective about leadership has been known as strategic leadership (Yukl, 2013).

Lussier and Achua (2010) define strategic leadership as "a process of providing the direction and inspiration necessary to create and implement the vision, mission and strategies of a company to achieve organizational objectives" (p. 418). Quong and Walker (2010) define strategic leadership as "collaborating with multiple stakeholders to put in place strategies to respond rapidly to complex problems that often require new ways of thinking and understanding of rapidly changing knowledge" (p. 23). Yukl (2013) states that strategic leadership is conducted in several ways, including decisions about the competitive strategy, human resources, management programs, systems, and organizational structure. Malewska and Sajdak (2014) agree with this perspective by affirming that developing a vision for the future and determining the necessary steps needed to implement this vision are the most critical duties of strategic leadership.

The US Army War College (2010) defines strategic leadership as: "the process to affect the achievement of a desirable vision by influencing the organizational culture, allocating resources, directing through policy and directive, and building consensus within a volatile, uncertain, complex, and ambiguous global environment" (p. 2).

In most organizations, strategic leadership is conducted collectively by a small group of people located at the apex of the organization. This assumes that top management is the most entrepreneurial segment in any organization and that the top management knows best (Covin & Slevin, 2017). The decisions of this small group of people at the top of an organization may dramatically affect its outcomes and, given this, the board has a special interest in guiding the process (Banzato & Volpp, 2016).

Research by Ingley and Van der Walt (2001) show that the first responsibility of the board is to set effectively the organization's strategic direction. The authors affirm that the board of directors is in a unique position to accomplish an appropriate strategic leadership role. In order to fulfill this function, the board performs periodic reviews of mission, values and vision; makes policy and decisions that support the strategic vision; and measures progress toward strategic goals and objectives (Ingley & Van der Walt, 2001). Additionally, the authors argue that the board must approve and monitor focused plans for management to meet strategic objectives.

The King IV Corporate Governance Report puts additional oversight expectations upon the board: this means, among other things, managements should be incentivized by the board to adhere to ISO 22301, ISO 31000, and the BCI Good Practice Guidelines (Ferguson, 2019). Boards should also be the leading voices to bring social and environmental sustainability practices to the corporation, as is expected (Atwal, Butler, Mattoo, & Wood, 2019). The 2016 King Committee Report empowered the board in other areas such as devising organizational reporting processes, communication strategies, environmental scanning for new business opportunities, and also in performance driven executive compensation (Institute of Directors SA, 2016; Moloi & Adelowotan, 2016). In this same spirit, the National Association of Corporate Directors, USA, highlights that communication barriers between the board and the senior management is a primary factor in the corporation not being able to leverage the resources available with the directors (Roy, Roy, & Bouchard, 2017).

The Institute of Directors, UK, too have begun reflecting more on changing the cultural assumptions that lead the boards' actions. The advocacy is to move beyond the single loop reflexivity stemming from shareholder orientation to the double loop reflexivity needed for responsibility to the broader groups of stakeholders (Veldman & Willmott, 2016). The social capital needed for changing cultural assumptions demands a more diverse composition of the board and the US National Association of Corporate Directors has become a proponent of this (Booth-Bell, 2018). The European Corporate Governance Institute acknowledges that concentrated equity ownership is not the future and that boards' compositions and actions should reflect this shift (Rojas, 2017). In other words, while discussing the effectiveness of strategic leadership of the board, the importance of the social-cultural underliers cannot be neglected. Evans (2014) has offered a thorough review of previous research on cultural dimensions within the boardroom. This author highlights the importance of understanding the history of cultural research as a precondition for applying it to the boardroom environment.

## 4. Strategizing from the board's perspective

Corporate governance codes make recommendations about the board's role in strategy, such as reviewing and guiding corporate strategy (OECD, 2015). However, they fail to specify in what kind of activities of the strategic process should the board be directly involved. Although many corporate governance scholars agree that boards should contribute to strategy, the role of boards in strategy formulation and implementation has remained mostly unexplored in corporate governance literature (Brauer & Schmidt, 2008; Hopt, 2019). As stated by Ingley and Van der Walt (2001), while there is a slowly gathering convergence on the view that boards do have a definite responsibility and a key role to play in corporate strategy, there is no consensus on the extent or nature of that role. The authors point out that there is a global call for a strategic contribution by the board. While this may be readily accepted, the key issue relates to how such a contribution can be made (Ingley & Van der Walt, 2001).

As presented by Banzato and Volpp (2016) the board should be involved in the following stages of strategic decision: (1) evaluation of strategic alternatives; (2) evaluation of strategic outcomes; (3) generating strategic alternatives; (4) selecting strategic alternatives; and (5) implementing strategies.

According to Ferguson (2019), the majority of corporate governance literature assigns board members a role in strategy formulation and implementation. The strategy formulating stage consists of multiple tasks, such as internal and external analyses of strengths and weaknesses, as well as strategic gaps, development of strategic options and advising the executive management in the final selection and formulation of a corporate strategy. Brauer and Schmidt (2008) indicate that the outcome of strategy formulation is the firm's intended strategy. In contrast, the authors argue that the role of boards in strategy implementation has remained largely limited to ensure that the intended corporate strategy is in fact realized. For them boards should intervene if intended strategy goes off track. The authors conclude that board members' involvement in strategy implementation is a precondition to perform their fiduciary monitoring duties. They can only fulfill legal requirements if they have a clear understanding of how management implements the intended corporate strategy the board had previously approved (Brauer & Schmidt, 2008; Shaukat, Qiu, & Trojanowski, 2016).

Hendry, Kiel and Nicholson (2009) introduced a different approach in the discussion about the board's involvement in the strategic process. For them strategy is something that people in organizations do rather than something that organizations have. The authors define strategizing practices as a "flow of activities carried out by individuals or groups within traditional organizational processes such as planning, decision-making, resource allocation, and strategic change" (Hendry et al., 2009, p. 4). According to this perspective, boards assume different strategizing practices. If strategy is the emergent outcome of other organizational practices, a question to be discussed further is, whether boards could strategize without becoming a participant in these organizational processes.

Hendry and others (2009) propose two general categories to analyze the way in which boards perform different strategic tasks: (1) procedural strategizing; and (2) interactive strategizing. For the authors procedural strategizing relies on formal administrative activities or events such as strategic plans, planning committees, planning cycles, trend analyses, budgets, forecasts, quarterly reviews and performance targets to influence the development and execution of strategy in organizations. Procedural strategizing focuses strongly on a set of performance indicators to monitor strategic outcomes (Hendry et al., 2009).

On the other hand, for the authors interactive strategizing involves direct, face-to-face interaction between board members and senior management in order to influence the development and execution of strategy in organizations. According to Hendry and others (2009), this practice enables board members and managers to argue for their own interpretations of strategy as well as to negotiate these interpretations with others in the organization. It relies on ongoing social exchanges in which individuals or groups communicate, persuade and negotiate; continuously building shared frameworks of meaning about strategy in order to influence each other's behavior (Hendry et al., 2009).

Based on the above, it could be concluded that procedural strategizing is the preferred practice when the board favors maintaining the current strategy whereas interactive strategizing is preferred when boards favor a change in strategy.

## 5. Typologies of board involvement in strategy

Based on the criteria presented in the previous section, Hendry and others (2009) developed a typology regarding the way in which boards strategize which is presented as follows.

*(a) Minimalist strategizing.* It represents minor strategic involvement on the part of boards. In this type, the board's strategic stance is neutral or favors the status quo. Neither administrative strategizing procedures nor face-to-face collaborative mechanisms aimed at generating shared frameworks of meaning about strategy are established to any meaningful degree at board level (Hendry et al., 2009).

*(b) Oversight strategizing.* Strategy typically has a real or perceived history of success and the board favors the status quo. The board focus is on monitoring the execution of the agreed strategy and reacting to management's strategic proposals rather than collaborative strategy development. It is generally accompanied by a power imbalance between board and management. Any face-to-face strategic involvement is limited, formal and episodic (Hendry et al., 2009).

(c) *Transformational strategizing.* Involves board and management developing, in close collaboration, an entirely new strategic direction or substantive changes to current strategies. The board clearly favors strategic change. It is generally accompanied by a power imbalance in favor of the board (Hendry et al., 2009).
(d) *Continuous strategizing.* Involves board and management working together in close and continuous collaboration to renew or adapt strategic direction and to monitor the implementation of that direction closely. It is characterized by board commitment to extensive and ongoing strategic involvement with management embedded within a formalized, administrative framework that facilitates this involvement. Power distribution is reciprocal (Hendry et al., 2009).

Bailey and Peck (2013) developed another typology regarding the involvement of boards of directors in making strategic decisions, based on two different criteria: procedural rationality and political behavior. They propose four types of boards, which are described as follows.

(a) *Engaged boards.* Members of these boards demonstrate a strong involvement in the strategic direction of the company. Board members from this group define an effective strategic decision primarily by the attributes of the process utilized to reach a collective decision. Rather than ceasing board deliberations when there is majority support for a particular position, these boards tend to work issues until all board members are at least comfortable with the final decision of the board. Deliberations around strategic decisions include open discussions, vigorous debates, and analysis of alternatives (Bailey & Peck, 2013).
(b) *Contested boards.* Members of these boards tend to exhibit decision-making characteristics associated with highly political processes, such as behind-the-scenes coalition building, off-line lobbying, withholding of information, attempting to change decision positions through private cooptation, and controlling agendas. Members of these boards are less interested in achieving a consensus on each decision and tend to arrive at an effective board-level strategic decision using a majority vote (Bailey & Peck, 2013).
(c) *Adaptive boards.* While the majority of directors identify with the overall success of the company, a small minority of directors align themselves with narrower interests such as a class of shareholders or employees. Boards tend to bring strategic decisions to closure once it is clear there is majority support amongst the board members for a decision. However, the majority position is determined through a procedurally rational process, and instead of muting the voice of board members who represent divergent interests (Bailey & Peck, 2013).
(d) *Caretaker boards.* These boards are a legal necessity, incapable of exercising decision-making power and therefore not particularly relevant to the strategy decision-making process (Bailey & Peck, 2013).

It may be noted that these typologies may not have ontological values of their own. These are neither exclusive nor mutually exhaustive. However, these typologies will help us understand the key perspectives that inform the origins, processes, and outcomes of strategic leadership exercised by the board of directors.

## 6. Discussion

The board of directors is a primary source of strategic leadership, whether it is duly recognized or not. Tapping into the intent of the board is very important for the CEO to align the organization in the right direction. Research by Ingley and Van der Walt (2001) highlights the generally held assumption that setting strategic direction has been traditionally the territory of the chief executive officer and the senior management team. According to the authors, in the last decades the call has been for directors to take responsibility beyond merely approving strategic plans formulated by management and monitoring their execution, to adopting a leadership role in setting the strategic course for the organization along with accountability for its performance (Ingley & Van der Walt, 2001).

Previous literature placed too much emphasis on the supervisory function of the board of directors derived from the preponderance of the agency theory (Ruigrok, Peck, & Keller, 2006); however, the discussion about the role played by the board of directors in strategy formulation is an issue that has been gaining increasing relevance, particularly after the financial crisis of 2008–2009. Proof of this has been the incorporation into national legislation and voluntary codes of corporate governance of this function as part of the essential tasks of the board of directors.

For instance, in Spain the 2010 law on publicly traded companies included the determination of the general policies and strategies of the company as a non-delegable function of the board of directors (BOE, 2010). In the amendments made to the law in 2014, a text was included that specifically emphasizes the approval of the strategic plan, its operational plans and budgets (BOE, 2014) as a non-delegable duty of the board. Similarly, in Switzerland the setting of the strategic direction of corporations is a legal responsibility of the board (Ruigrok et al., 2006). Like other countries in Latin America, in Guatemala the banking supervisory board approved in 2016 the corporate governance regulation for banks and financial groups, which included the specific responsibility of the board to approve strategic operations (SIB, 2016).

Ravasi and Zattoni (2006) point out that at the theoretical level there are two approaches to the involvement of the board of directors in strategy. On the one hand, there is the agency theory perspective through which the role of the board of directors in strategic involvement is limited to prevent decisions that may contravene the interests of shareholders. On the other hand, the authors point out, there is a strategic option approach whereby it is emphasized how the members of the board can actively contribute to the strategy. Following this line of thought, Ingley and Van der Walt (2001) propose at least three types of board participation in strategy that could be adopted along a scale of involvement: at one extreme would be the traditional role of approval and monitoring of the strategy prepared by the CEO, while in the other extreme would be the active leadership of the board in the strategic formulation and its derived plans. The third option would be somewhere in between.

Heracleous (1999) points out that boards in general are not actively involved in strategy formation, and usually try to avoid confrontation with management regarding strategy. But, as stated by Ingley and Van der Walt (2001) how can directors approve a strategy as the most appropriate for the company if they have not been involved in its formulation? Thus, strategy is a delicate area, because if the lines are not clearly drawn, the board can overstep its responsibility and interfere with the efficient management of the company. On the other hand, if the board does not participate as an equal partner with management in setting the strategy, it is helping to put that company at risk (Ingley & Van der Walt, 2001).

According to Hendry and others (2009), limited board involvement in strategy has frequently been attributed to powerful CEOs exercising a constraining effect over boards. The authors also point out that collaboration between boards and management on strategy has been associated with social ties between the two groups, a situation that is likely to be characterized by mutual trust and a reciprocal distribution of power (Hendry et al., 2009).

Several studies have shown that boards have been rather passive and subject to CEOs and executives' dominance. On the other hand, scholars have shown that boards are becoming more actively involved in strategy. Boards have affected important elements of strategies, such as the scope of the firm entrepreneurship and innovation (Pugliese et al., 2009).

Ruigrok and others (2006) have found empirical evidence between a good organizational performance and the involvement of the board of directors in the strategic process. In this regard, the authors point out that there are many benefits of active involvement of the board of directors in the strategic process. Given that managers must exercise their functions with diligence, the strategic formulation process allows them to be fully informed of the strategic direction of the organization. It lets them internalize the strategy (Pitelis & Wagner, 2019). In the same way, their active involvement in the strategy is an adequate way to take advantage of their experience and knowledge. Finally, the authors conclude that when there is a high level of involvement of board members in the strategic formulation, executives are much more careful in preparing their strategic proposals while improving the monitoring and evaluation process (Ruigrok et al., 2006).

Research by Atkinson and others (2012) show that the provision of resources by boards in strategy development and execution has a greater potential to impact firm performance than does monitoring the firm's success in achieving its chosen strategy. The authors found a significant positive relation between boards that are more involved in developing and monitoring strategy and firm performance (Atkinson et al., 2012).

In the same line of thought Ingley and Van der Walt (2001) point out that boards will evolve into a sort of think tank, with directors who are experts in key areas putting their stamp on aspects of corporate strategy.

## Conclusion

Recent research indicates that there is a growing demand worldwide for greater involvement of the board of directors in strategy formulation and implementation, particularly after the 2008-2009 global financial crisis (Booth-Bell, 2018; Garg & Eisenhardt, 2017; Shaukat et al., 2016; Rojas, 2017). Current changes to national legislations and voluntary codes of corporate governance have reinforced the importance of the board being fully involved in the formulation and oversight of the main strategies of the organization, as a fundamental aspect to fulfill its basic duties to the shareholders. Several empirical studies have proven the benefits for companies whose boards have been involved in the process of strategy formulation, beyond their mere formal approval and subsequent monitoring functions (Ferguson, 2019; Hillman et al., 2019; Hopt, 2019; Veldman & Willmott, 2016).

Large corporations have boards filled with highly visionary minds whose ideas, while being contrasted against the charisma of their multimillion-dollar salaried CEOs, are redundant. It is in small corporations the CEOs and the top management needs the leadership of their boards; but the boards are often dysfunctional in such systems (Daily, Mc Dougall, Covin, & Dalton, 2002). The conceptualization of the board as a breeding ground for retired minds, killing time over coffees and small talks, has discouraged more active individuals from serving on boards. The advocacy and activism of the board to provide leadership intent and insights to the CEO has been a driver of positive change in this regard. It remains to be seen how CEOs with their independent minds who want to make their own individual imprints in their organizations would interpret the boards actively providing leadership lessons. The boards were always expected to provide leadership, but the style used to be *leadership by exception*: provide guidance only when a clear derailment of purpose is observed.

This paper has highlighted the influence that agency theory has had on the behaviors adopted by the boards for more than four decades. Recent studies show a departure from the theory of agency towards stewardship theory, according to which the role of boards is to actively collaborate with managers in the strategy-formulating process. An important aspect of this review has been the identification of two typologies that relate the level of involvement of boards in strategic leadership processes. Despite the theoretical limitations that these typologies may have, these will serve as the basis for new empirical research in corporate governance and strategic leadership.

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