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The Strategic Role Of The Board

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LESSONS FROM RESEARCH

1. More attention should be placed on developing the strategic role of directors and enhancing the way in which directors work together as an effective group.
2. Board's involvement in the strategic decision-making process is associated with higher company performance.
3. Empirical research has documented the following Board effects on strategy formation:
    a. Non-executive directors can be influential in enhancing Board's involvement in strategic decision-making processes.
    b. As Board size increases, Board's involvement in the strategic decision-making process may decline.
    c. High levels of demographic Board diversity could dampen Board's involvement in strategic decision-making processes.
    d. Directors' social relationship ties can encourage productive interactions among Board members, which can enhance directors' ability to contribute effectively to strategic decision-making.
    e. Directors' specific strategic contributions may vary depending on the specific business context and task of the organisation.
4. To develop a strategic Board, companies should select the right directors carefully; train them continuously; deliver the right information in a timely fashion; balance the power of the CEO and directors; foster a culture of debate, integrity, trust and respect; and encourage directors to be active in all stages of the strategy formation process.

1. INTRODUCTION

The legal formation of limited liability companies in 18th century U.K. has separated ownership from control of corporations, where salaried managers ideally serve to safeguard and grow the investment of the shareholders, who are the legal owners of the business. But, as the economy has grown and corporations becoming larger and more complex, de facto, shareholder control has subsequently diminished. The documented tendency of many managers to often engage in excessive on the job consumption and wasteful empire building, however, at the expense of the owners' assets and the business itself, has necessitated the institution of monitoring mechanisms, of which the Board of Directors is an important one.

The implications of global trends towards Board effectiveness, and related concepts of accountability, integrity and transparency are significant. Directors are under pressure not only to perform their legal duties arising from statutes and case law (conformance or compliance dimension) but also to perform their strategic duties of giving effective leadership and add value to the organisation and to its shareholders (performance dimension). These conformance and performance roles call for several improvements including having proper Board organisation (the institution of relevant committees, separating the CEO and Chairperson position, having an effective Board size), the development of robust processes for director appointment and evaluation, on-going director development, and proper attention to investor relations.

Given that the strategic role of directors is essential, what is the empirical evidence on its effectiveness? For example, does a strategic Board produce superior corporate performance? Is there a need for a strategic perspective in corporate governance? Is the institutional context in which the Board functions in of any significance in an attempt to involve Boards in the strategic arena? These questions are considered in this issue of CGE. We review studies that examine the importance of the strategic role of the Board of Directors with regard to performance and governance issues; we also review studies that examine what organisations can do to enhance their Board of Directors' involvement in the strategic arena and, ultimately to improved corporate performance.

2. The Strategic Role of the Board

The Board of Directors sits at the apex of the corporation; it has the authority to approve important strategic investments, and has legal duties to act in the best interests of the company and to exercise due care and diligence. Empirical literature on Boards of Directors suggest that the Board has three critical roles: (1) advise and counsel; (2) monitor and control; and (3) strategy. Of these three primary roles, the Board's strategic role has most often been neglected. Agency theory focuses almost entirely on the monitoring and supervision roles of directors and not on the strategic role of the Board. By and large, too much attention has been placed on the Board structural features to the extent that other prominent Board issues such as the skills and knowledge of directors, the Board climate for debating and provision of opinions and ideas, and the interpersonal relationships among the directors have been neglected.

Early research aimed to provide an insight on what Boards of Directors actually do. A common conclusion which can be drawn from these studies is that Boards of Directors were rarely actively involved in developing and formulating strategy. Donald O'Neal and Howard Thomas of the University of Illinois, in their review of research studies on Boards of Directors from 1992 to 1995, found that directors feel that Boards should be more strategic, however, they were constrained from doing so due to the dominant role played by the management. Most directors are appointed by the person that they are supposed to monitor. As a result, directors may fear challenging the views and opinions put forward by their benefactor.

More recent research, however, finds that Boards are beginning to take their strategic responsibilities more seriously. In addition to the oversight of management performance, one of the core responsibilities of directors is to focus on directing and supervising strategic issues. Directors can benefit companies through developing and reviewing strategic decisions. The Board of Directors' ability to question, seek out, evaluate information to assess management's strategy, and to contribute towards strategy formulation is vital for the sound direction of the company.

In a Nutshell: More attention should be placed on developing the strategic role of directors and enhancing the way in which directors work together as an effective group.

Economic rents: The excess or surplus of total payments given to any factor of production (capital or resources) over and above its 'transfer earnings', that, is over and above what that factor could earn in its next best use.

(Source: http://www.economics.utoronto.ca)

3. Board's Involvement in Strategy and Corporate Performance

There is a growing recognition of the importance of involving directors in developing, implementing and reviewing strategic decisions. Directors' professional expertise and experience are vital to identifying the various opportunities and threats the companies may face. In this section, we review several studies that examine the impact of Board's involvement in strategy on corporate performance.

Richard Rumelt of University of California investigated the importance of industry, corporate and business-related effects on ***economic rents***. Using a sample of 588 U.S. corporations, the author discovered that resources, market factors or strategies that are specific to individual business units had the greatest impact on the company profitability. A later study by Anita McGahan and Michael Porter of Harvard University corroborated the findings and concluded that the most important sources of profitability were business-specific strategies while industry membership and corporate factors were not as important. McGahan and Porter's findings were robust, controlling for industry and business cycle effects as their study employed a sample which covered all sectors of the American economy (except the financial sector) over a 14-year period. What these two studies show is that the development of effective corporate strategies is the way to achieve high levels of corporate performance.

At the end of the day, therefore, a company's performance relative to its competitors rests on whether it has adopted effective strategies at the global, corporate, business and functional levels. The strategic role of Board is particularly critical during periods of environmental uncertainty where important decisions have to be made in the face of ambiguity and insufficient information. In addressing this concern, Jerry Goodstein of Washington State University, Kanak Gautam of St. Louis University and Warren Boeker of Columbia University examined Board's involvement in strategic issues during periods of environmental uncertainty using a sample of 334 hospitals. The authors found that the strategic function of the Board is of vital importance during such periods because strategic change can be essential for the survival of the company.

Through his review of the role of the Board of Directors, William Boulton of University of Georgia observed that over time, as the environment changes and the company grows, the roles of the Board need to evolve accordingly. The author concluded that in periods of uncertainty, it is no longer adequate for directors and the company to rely only on management; the degree of Board's involvement in term of strategic decision-making must also improve so as to create higher company value.

Participative Boards: Characterised by discussion, debate and disagreement. Differences of opinions are resolved by a vote with a majority vote prevailing. In this case, the leadership of the company is most likely to be separated from that of the Board with outside directors constituting a majority of Board membership.

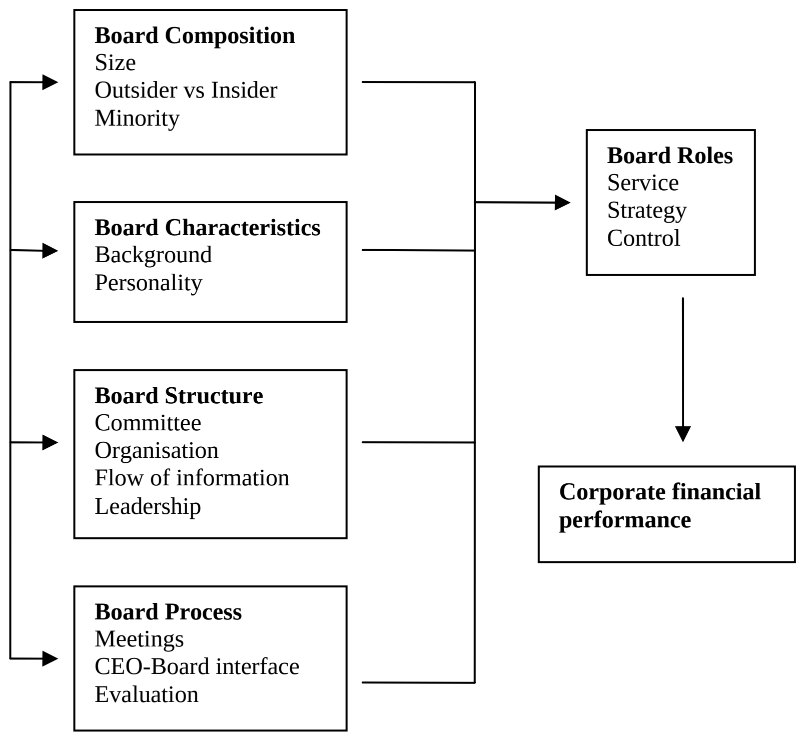
(Source: Pearce, John A. II. And Shaker A. Zahra, 1991, "The Relative Power of CEOs and Board of Directors: Associations with Corporate Performance", Strategic Management Journal, Volume 12, Issue 2, 135-153.)

The above studies focused on circumstances such as environmental uncertainty. However, what is the impact of Board's involvement in strategic decision-making process on company performance in normal circumstances? John Pearce and Shaker Zahra of George Mason University examined the relationship between degree of Board's involvement and company performance. The study used a sample of 69 *Fortune 500* Industrial corporations and 70 *Fortune 500* Service corporations, measured the financial performance by means of the company's most recent three-year earnings per share and controlled for industry effects. A key finding from this study was that ***participative Boards*** in the strategic arena were associated with the highest levels of company financial performance.

In addition, William Judge of University of Tennessee and Carl Zeithaml of University of North Carolina explored the effect of Board's involvement on financial performance through data obtained from personal interviews with 114 Board members from four U.S. industry sectors, which comprised of biotechnology companies, hospitals, textile companies and large diversified companies identified from the *Fortune 500*. Using the organisation's average returns on assets over a five-year period as a proxy for financial performance and after controlling for industry and size effects, the authors found that companies whose Boards were actively involved in the strategic decision-making process achieved higher levels of financial performance. In the subsequent section, we will turn our discussion to the effect of various Board attributes on directors' involvement in strategic decision-making.

A study by Shaker Zahra and John Pearce of George Mason University reviewed empirical research findings on the impact of Boards of Directors on corporate financial performance. In their review, Zahra and Pearce argued that company should "place a premium on Board's strategic contribution, specifically on Board's involvement in and contribution to the articulation of the company's mission, the development of the company's strategy and the setting of guidelines for implementation and effective control of the chosen strategy." Building on past research, the authors suggested an integrative Board model which specifies the relationships between Board attributes, roles and corporate performance as presented in Diagram 1. Further, Zahra and Pearce concluded that there is a direct impact of Board's involvement in strategy on corporate performance.

Diagram 1: Model of Board Attributes and Roles



Source: Adapted from Zahra and Pearce (1989)

In a Nutshell: Board's involvement in the strategic decision-making process is positively related to company financial performance.

4. Board Effects on Strategy Formation

4.1. Board composition and strategic decision-making

Increasingly, there is a growing understanding of the importance of non-executive directors in strategy formation. This can be seen for example in the recent Higgs Code 2003, which includes several recommendations for improving the effectiveness of non-executive directors. The Higgs Code suggests that "non-executive directors should constructively challenge and contribute to the development of strategy" (Higgs Code Provision A.1.4, p. 27). The focus of this subsection will be on whether the non-executive directors are actively involved in shaping corporate strategy and strategic change.

Andrew Pettigrew and Terry McNulty of the University of Warwick examined the power and influence of non-executive directors on the Board and found that non-executive directors could be quite influential in challenging strategic proposals and exercising an influence on strategic change. The authors also discovered that the experience and information brought into the Boardroom by non-executive directors as a result of the relationships and networks formed inside and outside the Board enabled them to wield a greater influence and power in the process of developing, shaping and changing strategy. In a similar study, McNulty and Pettigrew analyzed the contribution to strategy by non-executive directors. Through interviewing Board members of 108 U.K. publicly quoted companies, the authors found that the non-executive directors were actively involved in corporate strategy.

William Judge of University of Tennessee and Carl Zeithaml of the University of North Carolina examined the effects of the proportion of inside representation on a Board on Board's involvement in strategy formulation. Through conducting interviews with 114 Board members in different organizations, the authors found that Board's involvement in strategic decision-making was negatively related to the level of inside representation on a Board. The greater the level of inside directors on a Board, the less participative the Board members in strategic decision-making. This may be because insiders may be less inclined to challenge the Chief Executive Officer, who is their direct boss.

Stephen Hill of the London School of Economics examined what directors do and the patterns of influence within the Boardroom. Through interviewing and surveying 42 Board members of U.K. companies, Hill observed that non-executive directors perceived a significant role for themselves which included bringing in breadth of vision, providing broader views on strategic issues, contributing to environmental scanning and supporting the Chairman.

Barry Baysinger and Robert Hoskkisson of Texas A&M University, in exploring the influence of Board composition on strategic control found that Board contribution to corporate strategy was determined by whether directors are insiders or outsiders and also on the industry sector the companies were in. The authors concluded that in order to improve corporate performance, a model that tailors Board composition to the information-processing requirements of various strategies or industry settlings would be more beneficial for companies.

Richard Johnson of University of Missouri, Robert Hoskisson and Michael Hitt of Texas A&M University examined Board's involvement in strategic actions. By surveying 92 companies obtained from *Standard and Poor's* Compustat data tapes, it was observed that Boards with a higher proportion of outside directors and outside directors with equity ownership were more likely to become involved with major strategic decisions. Specifically, the author found that more outside Board members with equity ownership enhanced Board's involvement in restructuring decisions.

In a Nutshell: Non-executive directors can be influential in enhancing Board's involvement in strategic decision-making processes.

4.2. Board size and strategic decision-making

The size of a Board can significantly affect the degree of Board's involvement in strategic issues. Larger Boards may have difficulties in reaching a consensus on strategic decisions but could provide a wide repertoire of expertise, skills and information. On the other hand, smaller Boards can facilitate more effective discussions on strategic issues but reduce directors' capacities for monitoring.

In an attempt to explore the effect of Board size on strategic change, Jerry Goodstein of Washington State University, Kanak Gautam of St. Louis University and Warren Boeker of Columbia University tested the relationship between Board size and Board's ability to initiate strategic changes during periods of environmental turbulence. The findings revealed that large Boards could hinder strategic change because they reduce individual commitments and are more difficult to coordinate. As a result, such Boards may face difficulties in reaching a consensus on important strategic decisions timely.

William Judge of University of Tennessee and Carl Zeithaml of University of North Carolina examined the effects of Board size on Board's involvement in strategy formulation. Board's involvement was assessed through conducting interviews with 114 Board members in different organizations. The authors found that Board's involvement in strategic decision-making was negatively related to Board size. This can be attributable to the fact that large Boards may be too cumbersome in engaging in extensive and constructive discussion.

In a Nutshell: As Board size increases, Board's involvement in the strategic decision-making process may decline.

4.3. Board diversity and strategic decision-making

Diverse Boards are beneficial to companies as they can facilitate the acquisition of critical resources. However, too much Board diversity may lead to greater potential for conflict among Board members based on divergence in views and opinions.

Jerry Goodstein of Washington State University, Kanak Gautam of St. Louis University and Warren Boeker of Columbia University examined the effects of Board diversity on strategic change and discovered that demographic diversity can have a negative influence on the Board's strategic involvement. Diversity, through creating non-constructive differences among Board members, can weaken Board's ability to contribute to strategic issues effectively.

In a Nutshell: High levels of demographic Board diversity could dampen Board's involvement in strategic decision-making processes.

4.4. Board social relationships and strategic decision-making

The provision of directors' advice and views has been recognized as an important form of Board's involvement in formulating and shaping corporate strategy. Although social ties between Board members may reduce Board independence, personal relationships through promoting mutual trust may well also increase interactions between Board members which, as a result, can enhance directors' ability to participate in strategic decision-making processes effectively. This is because directors may feel more comfortable and at ease in voicing out their opinions and ideas to individuals with whom they have a personal relationship.

John Roberts of University of Cambridge, in a study of the role of the Chairman, stated that "…the effectiveness of a particular Board depends not only on composition and structure, but also in the will and skill of individual Board members, and the interpersonal and group processes through which their energies are combined" (Roberts, 2002, p. 495). Roberts concluded that important aspects such as the context and culture within which the Board functions, and effective group dynamics, are under explored.

Jeffrey Sonnenfeld of the Yale School of Management commented that most of the rules and regulations that are laid out in the best practices have been adopted by both good and bad companies, and that those best practices alone do not have much of an impact on whether companies are successful. Subsequently, Sonnenfeld went on to argue that "…the key is not structural, it is social and what distinguishes exemplary Boards is that they are robust, effective social systems" (Sonnenfeld, 2002, p. 108). Therefore, it is not rules and regulations that matter most, instead it is the way the directors work together.

James Westphal at the University of Texas examined how social ties between CEOs and outside directors can influence the directors' involvement in strategy formulation. By using a sample of 600 U.S. companies identified from the *Forbes 1000* index, Westphal found that such social ties actually increase directors' involvement in strategic issues through encouraging the provision of advice and opinions. On the whole, this suggests that personal ties among Board members may not necessarily reduce Board monitoring of management. They can, in fact, produce more collaborative strategic decision-making, which can increase company performance. In a study that examined the impact of the Board on strategy, Philip Stiles of the University of Cambridge surveyed 51 directors of UK public companies and found that the unique relationships formed between Board members encouraged the Board's involvement in strategy. The results suggest that Boards can become involved in corporate strategy and shape the direction of the company.

In a Nutshell: Directors' relationship ties can encourage productive interactions among Board members, which can enhance directors' ability to contribute effectively to strategic decision-making.

5. Developing a Strategic Board

Boards not only have to monitor top management and be involved in issues such as executive succession and executive compensation, but more importantly they should be actively involved in strategy formation, especially on issues such as diversification, resource management and strategic change. Empirical data by Victor Dulewicz, Keith MacMillan and Peter Herbert of Henley Management College have shown that directors do take their strategic responsibilities seriously; they believe that their tasks should involve the formation of vision, mission and values, direction of the company's strategy and structure, delegating to management and maintaining appropriate relationships with shareholders and other interested parties.

Descriptive studies, however, have often shown that Board actual performance may not always live up to this normative view. Through a study of 200 directors from 40 companies, Donald O'Neal and Howard Thomas of the University of Illinois found that Boards were not adequately involved in strategy formation. Some Boards are not actively involved in strategy formation but at best in its ratification, and avoid "rocking the boat", especially when confronted with a powerful CEO. John Henke of University of Michigan in surveying 234 directors of *Fortune 1000* companies found that the majority of Board members were not involved in strategic planning and development.

In an attempt to develop a model of Board processes, Daniel Forbes and Frances Milliken of New York University concluded that researchers should go beyond arguing for the restructuring of Board composition and leadership structure, and instead focus on the strategic role of Boards which has been neglected. These findings highlight the need for asking what can be done to enhance the degree of Board's involvement in strategic decision-making. In the remaining of this section, we will discuss the conditions that can give rise to Board of Directors' involvement in strategy. One consideration is that there is often insufficient training carried out for both executive and non-executive directors specifically for their role as directors.

In addition, if CEOs' and other executives' contracts are terminated as a result of a takeover or merger (a fact that can reflect ineffective governance in the organisation taken over), they often receive exorbitant severance payments through the institution of ***'golden parachutes'***. This, as a result, leads to substantial adverse publicity and the (justified) criticism that CEOs are often rewarded for failure.

Golden Parachutes: Golden parachutes are provisions passed by Boards of directors providing lucrative payments for key executives in the event of an unfriendly takeover. They can be part of poison-pill provisions geared at preventing takeover efforts. The golden parachute provisions may include a bonus, generous termination pay packages, stock options, and a consulting agreement.

Director and Board evaluation is still not the norm. For most companies, there are no systematic processes for identifying and selecting suitable candidates to serve as directors, but instead reliance on the personal networks and contacts of the Chairman, CEO or other directors. Fortunately, this scene is, however, beginning to change with the institution of nominating committees and greater awareness of the importance of independent directors. Donald O'Neal and Howard Thomas of the University of Illinois using a sample of 200 directors representing 40 companies, observed that directors' selection was highly dependent on the professional, social and personal networks of the Board members.

A recent Board of Directors' survey (2002) carried out jointly by the Singapore Institute of Directors (SID), Singapore Exchange Ltd (SGX), Egon Zehnder International, NUS Business School and PricewaterhouseCoopers using a sample of 120 companies listed on SGX, found that only 20 percent of companies carry out a formal appraisal of the Board performance. Nevertheless, this represents a sizeable improvement as compared to 10 percent in the previous year. In addition, despite the call for more director training, only 9 percent of non-executive directors received more than 4 hours of training in the year surveyed.

One crucial factor in shaping the conditions for Board's involvement in strategic issues is through director training. Companies or governance institutions should organize and conduct professional training courses and seminars to meet the needs of company directors. Such training should aim to raise the professional standards of Board members through equipping them with the necessary knowledge and competencies to make strategic contributions and stay relevant in this fast-paced environment. Recognizing the importance of training on the overall effectiveness of directors, SID in Singapore has committed itself to providing a range of courses, seminars, and events that are aimed at promoting directors' understanding of their duties, business operations and corporate governance practices, and how directors can play a more effective role in the strategic development of the company, since its inception.

In order to enhance Board's involvement in the strategy process, companies should establish a proper director selection process to appoint the right people on the Board, based on their competencies, expertise and the Board's needs, rather than on personal networks. The development of a Board climate conducive for constructive debate as well as mutual respect for other directors is crucial for encouraging the contribution of ideas and opinions effectively. The Chairman and CEO relationship is also pivotal in influencing the degree of Board's involvement in strategic issues. As the boss of the Board, the development of an effective Board is the Chairman's job whereas the CEO, in running the business, serves as the key link between the Board and the management hierarchy. The Chairman and CEO positions are two different jobs, with different responsibilities and roles. Potential conflicts of interests is highly likely to result where one person does both jobs (since the Board as an agent of shareholders has to monitor management performance).

To study what actually happens inside the Boardroom, Sydney Finkelstein of Dartmouth College and Ann Mooney of Stevens Institute of Technology conducted structured interviews with 32 Board of Directors from *S&P 500* companies. The authors made the following recommendations for improving Board's strategic involvement and the Board's ability to operate as a group to fulfill its role effectively: engage in constructive conflict, and avoid destructive conflict; work together as a team; understand what the company is doing; and address decisions comprehensively by exploring all alternatives available.

In exploring how to increase Board's involvement in strategy, Shaker Zahra of George Mason University outlined eight conditions for effective strategic contributions of Boards of Directors: (1) careful selection of directors, (2) inclusion of strategic issues in directors' formal orientation programmes, (3) increasing directors' awareness of the challenges of the strategic process, (4) training of directors to outline potential areas of strategic contribution, (5) selecting and nurturing an appropriate pattern of Board participation, (6) making adequate and timely information available, (7) examining internal Board structure and proceedings, and (8) measuring and evaluating directors on their strategic participation.

John Robert and Philip Stiles of the University of Cambridge observed that the relationship between Chairman and CEO can influence the work climate for Board members and subsequently these relational qualities would then affect the broader network relationships among members of the organisation. For example, in Boards where the Chairman and CEO are unfriendly or at odds with one another, this is highly likely to also become a feature of the broader set of relationships among Board members. As a result, this will inevitably reduce the Board's ability to probe and challenge management decisions, and contribute to the strategic decision-making process more effectively.

Donald O'Neal and Howard Thomas of the University of Illinois observed that some factors relevant to Board's involvement were the degree to which the Chairman wanted the Board to be involved and the adequacy of information provided to Board members. Terry McNulty and Andrew Pettigrew of the University of Warwick further suggested that Board's involvement in strategy is influenced by factors such as the process and conduct of Board meetings and the informal relationships among Board members. These studies, therefore, suggest that strong relationships based on trust, respect and candor have to be built and nurtured between the Chairman, CEO and Board members in creating an effective and participative Board.

Table 1 illustrates the possible degree of Board's involvement in strategic management ranging from participating actively in the strategic decision-making process to being passive and ineffectual. The most ideal form of Board's strategic involvement for most companies is the Board as 'catalyst', where directors are in a position to lead the discussion of strategic issues and to openly challenge management with regard to the process and content of corporate strategy, and to provide constructive ideas, opinions and feedback. In that case, what should companies do if their Boards happen to fall into the categories on the left hand side of Table 1? Table 2 presents some guidelines on the scope of activities that directors can contribute to with regard to the different phases in the strategic decision-making process.

Table 1: Board of Directors Continuum

Low (Passive) ← Degree of Involvement in Strategic Management → High (Active)

Phantom	**Rubber Stamp**	**Minimal Review**	**Nominal Participation**	**Active Participation**	**Catalyst**
• Never knows what to do, if anything • No degree of involvement or debate	• Permits executives to make all decisions. • It votes as executives recommend	• Formally and passively reviews only the selected issues that officers bring to its attention	• Involved to a limited degree in the performance or review of selected key decisions, indicators or programs of management • Not proactive in initiating debate on key issues	• Approves, questions, and makes final decisions on mission, strategy, policies, and objectives • Has active Board committees. Performs fiscal and management audits	• Takes the leading role in establishing and modifying the mission, objectives, strategy, and policies • It has very active committees, especially strategy committee

Source: Wheelen and Hunger (2002)

Table 2: Potential Board of Directors Contribution to the Strategic Process	
Phase	**Activities (Scope)**
(I) Articulation of Mission	• Identification of markets to be covered, products to be offered and technology to be emphasized • Determination of corporate self image and business philosophy • Development of specific goals to pursue • Development of a corporate public image
(II) Internal Analysis	• Determination of the strengths and weakness of the different organizational functions and resources • Definition of corporate competitive advantage (competence)
(III) External Analysis	• Comprehensive scanning of the social, economic, political and technological aspects of external environment • In depth industry analysis and determination of key factors of success • Determination of opportunities and threats
(IV) Analysis of Strategic Gap	• Comparison of goals and past performance • Comparison of results of internal and external analysis • Determination of strategic gaps • Identification of the extent of gaps and reasons behind them
(V) Development of Options and Selection of Strategy	• Consideration of all options open to the firm • Analysis of each option to determine: ▪ potential payoff; ▪ level of risk associated with it; ▪ time horizon needed for implementation; and ▪ resources needed (including managerial skills) • Synthesis of options to develop a coherent strategy • In the case of multi business companies, two additional activities are involved: ▪ linking corporate (overall) strategy with strategic business unit strategies; ▪ development of functional strategies for SBU (i.e. marketing, production etc.)
(VI) Implementation, Control and Review	• Delegating/overseeing the operationalization of strategy by developing plans and schedules • Delegating the execution of strategy • Monitoring the execution of strategy

Source: Adapted from Zahra (1990)

Directors may have different roles in different business and industry contexts. Loizos Heracleous of the National University of Singapore and John Murray of Trinity College Dublin investigated the roles of directors in different types of inter-organisational networks, as well as business systems in East Asia (the Japanese Keiretsu, the South Korea Chaebol and the networks of Overseas Chinese Business). The authors suggested that in order to achieve more effective corporate governance and strategic contribution, the directors' strategic roles should differ based on the different inter-organisational networks the businesses are engaged in. In addition, variations in societal values and institutional context can also lead different countries to view corporate objectives or mission distinctly.

This can help to explain why corporate governance practices adopted by Boards can vary from company to company and from country to country.

In a Nutshell: To develop a strategic Board, companies should select the right directors carefully; train them continuously; deliver the right information in a timely fashion; balance the power of the CEO and directors; foster a culture of debate, integrity, trust and respect; and encourage directors to be active in all stages of the strategy formation process. Directors' specific strategic contributions may vary depending on the specific business context and task of the organisation.

6. THE VERDICT

Strategy is important, particularly for companies that want to differentiate themselves from its competitors in the globalization era. In strategy formation, Board's involvement can range from working with management to develop strategic actions to merely ratifying management's strategic decisions.

The contribution of directors to strategy has been relatively overlooked. It is apparent that structural features alone are not sufficient conditions to achieve high levels of corporate performance. Instead, Board's involvement in developing corporate strategy has to be taken into serious consideration as the strategic role of Boards has a key impact on Board effectiveness and corporate performance. This article has presented substantial evidence to suggest that higher Board's strategic involvement is associated with higher company performance. In order to achieve corporate success, careful attention needs to be placed on the strategic role of Boards.

In addition to documenting the importance of the strategic role of the Board based on robust research evidence, this article also suggested some avenues for developing strategic Boards. In particular, in order to maximize directors' strategic contributions, companies should select directors based on an objective, competency-based process; train and develop them continuously; supply directors with timely and relevant information; avoid Board domination by the CEO and encourage Board independence; foster a culture of debate, integrity, trust and respect; and encourage directors to be active in all stages of the strategy formation process.

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