The Board of Directors as a Team: Investigating the Influence of Shared Leadership on Board Task Performance.

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Abstract

This theoretical paper aims to contribute to the promising stream of research which focuses on behavioural perspectives and processes within the corporate board, by delving into one of the research areas perhaps plagued most by the well-known methodological (i.e., input-output studies) and theoretical (i.e., agency theory) research fortresses of past board studies: board leadership. In adopting a team approach to the board of directors, our study goes beyond traditional board leadership research, which has turned a blind eye on actual leadership dynamics and has solely focused on structural leadership characteristics, by examining leadership processes and interactions inside the board team. Specifically, we develop a conceptual framework addressing a relatively novel team leadership conceptualization, i.e., shared leadership, which has been demonstrated to result in performance benefits in a wide range of team settings. Given that no individual is likely to possess all of the necessary capabilities to lead the board of directors to goal attainment in every instance imaginable, the key proposition this paper puts forward is that such a mutual and fluid influence process in which directors take on leadership roles in accordance with the unique competences they bring to the boardroom table will lead to a more efficient use of the resources and expertise present within the team, resulting in superior board control and service task performance. In the remainder of the framework, a number of board characteristics (i.e., CEO duality, board diversity and board size) which may hinder or promote the existence of shared leadership in a board context are elaborated upon, indicating that the way the team of directors is designed serves as an important determinant of its functioning. In sum, this paper adds to corporate governance literature by providing insight as to how actual leadership processes, instead of just leadership structure, come into play in board decision-making and consequently impact board effectiveness.

Keywords: board of directors, board leadership, board tasks, shared leadership, teams
1 Introduction

In recent years, corporate governance, not in the least due to several large-scale corporate scandals, has witnessed a remarkable upsurge in interest among scholars as well as practitioners and governments. Within this larger field of research, one sub-stream has specifically concentrated on the board of directors, which is generally considered to be one of the primary internal governance mechanisms available to a firm (Fama and Jensen 1983). However, despite this increased focus on corporate boards there is still scant evidence on what determines board task effectiveness and how this in turn is related to firm performance (Finkelstein and Mooney 2003). Currently, a growing number of researchers argue that the ambiguous and even conflicting results of past board research are primarily a product of an overreliance on particular established methodological (i.e., input-output studies) and theoretical (i.e., agency theory) research fortresses (Daily, Dalton, and Cannella 2003; Gabrielson and Huse 2004). Therefore, calls have been made for studies that take board literature to the next level by addressing behavioural perspectives and board processes in order to get a better grasp of how boards of directors really operate (Huse 2007). In line with these observations, several recent empirical studies have provided early evidence of the benefits of opening up the black box left behind by traditional board research, by demonstrating that board processes are in fact superior to demographic indicators in explaining board task performance (e.g., van Ees, van der Laan, and Postma 2008; Minichilli, Zattoni, and Zona 2009).

A promising extension of this novel stream of research is surely to be found in studies which delve deeper into the issue of board leadership, considering that the overwhelming majority of existing work on the topic has been solely preoccupied with structure (mainly CEO duality) and its direct relationship to performance (Pick 2009). Therefore, even though a host of contemporary scholars acknowledge that structure constitutes only a minor part of leadership in the boardroom (e.g., Gabrielson, Huse, and Minichilli 2007; Huse 2007), ‘little research attention has been given to systematically exploring behavioural perspectives of board leadership’ (Huse 2005: 74), resulting in largely inconclusive findings (Daily, Dalton, and Cannella 2003). Such a gap in board literature is highly regrettable, given that in the field of organizational behaviour it has been clearly established that leadership serves as an important determinant of team effectiveness (Zaccaro, Ritman, and Marks 2001).

As a means of filling this intellectual void, this article will draw upon existing team leadership theory, shared leadership in particular, to investigate how leadership interactions and dynamics are manifested among corporate directors and how they impact board task performance. Although this novel team leadership conceptualization is still relatively unexplored and academic knowledge is thus fairly limited, it has clearly come forward as a crucial ingredient of effectiveness in both team (e.g., Carson, Tesluk, and Marrone 2007; Pearce and Sims 2002) and wider collaborative settings (e.g., Denis, Lamothè, and Langley, 2006; Lambrechts, Taillieu, and Sips, 2010). Given that the corporate boardroom will likely provide a highly fertile ground for shared leadership to flourish, a theoretical framework is put forward which is the first, to our knowledge, to introduce and discuss the concept in the specific context of the board of directors. As such, this work departs from many commonplace theories and models that are rooted in the economic tradition of corporate governance (e.g. agency theory), as it conforms and aims to contribute to the more recently proposed behavioural approach to the study of the board of directors (van Ees, Gabrielson, and Huse 2009). Such a spotlight on the human side of corporate governance and the interactions, behaviours, and processes occurring inside the board team is essential in order to improve our understanding of how boards of directors can bring about value creation for their respective firms (Huse 2007).

In the remainder of this paper we first develop our rationale for studying the board of directors from a team perspective. Subsequently, we present the theoretical framework, clarify relevant theoretical concepts, and propose a number of novel propositions related to shared leadership in a board context. The final part of this work is dedicated to a discussion and conclusion regarding what has been addressed throughout the paper.

2 The board of directors as a team

The use of teams has increased dramatically at all organizational levels over the past few decades, which has sparked substantial scholarly interest into the topic. When considering the upper echelons of organizations, the term top management team is currently widely adopted among academics and
practitioners to depict the small group of most influential executives at the top of the firm (Finkelstein, Hambrick, and Cannella 2009). This leaves one to wonder why the use of the concept team is rarely encountered in descriptions of other influential collection of individuals at the apex of the organization: the board of directors. In fact, many scholars, regrettably, discard the notion of boards of directors functioning as teams altogether. In general, mainly structural elements, such as time constraints and the relatively large size of boards, have been offered as factors that impede directors to unite as a team (Forbes and Milliken 1999). However, although team literature acknowledges that the abovementioned factors can be of hindrance to team formation, they do not unequivocally preclude it from occurring (Kozlowski and Bell 2003).

Therefore, in building an argument for regarding the board as a team, this paper adopts the definition offered by Kozlowski and Bell (2003: 334) pertaining to teams in an organizational context, which draws upon a host of scholarly contributions and has later on been taken up in various studies. They define teams as collectives who (a) exist to perform organizationally relevant tasks, (b) share one or more common goals, (c) interact socially, (d) exhibit task interdependencies (i.e., work flow, goals, outcomes), (e) maintain and manage boundaries, and (f) are embedded in an organizational context that sets boundaries, constrains the team, and influences exchanges with other units in the broader entity. Such a conceptualization of teams, which is generally endorsed in team literature, confirms the validity of a team perspective in a board context. First of all, by performing several, intrinsically organizationally relevant, control and service tasks the board is working towards the fulfilment of a broad common goal which is ultimately value protection and creation for shareholders and a broader set of stakeholders (Huse 2007). Second, as no board team member is likely to possess all of the required knowledge, skills, and abilities to bring these tasks to fruition individually (Gabrielsson, Huse, and Minichilli 2007), directors are highly interdependent in their work. Finally, although the board of directors is an intact social system constructed on the interactions of its members (Cascio 2004), it is embedded in a larger contextual environment which undeniably impacts its functioning (Gabrielsson and Huse 2004; Huse 2005).

Although not widespread thus far, such awareness is slowly penetrating board literature as evidenced by a number of recent theoretical and empirical contributions which have demonstrated that boards in fact exhibit resemblance to many other kinds of teams and that factors that lead to high performance in such teams also contribute to board effectiveness (e.g., Gabrielsson, Huse, and Minichilli 2007; Payne, Benson, and Finegold 2009). The preliminary findings of these studies are of groundbreaking importance for future board studies as they indicate that it is feasible and rewarding to apply concepts from group dynamics and team literature to board studies. Such perspectives are bound to unveil a whole world of novel research opportunities which will enable scholars to extend everyone’s understanding of how boards of directors really operate (Huse 2007).

3 Theory and hypotheses

Building upon the broad categorization provided by the framework advanced by Forbes and Milliken (1999), Figure 1 depicts the suggested theoretical model pertaining to shared leadership in the context of the board of directors. The core of this model deals with the relationship between the central notion of shared leadership and the main board team outcome, i.e., how effective it performs its control and service tasks. In addition, this framework advances a number of board demographic characteristics which are claimed to impact the presence and strength of shared leadership in the boardroom, thereby acknowledging that the way the team of directors is designed serves as an important determinant of its functioning.
3.1 Board outcomes

Board literature generally acknowledges the existence of several tasks that boards of directors fulfill in organizations. Although many different categorizations exist (e.g., Huse 2005; Zahra and Pearce 1989), the broad distinction between control and service tasks is widely embraced among scholars (Bammens, Voordeckers, and Van Gils 2008; Forbes and Milliken 1999; Hillman and Dalziel 2003; Van den Heuvel, Van Gils, and Voordeckers 2006).

3.1.1 Control task effectiveness

Due to the longstanding tradition of agency theory as the primary research paradigm in governance literature, the board’s control tasks have received considerable attention in past board studies (Daily, Dalton, and Cannella 2003). Indeed, agency theorists regard the board of directors as one of the main mechanisms available to reduce agency costs which arise because of the separation of ownership and control in corporations (Fama and Jensen 1983). As it is infeasible to design complete contracts which cover every state of the world, managers are expected to take decisions which are not perfectly aligned with shareholders’ preferences as a result of differing goals and risk preferences (Eisenhardt 1989). The role of the board of directors from an agency theory point of view is thus to limit the discretion of managers, who are supposed to be opportunistic and self-interested, by monitoring their actions and decisions in order to maximize shareholders’ wealth (Zahra and Pearce 1989). However, as indicated in recent literature, this is not the only problem principals face. Their agents also suffer from the limitations of human cognition, resulting in what is known as honest incompetence, which makes board control imperative even in the absence of managers’ self-serving acts (Hendry 2002). Resulting from these needs, the control tasks of the board include a relatively wide range of related activities such as determining top executives’ compensation, hiring and firing the CEO and other top-level managers, ratifying and monitoring important decisions, and controlling firm financial performance (Fama and Jensen 1983; Hillman and Dalziel 2003; Zahra and Pearce 1989).

3.1.2 Service task effectiveness

Contemporary board literature generally acknowledges that boards, in addition to control, fulfill other important tasks in their respective firms (e.g., Forbes and Milliken 1999; Daily, Dalton, and Cannella 2003). In making such claims scholars expand their view beyond agency paradigms and adopt a multi-theoretical perspective on board tasks by drawing upon theories including, among others, stewardship, resource dependence and stakeholder theory (Huse 2005). Stewardship theory posits, as opposed to agency theory, that managers want to perform their jobs in the best interest of the shareholder instead of acting in a self-serving manner (Davis, Schoorman, and Donaldson 1997). This is argued to render board control less essential and to encourage directors to become more involved in strategy by sharing their knowledge and experience with top management. Furthermore, from a resource dependence perspective the board is seen as an important boundary spanner.
between the firm and its wider environment (Zahra and Pearce 1989). In line with this theory, board members are expected to secure valuable assets or resources for the firm (Pfeffer and Salinick 1978). Additionally, stakeholder theory emphasizes the role of the board in balancing and coordinating the interests of the wide set of stakeholders involved in the firm (Luoma and Goodstein 1999). Within the broad set of service tasks originating from this theoretical plurality, a number of specific activities such as participating in strategic decision-making, providing advice and counsel, networking, legitimizing, and coordinating stakeholder expectations can be distinguished (Hillman and Dalziel 2003; Huse 2005).

3.2 Board processes: shared leadership

Historically, the leadership studies scene has been sequentially dominated by a number of separate approaches (i.e., trait, style, contingency, and new leadership) which hold a clear focus on the standalone, heroic, leader in common (Carson, Tesluk, and Marrone 2007; Crevani, Lindgren, and Packendorff 2007). However, in a team context such individualized notions of leadership are argued to be inconsistent with reality (Bligh, Pearce, and Kohles 2006; Friedrich et al. 2009) and consequently calls have been made for ‘examining team leadership theories’ as opposed to the predominant focus on ‘theories of leadership’ applied in team settings’ (Burke et al. 2006: 301). Building upon a host of contributions such as emergent leadership, mutual leadership, self-leadership, and participative decision-making (Pearce and Conger 2003), shared leadership has been put forward as one of the most promising leadership approaches within this novel research tradition. Although several definitions of shared leadership have been offered in previous research (for a review, see Carson, Tesluk, and Marrone 2007), this paper adopts the widely endorsed formulation put forward by Pearce and Conger (2003: 1). They define shared leadership as ‘a dynamic, interactive influence process among individuals in groups for which the objective is to lead one another to the achievement of group or organizational goals or both. This influence process often involves peer, or lateral, influence and at other times involves upward or downward hierarchical influence’. Leadership is thus conceptualised as a collectively constructed phenomenon which is not strictly confined to the formal or assigned leader but instead broadly and fluidly shared among team members (Crevani, Lindgren, and Packendorff 2007; Lambrechts, Taillieu, and Sips, 2010). As Mary Parker Follet recognized as early as 1924 in her law of the situation theory, such sharing of leadership throughout the team should be based upon who is the most appropriate leader given the situation or task at hand, resembling a “whack-a-mole” game in which the person with the most relevant skills and expertise “pops up” at any given time’ (Friedrich et al. 2009: 934), which results in a more effective use of the expertise and resources available within the team and, consequently, increased team performance.

Given that no individual director, including the board’s Chairman, is likely to possess all of the knowledge, skills, and abilities to lead the board team to effective task performance in every instance imaginable, such a mutual and fluid influence process in which directors step up to the plate and take on leadership tasks in accordance with their unique expertise is expected to bring about superior performance in the board context as well. A board is often composed of a wide range of business professionals such as auditors, lawyers, academics, business leaders, and insider executives, who all contribute to the team in specific ways. One can thus quite straightforwardly establish that in any situation some directors will possess more relevant expertise and knowledge than others regarding what needs to be done in order for the board to successfully perform its tasks at hand (e.g., lawyers and auditors when dealing with legal or accounting matters), resulting in different directors being the most apt to take on leadership on different occasions. However, board members adopting leadership functions represents only one side of the story as leadership is in essence a social construction that lies in the eyes of the beholder (Crevani, Lindgren, and Packendorff 2007). Therefore, for shared leadership to be effective in the context of the board of directors, it is also of critical importance that team members accept other directors’ temporary leadership and consequently become effective followers (Bligh, Pearce, and Kohles 2006).

Due to its specific nature, the corporate board is highly likely to provide fertile ground for shared leadership to flourish. First of all, the board of directors is a non-hierarchical construction in which even the Chairman, the team’s appointed leader, does not have instruction authority over the other board members, making the prevalence of shared leadership not only more likely but also more desirable (Barry 1991; Gabrielson, Huse, and Minichilli 2007). Second, directors are usually highly competent individuals which have most often acquired considerable leadership experience during the course of their careers, resulting in the presence of the prerequisite capabilities among team
members to take on leadership when desirable (Pearce 2004). Finally, given the complex and ambiguous environment boards operate in, a diverse range of competencies will need to be drawn upon, making shared leadership highly valuable (Bligh, Pearce, and Kohles 2006; Crevani, Lindgren, and Packendorff 2007). In line with the preceding discussion, and taking into consideration that shared leadership has been demonstrated to result in superior task performance in a wide range of teams, such as change management teams (Pearce and Sims 2002), work teams (Barry 1991; Hiller, Day, and Vance 2006), and consulting teams (Carson, Tesluk, and Marrone 2007), that perform tasks which are broadly similar in nature to the ones which are attributed to the board, the following propositions are offered:

P1: Boards of directors that demonstrate a high level of shared leadership in their team will be more effective in performing their control tasks

P2: Board of directors that demonstrate a high level of shared leadership in their team will be more effective in performing their service tasks

3.3 Board demography

Although the main focus of this paper is on board processes and its task performance implications, the importance of board team structure, in line with the recognition that the inputs of its members determine a team’s functioning and success, is acknowledged as well.

3.3.1 CEO duality

The direct performance implications of CEO duality, i.e., whether or not the chief executive officer also occupies the Chairman’s seat, remain speculative and unconfirmed despite countless studies regarding this researchers’ usual suspect (Finkelstein and Mooney 2003). In our discussion, we claim that CEO duality will not directly affect board task performance, but instead will impact how the board functions as a team. Leadership behaviours which are effective in the top management team differ significantly from those desirable in a boardroom setting (Gabrielsson, Huse, and Minichilli 2007). It can therefore be expected that CEOs will exhibit an overreliance on the hierarchical authority they possess in their firms in leading the board to task fulfilment, as this is their natural modus operandi, instead of functioning as a primus inter pares who creates an environment in which temporary leaders and peer influence can emerge (Gabrielsson, Huse, and Minichilli 2007).

P3: Boards of directors in which the firm’s CEO occupies the Chairman’s seat will demonstrate a lower level of shared leadership in their team

3.3.2 Board diversity

Although boards have sometimes been depicted as old men’s clubs, this does not mean they cannot be diverse in composition. This paper focuses on job-related diversity, which originates from functional, educational, and industry background differences, as it results in a varied mix of human capital available to the board (Forbes and Milliken 1999). Board teams that are more diverse are likely to have a wider palette of capabilities at their disposal and, moreover, these capabilities are distributed throughout the team. This inherently creates more possibilities for leadership influence to be shared among members in diverse areas of expertise (Friedrich et al. 2009). However, as boards become more and more diverse, the common frame of reference among its members fades away, resulting in directors failing to recognize and understand their peers’ contributions (van Knippenberg and Schippers 2007). Therefore leadership behaviour expressed by others may not be perceived or accepted as such, making shared leadership in overly diverse boards highly troublesome. Following from these insights, as put forward by Milliken and Martins (1996), team diversity can be argued to operate as a double-edged sword, resulting in the following proposition:

P4: Boards of directors which are more diverse in composition will demonstrate higher levels of shared leadership up to a saturation point, after which the relationship turns negative (inverted U)

3.3.3 Board size
Larger boards are inherently more likely to have more knowledge, skills, and experiences at their disposal than their smaller counterparts, resulting in greater potential leadership resources available for sharing, which makes the emergence of mutual peer influence more probable (Carson, Tesluk, and Marrone 2007). However, when boards grow too large, detrimental effects on the workings of the team can be expected to surface as the coordination of director contributions becomes more complicated, airtime of individual directors is diminished, and the likelihood of social loafing and free riding increases (Forbes and Milliken 1999). Given such dynamics within the team jeopardize the distribution of leadership among team members, we expect, as indicated by Carson, Tesluk, and Marrone (2007), that team size will exhibit a curvilinear relationship with respect to shared leadership.

P5: Larger boards of directors will demonstrate higher levels of shared leadership up to a saturation point, after which the relationship turns negative (inverted U)

4 Discussion

4.1 Implications

This article contributes to existing academic literature in several ways. First, it answers to the call made by several leadership scholars to study the concept of shared leadership in a wide range of team settings (e.g., Pearce and Conger 2003; Pearce and Sims 2002) by demonstrating its relevance in the context of the board of directors. Second, it provides additional insights and evidence regarding the appropriateness of describing the board as a team and infusing team concepts into board literature, thereby clearly contrasting previous board research which has mainly ignored or even denied the existence of a board team. Consequently, this paper also contributes to an expanding stream of research which adopts a behavioural approach to the study of the board of directors in an attempt to overcome past research limitations (van Ees, Gabrielsson, and Huse 2009; Huse 2007). In doing so, it shows that board leadership is much more than just structure by investigating how a relatively novel team leadership conceptualization which is characterized by a mutual and fluid distribution of leadership throughout the team, i.e., shared leadership, is manifested inside the boardroom. As leadership functions in such a process are being taken up by the individual who is the most suited given the task at hand, a more effective use of the resources and expertise within the team, resulting in increased board task performance, can be expected. However, as a cautionary note, this does not imply that the board has to turn into a set of specialists who only contribute within their topic of expertise (Pick 2009). Instead, directors have to find some sense of complementarity in which they can voice their opinion in all activity domains, but at the same time adopt a more active and leading position in their field of interest and expertise. Additionally, although more peer-directed leadership is advanced, shared leadership does not imply that formal or appointed leadership is completely obsolete. Research has in fact indicated that the formal leader, the Chairman in the board’s case, has an important function in stimulating shared leadership through, for instance, serving as a role model, reinforcing proper team member leadership behaviours, or supplying leadership training when necessary (Pearce 2004). From a practical point of view, this article provides general and preliminary indications to board practitioners that installing shared leadership principles in the boardroom will prove to be rewarding. However, elaborate empirical research will be required before specific interventions can be developed.

4.2 Further research

The offered theoretical model, which is based on a seminal board framework (Forbes and Milliken 1999), is intended to introduce the concept of shared leadership into the core of the boardroom and should consequently be considered far from exhaustive. As such this paper encourages theoretical contributions that provide additional insight into how shared leadership is displayed in the specific context of the board of directors. For example, studies considering other determinants (e.g., board team tenure, directors’ personalities) and more team maintenance related outcomes (e.g., cohesion, trust, satisfaction) of shared leadership in the boardroom or the interplay between the Chairman and the numerous emergent leaders are expected to be very fruitful. Additionally, as context is acknowledged to be highly important in board research (Huse 2005), future work may profit from including aspects such as firm type (e.g., small firms, family firms) and culture (e.g., individualism, power distance), which may act as moderating variables, in the analysis. The novel insights which would result from such studies, along with the propositions offered in this paper, should furthermore be subjected to rigorous empirical testing. Although empirical studies on the topic of shared
leadership have been relatively scarce, a number of quantitative approaches have demonstrated promising results (e.g., Bligh, Pearce, and Kohles 2006; Carson, Tesluk, and Marrone 2007; Pearce and Sims 2002) and may serve as a guide in this process. Furthermore, detailed board-in-action qualitative research (e.g. Samra-Fredericks 2000) will most likely serve as an appropriate and rewarding, though time-consuming, research method.

5 Conclusion

Contemporary leadership scholars have advocated that leadership goes beyond individualistic top-down influence by emphasizing more relational and processual team-based forms of leadership (Pearce and Conger 2003). This article advances the idea that the corporate boardroom is a prime setting in which such a novel leadership conceptualization, i.e., shared leadership, is likely to flourish and result in superior task performance. We thereby indicate that a behavioural approach to the study of boards, which acknowledges that they are made up of interacting individuals, and a focus on the human side of corporate governance is highly rewarding and commendable (Huse 2007).

References


