The evolution of FTSE 250 boards of directors: key factors influencing board performance and effectiveness

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Although the Combined Code (Financial Reporting Council, 2003, 2006) clearly identifies the roles and responsibilities of PLC board members, current academic literature offers little guidance to FTSE 250 boards – many of whom are managing different issues compared with their FTSE 100 counterparts including high corporate growth, existing founder and/or family board members, and/or newly formed boards – on ways in which they can improve the quality of decision-making, increase individual board contribution, and enhance overall board performance and effectiveness.

This paper attempts to outline the key issues faced by board members, particularly non-executive directors, serving on FTSE 250 company boards with regard to three distinct roles – strategy, succession planning and risk management – and examines the relevant influences on board members derived from corporate lifecycle, board structure, existing process and board culture which affect board performance and standards of corporate governance. Its conclusions draw on the author's previous research on non-executive contribution (Long, 2004) and her recent experience of reviewing performance and effectiveness of FTSE 100 and 250 boards of directors through Boardroom Review.

Introduction

Men trip not on mountains, but on stones (Grayling, 2001).

The roles and responsibilities of directors serving on UK listed company boards have received much attention in the current governance literature and reform guidance (Cadbury, 1992; Hampel, 1998; Higgs, 2003; Taylor, 2003), and there has been increasing interest over the last decade in the role of the non-executive director from Government, shareholders, regulators, researchers and the media. The use of non-executive directors was highlighted initially in the Cadbury Report (1992), which stipulated, for the first time, that there should be a minimum of three non-executive directors on every UK PLC main board. The Combined Code, published by the Financial Reporting Council in

2003, provided separate guidance on the balance of the board, and on how to maximise the effectiveness of the non-executive role in the section "Guidance on the Role of the Non-Executive Director" (pp. 63–64); this section commented on non-executive involvement with, and contribution to, board roles and responsibilities including strategy, financial monitoring, shareholder communication, overall board contribution, executive performance monitoring, executive remuneration, appointing and removing directors, succession planning, risk analysis, induction, development and independent judgement.

This paper examines three board roles – strategy, succession planning and risk management – drawing on recent analysis and evaluation of the performance and effectiveness of FTSE 250 boards, many of whom are experiencing fast growth and increased staffing levels, but are fiercely protective of their cultural and historic identity and values. There are many influences which impact on board effectiveness and leadership (Long, 2004), and which can significantly affect the roles of developing strategy, planning succession and managing risk, outlined in Table 1.

These influences were identified in a study which, through a series of semi-structured in-depth interviews with non-executive directors serving simultaneously on both listed and unlisted company boards, sought to contribute to an improved understanding of the role and effectiveness of the non-executive director through empirical investigation (Long, 2004). The research questions investigated were:

- How do the roles and responsibilities of non-executive directors serving on FTSE 100 or 250 boards differ from those serving on unlisted company boards?
- Do the Combined Code Guidelines (Financial Reporting Council, 2003) for non-executive directors have relevance to non-executive directors serving on unlisted company boards?
- How do these findings contribute to and influence board theory?

This research was conducted adopting an interpretive approach, carefully structured in order to maintain reliability and validity of method. Its findings, which incorporated data from 25 respondents, suggested that on listed boards non-executive directors have a lesser degree of involvement in strategic development, financial monitoring, shareholder communication and overall board contribution than on unlisted boards, but a greater degree of involvement in the monitoring of management, the setting of executive remuneration, the appointment and removal of executives, and succession planning. The importance of risk analysis and induction was considered high across both listed and unlisted sectors, although board development and independence, philosophical as well as structural, was considered more important on listed boards.

This study also revealed that non-executive directors on listed boards, influenced by formal communication channels, external visibility, isomorphic pressures (DiMaggio and Powell, 1983) and information asymmetry (Eisenhardt, 1989), are concerned mainly with institutional, agency and management hegemony issues, i.e. they are protecting the interests of shareholders

Table 1: Influences of lifecycle, structure, process and culture on board effectiveness and leadership (adapted from Long, 2004)

Key lifecycle influences: • Age and stage of company; • Rate of corporate growth and complexity of business; • Changes in board composition and management delegation; • Access to internal and external resources; • Impact of changing market and environmental pressures; • Impact of changing regulation and technology.
Key structural influences: • Size and complexity of organisational structure; • Size and composition of board, committees and executive team; • Formality of board and executive contracts and tenure; • Clarity of board and committee roles and responsibilities; • Board independence; • Shareholder class and unity of objectives.
Key process influences: • Number and schedule of board and committee meetings; • Structure and complexity of agendas; • Quality, timeliness, sufficiency and accuracy of board information, presentation and communication; • Committed board time outside meetings; • Communication with shareholders and stakeholders; • Division of strategic and operational issues; • Quality of internal control and management of risk; • Quality of executive development and succession planning; • Emphasis on induction, professional development and training.
Key cultural influences: • Influence of corporate history and culture; • Executive and non-executive dynamics and relationships; • Executive motivation and expectation; • Remuneration alignment with shareholders' objectives; • Balance between risk taking and corporate control; • Quality and transparency of communication and information flow; • Speed of decision-making and levels of bureaucracy; • Board and individual contribution and degree of challenge; • Management of conflicts; • Degree of external visibility and interest, and isomorphic (peer) pressure; • Board leadership and management; • Shareholder views and concerns.

from the interests of executives (Mace, 1971; Fama and Jensen, 1983) whereas on unlisted company boards the role is very different; non-executive directors, influenced by undiluted shareholder power and access, company lifecycle, familiarity of executives and company operations and their 'by invitation only' status, are more concerned with issues relating to resource allocation and procedural justice i.e. they are protecting the longer-term interests of minority shareholders, appointed executives and the company from the interests of dominant and autonomous shareholders.

It has become clear through the work of Boardroom Review that many FTSE 250 boards recognise the need to review the environment in which they make decisions, not just to conform with corporate governance guidelines, but also to ensure that the organisation is prepared and properly resourced for corporate growth and increased executive responsibilities, and to prevent the board from being dictated to by history and tradition. Strategic development, succession planning and risk management are commonly highlighted during review as roles which determine the Board's effectiveness and leadership, and yet are sufficiently complex and sensitive to warrant reflection and improvement.

The role of strategy

The role of the board in corporate strategy has been the subject of considerable debate for many years and shows little signs of consensus (Hendry and Kiel, 2003). Strategy is not primarily about planning; it is about the development of intentional, informed and integrated choices (Hambrick and Fredrickson, 2001), and as such suggests that in order to contribute to the leadership and direction of the company the board needs to be continuously active in respect of both strategic process – how strategy is developed – and strategic content – the substance of choice, change and risk (McNulty, Roberts and Stiles, 2002). McNulty *et al.* note that: "Non-executives are expected to bring experience and knowledge gained outside the organisation, to challenge and test both the overarching strategic framework of the business as well as specific proposals for strategic investment, divestment and change." (p. 5), pre-dating the first supporting Principle in the Combined Code: *non-executive directors should constructively challenge and help develop proposals on strategy* (Financial Reporting Council, 2006).

From a legal perspective, the board has a fiduciary duty to review and monitor strategy (Stiles and Taylor, 2001b). In its broader form, adopted by, inter alia, Hilmer (1993), Pearce and Zahra (1992) and Tricker (1984), the definition of strategy includes the more complex aspects of defining the business, mission and vision, and involves the formulation of strategy, the acquisition and allocation of resources, and the setting of policies. Although directors consider assisting management with strategic development one of their most important roles, most strategy research has focused on the characteristics of senior executive teams (Rindova, 1999) and not on the nature of board involvement, contribution or challenge (Stiles and Taylor, 2001b). Indeed the literature suggests that boards often fail to realise their potential in the strategic decision-making process (Stiles, 1998); non-executive contribution is constrained by board structures and composition, and is encouraged mainly during times of crisis (Mace, 1971; Lorsch and MacIver, 1989). Furthermore, although there has been strong empirical support for the proposition that the board's primary role is the development of strategy (Lorsch and MacIver, 1989; Demb and Neubauer, 1992; Stiles and Taylor, 2001b), little is known about the affect and influence of behavioural board dynamics on the strategic process; there is a significant gap between the prescription that boards should be active in strategy, and any empirical evidence that boards are in practice embracing the strategic role (Finkelstein and Hambrick, 1996; McNulty and Pettigrew, 1999). Supporting this thesis, empirical research in 2004 suggested that non-executive directors are not as involved with strategy on listed company boards as the guideline recommends (Long, 2004); indeed it appears that non-executive directors are often removed from the strategic process, preoccupied with agency and management hegemony issues concerning executive management of information.

The PLC lifecycle is widely acknowledged as a key influence on managerial actions and the competitive strategies of firms (Porter, 1980); the performance of individual company strategy is closely linked to the prevailing environment conditions and the performance of competitors (Stiles and Taylor, 2001a). Corporate growth influences the frequency of strategic debate and the speed of decision-making; when the external environment is stable and the company is performing according to expectation, company strategies do not undergo significant change, demanding less attention from the board. In contrast, in fast moving industries and turbulent times, when business operations become more complex and contingent liabilities increase, boards are more involved in strategic decision-making and in turn, non-executive directors are expected to contribute more fully in strategic debate and challenge.

However, although the theory is well versed, there are a variety of practical factors, which limit board contribution to strategy, particularly in smaller listed companies. Family or founder shareholders represented on the board significantly influence the strategic approach, affecting executive mindsets, motives, values, goals and attitudes that are central to the strategic planning process (Kelly, Athanassiou and Crittenden, 2000), and often protecting a outdated culture which originates from the development and history of the company. Time scales also vary; listed companies which have developed from family businesses are more conscious of survival, harmony and employment opportunities over the long-term, rather than profitability and market position (Trostel and Nichols, 1982), and there is an inward focus and measured stability created through the lack of emphasis on fast market responses (Kelly *et al.*, 2000).

Furthermore, due to their stage in the lifecycle, smaller listed companies have internal executive resources, forcing the board to rely heavily on non-executive knowledge and contribution; this puts additional pressure on board members who are not familiar with the industry, or who are newly appointed, and often creates a mismatch of expectation between the executives and non-executives concerning levels of contribution. Due to their part-time role, non-executive directors are less familiar with company operations and management structures, lacking the critical expertise and detailed knowledge enjoyed by the executive team, and suffering the disadvantages of competing views and limited time in the board room. New members are particularly disadvantaged; induction programmes have limited exposure to people and operations, and new appointees may not have extensive industry expertise, reducing the variety of challenging views and perspectives.

The strategic contribution of non-executive directors is further conditioned by factors such as board composition, board agendas, and the process and conduct of meetings (McNulty and Pettigrew, 1999). Boards that meet infrequently have limited time for strategic discussion; board agendas are populated with management issues and operational decisions, leaving little time for constructive strategic dialogue (Dalton and Dalton, 2005). In contrast, boards that meet too often run the risk of pursuing operational detail rather than strategic debate, exacerbated by unstructured board agendas, board papers and supplementary information which focus on financial and operational detail and discourage a wider strategic overview. A cluttered board calendar has additional implications; board and committee meetings which are held back-to-back due to limited non-executive availability give little time for reflection and create a high workload for the executive team.

Strategic awaydays present further difficulties; smaller listed companies are slow to introduce a formal strategic awayday into the board calendar compared with their FTSE 100 counterparts, limiting the time available for prolonged strategic discussion, as well as productive interaction and increased familiarity between executive and non-executive directors. Those that have introduced an awayday regularly find that sessions are dominated by management-led presentations and information overload, endorsing the view that non-executive authority can be undermined by management practices (Pahl and Winkler, 1974). Furthermore, although the literature concerning organisational decision-making argues that making choices and taking decisions is a continuous process in context (Pettigrew, 1990), strategic awaydays are usually planned as annual or biannual events; this suggests that board members, if confined to developing strategy on an annual awayday, are making important strategic decisions out of context and in an untimely manner.

It is possible for boards of directors to address several of these issues and increase the effectiveness of their strategic planning. Structural changes, such as a review of the number of board and committee meetings required on an annual basis, and the structure, content and timing of board agendas will ensure that strategic discussion is a continuous process, and that the debate avoids time spent on operational detail. This is facilitated by high quality board papers and supplementary information; separation of information needed in order to contribute to the decision-making process, and information which is for background reading, is a helpful division for non-executive members. Agendas with proposed timeframes enable members to prioritise the items for discussion before the meeting, ensuring that there is a balance of strategic guidelines vs. operational detail and updates, and a clear framework for decision-making.

Continuous high level strategic debate throughout the year, and the addition of an annual strategy day into the board calendar, will encourage the CEO and senior management to present potential strategic options, allow the board to familiarise themselves with strategic issues, and analyse the long-term risks and opportunities as well as the potential value creation for shareholders. Furthermore the board should consider whether the non-executive directors have sufficient exposure to operations and staff below board level, and adequate industry and competitive knowledge, in order to debate and challenge the executive strategic view; this may result in a review of the level and quality of training, professional development and induction for board members.

The role of succession planning

Succession planning and the appropriate development of senior executives present complex issues for boards of directors, described by Westhead *et al.*, (2002) as "a multi-staged process that exists over time . . . involving the transferral of leadership experience, decision-making power and equity which do not necessarily all occur at the same time." (p. 248). Well-planned succession is believed to address a variety of organisational needs, namely to help organisations prepare for executive turnover in an orderly manner, evaluate internal resource needs, reduce attrition of the work force caused by 'job-hopping' high performers, and train qualified candidates for appointment to senior management positions (Behn, Riley and Yang, 2005). Higgs (2003) draws attention to the importance of management development and succession planning in his review: "It is an important part of the board's work to ensure that there is adequate management development and succession planning . . . succession planning should involve an assessment of the challenges and opportunities facing the company, and an evaluation of the skills and expertise that will be needed on the board in the future." (p. 41), a view reiterated by the Combined Code in its first supporting Principle, which states that non-executives have a prime role in succession planning (Financial Reporting Council, 2006; p. 3).

The way in which management succession is planned by boards of directors has changed significantly over the last decade. Institutional investors are increasingly concerned over the accountability of executives, and have encouraged companies to appoint high profile external talent, appearing to prefer charismatic leadership over rational authority (Khurana, 2003). The disadvantages are obvious; internal CEO selection allows the successor superior and advantageous knowledge of the company and its industry (McCanna and Comte, 1986), prevents change in corporate pace and an exodus effecting both people and networks (Clutterbuck, 1998), and allows non-executive directors the opportunity to evaluate successors as potential future CEOs. Furthermore external CEO selection, with its emphasis on charisma, profile and visibility, artificially limits the number of candidates, giving them increased leverage to demand higher salaries and raise shareholders' expectations, increasing corporate instability (Khurana, 2003).

Although companies are influenced by external institutional pressures, succession planning is also characterised by internal political manipulations and power struggles (Pfeffer, 1981), largely determined by the distribution of power among the senior executive team (Boeker and Goodstein, 1993; Cannella and Lubatkin, 1993; Zajac and Westphal, 1996); few CEOs are prepared to relinquish their office in a timely manner, willingly giving up power, prestige and financial rewards (Sonnenfeld, 1988). Furthermore executive directors often seek out potential successors who share similar beliefs and values, even though the pace of change in competitive environments may require leaders with different characteristics rather than younger versions of the previous incumbent; inevitably this encourages path dependency and executive and/or board cloning i.e. members with similar backgrounds, belief systems and values.

Directors are encouraged to formalise the succession planning process through board and committee discussion and process (Long, Dulewicz and Gay, 2005); the identification of a competent heir apparent not only smoothes routine management succession, but also provides an insurance policy should anything unexpected happen to the incumbent CEO (Vancil, 1987; Lorsch and MacIver, 1989). FTSE 250 companies, many of whom are managing considerable organisational growth, recognise the challenges and pressures on existing control and management structures, and the need for increased delegated authority to high quality executives throughout the organisational structure. Leadership planning and improved delegation of authority requires increased clarity of roles and responsibilities for executive and non-executive members, proper alignment of executive reward structures and shareholder objectives, and formal professional development plans which enable the organisation to attract, retain and develop talent in the long-term.

However, smaller listed companies suffer several disadvantages; many of them retain family or founder directors from their pre-listed boards and find succession planning a difficult and sensitive issue to discuss openly (Birley, 1986); consequently, succession is not regularly on the board agenda. Boards are often reluctant to hire CEOs from outside the company (Finkelstein and D'Aveni, 1994; Fiegener, Brown, Dreux and Dennis, 2000), even though the quality and experience of an internal executive pool may not be able to fill the range of specialist functions required by a competitive and growing company (Casson, 1982) and in general are less likely to dismiss executives as a response to poor performance (Gomez-Mejia, Nunez-Nickel and Gutierrez, 2001). Due to the number of staff, identifiable executive talent is limited, HR departments are small and inexperienced in the preparation of detailed data on key candidates for the board, and annual reviews and appraisals are less formal than in FTSE 100 counterparts.

Although communication in smaller companies tends to be informal, information flows between the Nomination and Remuneration committees and the board are often opaque and infrequent, and executive roles and responsibilities, and organisational structures, lack formal definition. Furthermore, due to their history and culture, many FTSE 250 companies are managed with a 'control from the centre' model, with the most senior executive members taking full responsibility for all organisational decisions and authority not properly delegated to management. Corporate growth renders this model increasingly ineffective, demanding greater delegation of authority and control, and the development of high quality executives.

Inadequate succession planning is a key risk for any organisation, and it is therefore imperative that boards overcome these issues. The development of current and future organisational structures outlining senior management positions will increase the board's understanding of how authority is delegated and planned, and give clarity and transparency to the roles and responsibilities within the management hierarchy; detailed role descriptions, and clear divisions of responsibilities between chairman, CEO and other board members, improve the effectiveness of decision-making concerning a variety of board agenda items such as succession planning, executive monitoring, and remuneration planning. An executive recruitment budget, calculated to meet the growth requirements of the business and approved by the board, facilitates this development. The board, through the Nominations committee, can develop appropriate plans for executive development, retention and nomination in order to ensure maximum contribution and continuity, management of corporate growth and value, and protection of shareholders' interests; although succession is often a sensitive issue, improved transparency and information flows between the Remuneration and Nomination committees and the main board can be assisted by careful documentation of decisions and minutes, as well as encouragement by the chairman to discuss succession issues regularly and openly at board meetings.

Board culture dominates the way in which directors approach succession planning and management development; improved openness and transparency with executives about increased expectations, and a changing culture of accountability and quality of decision-making, cannot necessarily be introduced and embraced overnight, but can be endorsed and encouraged over time through an increasingly formal and transparent appraisal process and bonus allocation. Furthermore a change of attitude and approach, including an acceptance by the board that increased responsibility and authority may cause some executives to fail, and others to warrant internal development of skills and talents, will assist effective succession planning and management development.

The role of risk management

The role of risk management can be interpreted in a variety of ways, but is generally accepted as the application of continuous processes aimed at reducing the uncertainty organisations face, allowing companies to meet their business objectives, and identify opportunities associated with risk as well as managing or mitigating losses (Willis Group, 2005). A division exists between risks that are both unmitigated and exogenous, and those that relate to poor execution of managerial control (Lawrie, Kalff and Andersen, 2003); in order to address the latter, the Turnbull Report (1999) encouraged the use of a risk-based approach to establish a sound system of internal control, incorporated within normal management and governance processes.

There are contrasting views on the correct balance between entrepreneurial risk and prudent control. The control role of the board is mostly derived from agency theory (Fama and Jensen, 1983), which emphasises the need to have strong and rigorous accountability in relationship to strategic leadership and corporate direction (*McNulty et al.*, 2002). The literature suggests that risk management should be developed as a continuous process (Muralidharan, 1997), inextricably linked with strategic control, performance management, and the risk profile of a company (Simons, 2000). Formal board processes – routines, frequency of meetings, formal board evaluation – have proven to have positive effects on communication and group effectiveness (Demb and Neubauer, 1992; Gabrielsson and Winlund, 2000) and are part of creating an organised and valuable board (Dulewicz, MacMillan and Herbert, 1995). However, the analysis regarding management of corporate risk may be more complex; critics argue that matters of financial disclosure and compliance designed to enhance the protection of shareholders have diminished the board's principle concern with nurturing the spirit of enterprise (Dulewicz and Herbert, 1999). Stewardship theory, which suggests that honest and dedicated CEOs must have the freedom to run the company under the oversight of the board, and must do so in a way that permits leadership, entrepreneurship, and the taking and managing of risks (Donaldson, 2003), appears to have little influence on current governance guidelines and media attention.

These polarised risk profiles can be counterbalanced by non-executives, whose experience across boards and sectors can provide them with a more sophisticated understanding of the combination of systems and structures (Carpenter and Westphal, 2001), in theory enabling them to effectively identify and analyse risk and maintain prudent control without sacrificing entrepreneurship and reward. The Combined Code outlines this non-executive role, again within its first Principle: "(non-executives) should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible" (Financial Reporting Council, 2006; p.3). The task for non-executive directors in identifying and analysing risk is difficult, partly due to company size, the complexity of business operations, and the dependence of uninformed part-time non-executives on executive knowledge and judgement.

Furthermore it is impossible for non-executives to be aware of all the risks that are being taken by executives on behalf of the company; executive risk analysis, like much corporate information, is presented to non-executives as a pre-prepared package, guaranteed to present those opportunities which executives wish to pursue in the best possible light. It is executive responsibility, rather than board responsibility, which drives the initial process of risk identification; non-executive directors are dependent on executive integrity, and have limited power in its absence (Nowak and McCabe, 2003). However, governance pressures on listed companies are improving corporate processes, and the establishment of risk committees, comprising of members with diverse backgrounds which relate to all divisions of the business, are seen as thoughtful additions, even if only to identify the tip of the risk iceberg.

Although the Turnbull Report (1999) recommends the use of a risk-based approach to establish a sound system of internal control, incorporated and monitored within normal management and governance processes, risk is considered by many board members to be an unpredictable and uncontrollable force, influenced by economic cycles and executive failure regardless of corporate procedure and board diligence. In order to effectively analyse risk directors need to have appropriate levels of corporate ability and experience, combined with a detective-like instinct for uncovering the facts and unlimited time to spend with executives and in committees. The unpredictable nature of risk and the severity of its consequences, both joint and several, may partly explain the increasing caution with which non-executives are approaching PLC roles.

There are a variety of factors which influence FTSE 250 companies in their risk management. Boards of directors serving on smaller listed companies regularly complain that corporate risk is micro-managed by the senior executive team and is not yet fully discussed at or below board level. This is usually historic, and is based on a previous hands-on approach by senior management. Board packs frequently contain too much financial and operational data, making it difficult for non-executive directors to determine the key information specifically related to risk. Companies which experience increasing success over many years can shield members of the board from corporate failure, reducing their ability to analyse changing conditions; recently this has been exacerbated by short executive and non-executive tenures predetermined by the independence rule in the Combined Code (2003), which can diminish corporate memory and learning on the board as directors retire.

Boards are often complacent in their reviews of delegation processes, reporting structures and the quality of executive staff, as well as board powers and conflict of interest policies, potentially jeopardising future growth, the protection of shareholder interests and the company's reputation. Intangible assets, such as reputation and goodwill, appear as minor issues, if at all, on the risk register, which at best remains a static document for most of the year. Furthermore, limited operating knowledge amongst non-executive members, and their lack of understanding regarding processes such as sector analysis, and internal benchmarks and guidelines, decreases the board's ability to analysis and manage risk.

There are several practical steps that boards of directors can take to improve the management of risk, and balance the relationship between risk taking and corporate entrepreneurship. The management of risk is inextricably linked to all the issues outlined above, including strategy and succession, and therefore a greater understanding of the business, the people and the environment in which the business is operating and competing, assists directors in their contribution to the risk debate. Boards of directors can greatly improve communication channels between executives and non-executives by encouraging less formal structures and facilitating a culture that shares appropriate information, including market research and competitive analysis. Furthermore, detailed knowledge of management below board level assists the board in its understanding of the decision-making process, and its inherent risks within business divisions.

Process plays an important part. A timely review of high-level corporate objectives, performance targets, risk analysis procedures and priorities, and ownership of key risks, coordinated with a discussion of management structures and roles, increases the board's contribution to the risk debate. The identification of high-level corporate and strategic risk (compared with operating and project risk), regular updates and amendments to the corporate risk register, and a review of relevant corporate documents which explain internal risk analysis processes, judgements and outcomes, can allow the board deeper insights into risks taken on behalf of the organisation and should not be delegated entirely to the risk or audit committee; board agendas encouraging discussion and contribution from members on key financial information, macro economic factors and corporate risk analysis can be facilitated by detailed and timely analysis provided by management, and encouragement from the chairman to debate potential issues. Information on past learning and examples, if well documented, can prevent directors from inventing or reinventing the wheel in recurring economic cycles or issues. Lastly, and perhaps most importantly, a culture of risk awareness throughout the organisation can be actively encouraged by the board and executive team, ensuring that all executives are conscious of the implications of their business decisions, and can identify and mitigate possible risks.

Conclusions and practical advice for managers

This paper has attempted to outline a few of the factors which influence board effectiveness at a certain stage in the lifecycle, and the changes FTSE 250 boards of directors can make to improve their performance and leadership. Many of these changes relate to board structure and process, both of which are important within the governance landscape (Dalton and Dalton, 2005), although this paper also suggests that specific cultural changes such as increased transparency, communication between executives and non-executives, and the delegation of authority can enhance board performance and the environment in which decisions are made.

This paper highlights a variety of practical implications for directors, not least that effective directors are chameleon, varying their contribution according to the needs of each individual board. There are individuals who are more suited to the larger company role, which emphasises control and takes its guidance from the influences of modern corporate governance. Conversely, there are those more suited to the strategic and intimate demands of a FTSE 250 board. There are a few courageous individuals who strive to recognise the best of both worlds, and attempt to introduce best practice across sectors. This analysis suggests the following practical implications for directors of FTSE 250 Boards:

- There is no blueprint for a directorship that is appropriate for all boards;
- Directors serving on FTSE 250 boards should understand that the roles and levels of importance and involvement are different depending on the influences of lifecycle, structure, culture and process;
- Effective development of strategy, succession planning and risk management is vital to the success of every organisation, and it is imperative that boards of directors examine the way in which they operate, and the effectiveness of their decision-making processes, on a regular basis in order to protect shareholder value;
- Strategic development can be improved by a review of the number and nature of strategic meetings and discussions, the content of agendas, the

quality of papers, and the understanding and knowledge of directors regarding the executives and operations throughout the organisation;
- Succession planning can be improved through increased clarity of roles and responsibilities, appropriate plans for executive development, retention and nomination, careful documentation of decisions and a culture of accountability and responsibility;
- Risk management can be improved through an increased understanding by the board of the environment in which the organisation is operating, improved channels of communication between executives and non-executives, a review of the decision-making processes and documentation regarding risk analysis and management, and encouragement of a culture of risk awareness through the organisation;
- Improved induction processes for new Board members – which include time spent with non-executive as well as executive members of the Board – and an emphasis on board development and constructive evaluation for existing members will provide a catalyst for directors to discuss many of these issues, and effectively prepare their organisations for the future (Long, 2006);
- Modern governance structures for listed companies are often conflicted in their aims; whilst attempting to formalise expectations, roles and communication channels, non-executive directors are distanced from executives and operations, diminishing their overall contribution;
- There is a conflict between the desire to attract a wider constituency of non-executive directors to listed boards whilst increasing personal liability, the need for sophisticated technical and financial knowledge, and time commitments;
- Codes of corporate governance are effective within general corporate frameworks, but do not always reveal or prevent human error.

Too many boards continue to be unaware of their own weaknesses and the need to review their collective abilities, and are as yet unburdened by fresh thought or diversity of any kind. Ultimately it will be the responsibility of conscientious chairmen and shareholders to encourage boards of directors to maximise their contribution in these roles, even if it is at the expense of breaking with tradition.

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