

Gender balance and its impact on decision-making at Board level

The purpose of this white paper

The main purpose is to try to jolt people out of complacency and to perhaps view the Board of Directors as a dynamic and flexible entity that is subject to controlled change – not imposed change from dissatisfied shareholders. Having accepted that change can be managed in a positive way to perhaps view their own management structures in a different light.

As the economic climate changes, so does the need to change management style. There is good evidence that by adjusting the gender balance of a Board of Directors, especially by closer attention to the roles and requirements of the Non-Executive Directors (NEDs) an organisation might well be better positioned to take advantage of changing economic circumstances

Please note

This note explores this (controversial?) balance and follows from the white paper “**Building The Board of Directors**”; and like that paper, uses as a background the structure of the Board of a major multinational to ensure all the functions are covered. However this does not preclude this approach being used for much smaller companies – even as small as husband and wife teams.

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Part 1 Yes, there are differences

1.1 Introduction

Despite women's lib, equal opportunities, glass ceilings and the like, men and women work well together when they co-operate and play to their strengths, not scoring points through exploiting their differences [a bit like a good marriage].

There are some areas where women are naturally stronger – functions which involve communication, nurturing and intuition. Men are naturally stronger in other disciplines, which include: risk-taking, competitiveness and the use of logic¹. In exploring the dynamic Full Board of Directors, some functions fall naturally to one gender, some to the other and some may be the province of either.

Additionally, there may be some natural selection dependent on the type of organisation or sector it is active in. For example, taking two extremes: the positions of Chairman and Sales & Marketing Director are perhaps more likely to be male dominated in engineering and female dominated in nursing.

Table 1. Considering the various responsibilities

Chairman and Sales & Marketing are omitted here as potentially industry specific

<i>Position</i>	<i>Male</i>	<i>Female</i>	<i>Either</i>	<i>Notes</i>
Managing Director	✓			A competitive role
CEO	✓			A competitive role
Company Secretary			✓	Communications and compliance
Finance			✓	Interpretation and advice
Personnel		✓		Managing people's expectations
Operations	✓			A driving role
Mapping		✓		A perceptive/communicative role
Values		✓		Feelings and sensitivities
Compliance	✓			A very focused role
Senior NXD	✓			Combative and competitive

1.2 Balancing the Board for gender

Business is generally regarded as competitive, so it is normal for there to be a bias towards a male management structure and the Main Board structure will normally be fixed, because the individuals will have the culture and experience to maintain the momentum of the business [although some times this isn't always a good thing]

The principal gender balance will vary depending on industry sector, for example the engineer's Board may be composed of seven males: Chairman, Sales & Marketing, MD, CEO, Operations, **Compliance and Senior NXD**, and two females: **Mapping** and **Values**, (plus two of either gender). A ratio of about 75:25 male:female

¹ For a very readable discussion please go to *Why men don't listen and women can't read maps* by Allan & Barbara Pease ISBN 0-75284-619-1

The commercial nursing organisation, on the other hand, could be composed of five males and four females, (plus two of either gender) a ratio of about 55:45 male:female

This is developed further below

Part 2 Board gender balance according to the economic cycle

In more recent UK history, the economic cycle seems to be about ten years from a period with a good growth rate to a period of poor economic growth. The notes below are a very brief introduction to the discussion about the selection and balance of the Board of Directors.

2.1 *The economy in the ascendancy*

The growth in GDP is above inflation; export volumes, whether service, media, creative or manufactured are above import volumes and the government [of whatever colour] is investing in supportive infrastructure e.g. roads and railways.

Some of the leading indicators for an upturn in the economy are:

- The consumer confidence index
- Increasing advertising spend
- Increase in housing activity [after a low period]
- Stock market returns

Most of these are of a medium-time duration and can only provide about six months notice of improvement. Some interpretation is required in identifying where things are positioned in the wider economic cycle

2.2 *The economy in decline*

The other side of the economic cycle is the decline in GDP compared to interest rates and, for example, government investing in unnecessary infrastructure e.g. new town halls or administrative centres – keeping people busy whilst appearing to do something useful.

As during growth; there are a number of leading economic indicators. In particular:

- Decline in overtime
- Decline in advertising spend
- Decrease in housing market activity [after an active period]

These tend to be medium-term indicators and, again, some interpretation is required.

Around 2005 it seems there was a good long-term indicator associated with the US banking sector when looking back over recent past history, the trigger was some significant losses to the US operations of UK banks [especially in the agricultural regions]. More recently (Feb 2008) there was the offloading of doubtful debt from the US economy to other financial institutions, which appeared to signal an economic downturn, and by April 2008² the media were predicting economic melt-down – and how right they were!

² The date of the original draft of this paper

If this is taken as an indicator of difficult time some years ahead and read against the trends and moving averages there is good reason to believe there are pointers to guide companies to change - reducing non-core activities and becoming more focused and leaner in their operations.

2.3 *Relevant gender differences*

For too many years men and women have been either fighting one another's differences or trying to be alike, and despite about two thousand years of 'civilisation' the inherent differences remain – derived from millennia of evolution – differences which can deliver much greater strength in working together and collectively rather than by competing

Of particular relevance here is the risk-taking profile. In general, men are more willing to take risks, otherwise how could they have hunted and caught wild animals; whilst women are more risk-averse and naturally protective.

2.4 *Managing the make-up of the Board*

The various aptitudes and areas of responsibility have been noted above; the final piece of this jigsaw is to consider the gender balance in a commercial organisation.

In simple terms: when the economy is in decline, poor business decisions will be compounded because there is not the natural market growth to allow the business to recover. In such a circumstance [decline] the organisation should hold on to what it has, not take risks and become increasingly conservative and safe – a natural female influence

When the economy is in growth (with surpluses); poor business decisions can often be absorbed in the natural growth going on in the market. In this circumstance risk should be encouraged as a means to drive diversity and opportunity, and a male influence will predominate.

In the established company, the Main Board will be steeped in the culture of the organisation; members work well as a team and make decisions easily and quickly. To replace a main Board member could be a long and difficult task.

The right gender balance can be met most readily by managing the balance of the Non-executive Directors who can be appointed with less impact on the overall management of the organisation, and at shorter notice periods; they can also be released with a minimum of disruption, litigation or cost.

2.5 *The balanced Board in a balanced economy*

A starting point is required in order to develop the argument; this is taken as the complete Board of Directors during a period of economic stability.

As noted above, the gender of the Chairman and the Sales & Marketing Director may be industry specific, and the gender of the Company Secretary and Finance Director may be either and in order to provide a start-point to explore gender balance, the assumption is made that two of the functions noted above will be male and two will be female.

Table 2. The balanced Board of Directors

<i>Position</i>	<i>Gender</i>
<i>Industry specific/non-gender specific³</i>	
Chairman	Male
Sales & Marketing	Female
Company Secretary	Male
Finance Director	Female
<i>Main Board functions</i>	
CEO	Male
MD	Male
Personnel	Female
Operations	Male
<i>Non-executive responsibilities</i>	
Mapping the changing world	Female
Values	Female
Compliance	Male
Senior NXD	Male
Overall balance: 60:40 Male:Female ⁴	

2.6 In times of economic downturn

At times such as this a predominantly female element will prevent undue risk-taking, conserve resources and maintain positive relations, particularly with staff.

It will also be advantageous to have additional female challenge to the Main Board and the recruitment of a female compliance officer would be a sound move.

As noted above, the Main Board will remain unchanged and for management purposes the gender non-specific posts stay the same.

The challenge is to re-balance the Non-executive Board in a way appropriate to the prevailing economic climate. The economic cycle can be industry specific; for example in times of economic decline insolvency practitioners tend to do well as companies collapse and alcohol and tobacco often thrive in the retail sector as people seek some sort of comfort from the prevailing circumstances.

³ Stays in a ratio of 50/50

⁴ Which is the legal balance now in Norway

Table 3. The Board in times of economic downturn

<i>Position</i>	<i>Gender</i>
<i>Industry specific/non-gender specific</i>	
Chairman	Male
Sales & Marketing	Female
Company Secretary	Male
Finance Director	Female
<i>Main Board functions</i>	
CEO	Male
MD	Male
Personnel	Female
Operations	Male
<i>Non-executive responsibilities</i>	
Mapping the changing world	Female
Values	Female
Compliance	Male
Senior NXD	Female
Overall balance: 50:50 Male : Female	

It is also recommended that in times of economic downturn the Non-Executive Directors become increasingly involved in the management of the company to emphasise the gender balance.

The shift has been fairly minor in numeric terms but quite significant in terms of potential impact with **Mapping the changing world** moving from looking for opportunities to looking for solutions to problems; the ideal person is the MD from a complementary organisation, which is often a male dominated position – the ideal person could be hard to find.

2.7 In times of economic uplift

This is the time that more risks can be taken and new initiatives instigated – as the rising economy will cushion any shortfall in decision-making or in product quality.

Now is the time to increase the male proportion of the Board.

The Main Board will remain unchanged and the balance be introduced through the Non-executive function (and possibly the industry-specific group, by introducing a greater male balance, perhaps through the Finance Director which is not considered here). This would produce a balance as described below:

Table 4. The Board in times of economic uplift

<i>Position</i>	<i>Gender</i>
<i>Industry specific/non-gender specific</i>	
Chairman	Male
Sales & Marketing	Female
Company Secretary	Male
Finance Director	Male
<i>Main Board functions</i>	
CEO	Male
MD	Male
Personnel	Female
Operations	Male
<i>Non-executive responsibilities</i>	
Mapping the changing world	Male
Values	Female
Compliance	Male
Senior NXD	Male
Overall balance: 75:25 Male : Female	

Again, a minor shift creates a significant impact in terms of how the Board is balanced; and creates a structure that supports a move into new territory or to exploit new opportunities

3. Some comments

The Main Board continues to be male dominated [in most cases] as business is currently considered to be aggressive, although some sectors [e.g. nursing] may be female dominated.

The shift Board composition to better manage economic threat or commercial opportunity is quite small, involving only three positions out of twelve, yet the impact is quite profound.

The skill of management is to anticipate the changing circumstances and to prepare for change without fear or favour. Using the Non-Executives is a relatively painless way to get the right sort of balance for the prevailing circumstances.

When the economy is in decline the Non-Executives should play a more active and decisive role in challenging Board activities and the decision-making processes.