

The Structure of Management

Management should be structured according to peoples' natural aptitudes, in order to play to strengths and provide mutual support that doesn't intrude on others' spheres of responsibility.

This note explores how a Board of Directors might be structured and is as applicable to a company with ten people as it is to a multinational

– In one case a company of four people was restructured to fit the various management roles to individual aptitudes; one person took the role of **CEO** and **Marketing**, another **MD** and **Operations** and a third **Chairman, Finance** and **Company Secretary** (there was no need for **Personnel**); the fourth person is part-time

This material is available as a one-day interactive workshop which explores the roles and interrelationships in much more depth.

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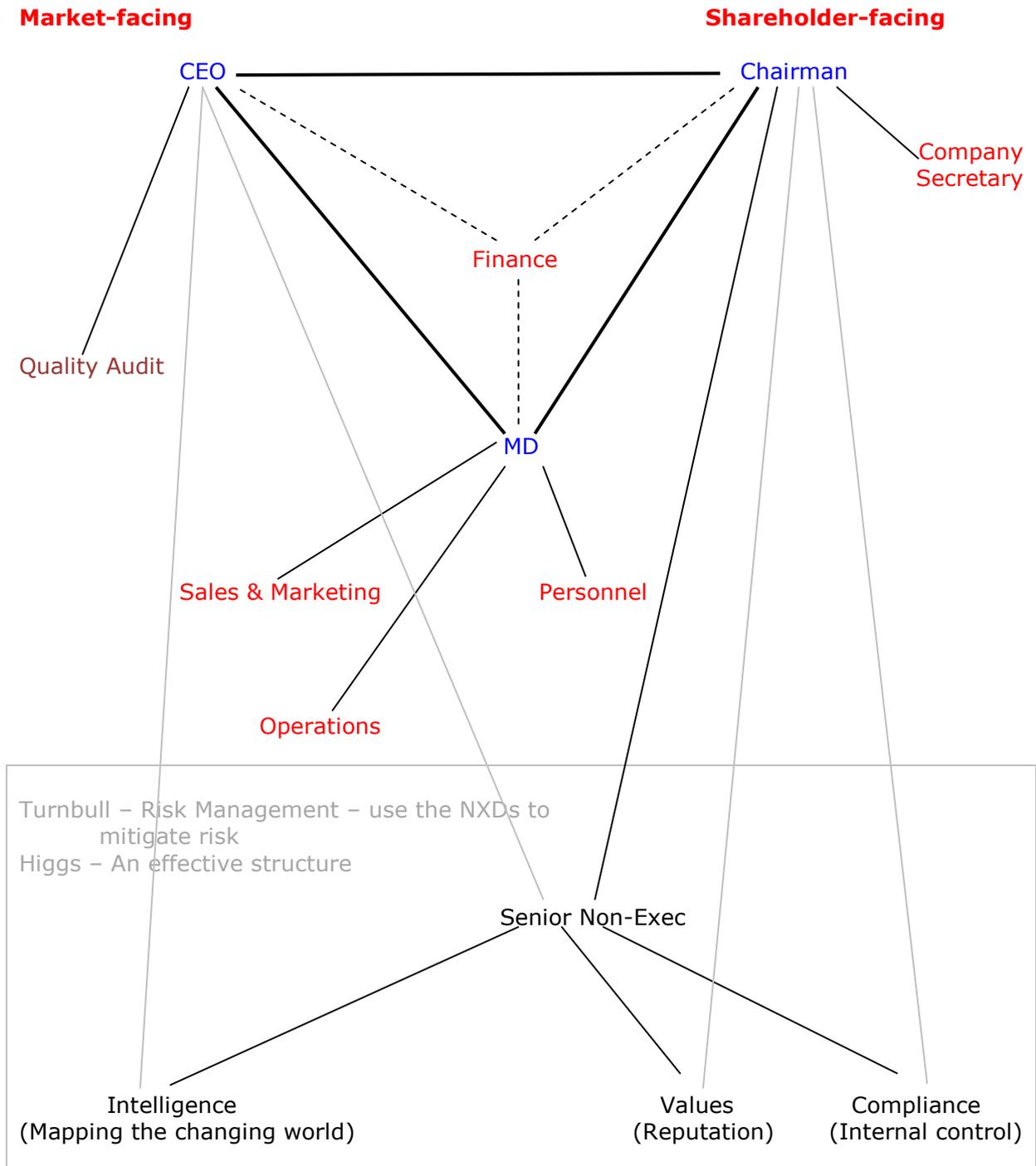
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The Structure of the Effective Board

In the effective board of directors each plays to the others strengths and to the prevailing market conditions: the CEO seeks to take the organisation into new territory, the MD to deliver results whilst the Chairman keeps order and reports progress. This note explores these relationships and maps to the note describing the 'People in the Stream'¹.

The Boardroom Links



¹ See http://fundamentally.typepad.com/blog/files/four_types_of_person.pdf

the CEO

The key elements that make up the CEO's responsibilities are: **governance, in ensuring the sound management of the organisation, maintaining and developing the strategic focus to ensure sustainable competitiveness, managing policy to be consistent with emerging events and mapping the changing world to inform strategy whilst keeping the organisation nimble enough to respond to competitive activity**

Governance

In bringing together policy, strategy and external mapping, the CEO can ensure the company is being managed in a responsible manner appropriate to internal demands and also in line with external requirements (e.g. legislation, reporting) and best practice. There is linkage with the Chairman, who is accountable to the Shareholders, to ensure emerging demands can be met by the organisation as operational matters evolve in line with strategic focus

Strategy

The strategy will be derived from the vision, mission and objective for the organisation, which ensures the CEO and Chairman work closely together to plan the business; drawing the various strands [finance, market, people etc.] into the properly developed, sequenced and interlinked format necessary for a sound management process.

Policy

Policies are the overriding courses of action that direct the organisation, even in changing external circumstances, and include internal codes of management. These are not set in stone and, given sufficient reason, may be subject to review and change within set parameters. Policies guide operations, but are not a substitute; they act an advisor to intelligent management and risk mitigation.

The policies will be clearly articulated to allow external people acting as advisors to challenge management with knowledge and confidence, and by so doing help the organisation to maintain its focus, whatever is happening elsewhere.

Intelligent Management

There is an intermediate position in management between strategic and tactical management. It may be termed ***Intelligent Management*** which embraces the majority of practical management decisions which are normally focused two weeks to six months ahead.

The core management and decision-making processes can be significantly enhanced by regularly introducing understanding and nuances from outside the organisation and from similar organisations and markets. By sharing this with the MD, the CEO can promote intelligent management in a changing world, to better guide operations and improve competitive responsiveness.

The Non-executive Directors can be very supportive by listening out for what is happening elsewhere, monitoring the continual changes in the external environment and reviewing the company's standing in the market place. This information may be fed back to the CEO for incorporation in strategic and intelligent decision-making

The Chairman

The key elements that make up the Chairman's responsibilities are: **accountability to the shareholders and investors, maintaining the vision for the organisation, keeping the organisation true to its mission, maintaining the corporate objective and providing a point of reference and support for the non-executive directors.**

Accountability

The Chairman is accountable to shareholders for the performance of the company, which is achieved by the Full Board working effectively together whilst ensuring that the contributions from the Non-executive Directors are properly integrated into the decision-making process.

A pivotal part of this function is the scrutiny and [if appropriate] audit of Board activities, with the capacity and authority to revisit decisions and recommend their amendment if appropriate.

Vision

All the Directors need to understand and have assimilated the vision for the organisation. They must also challenge if there is any uncertainty. By providing a clear goal that can stimulate the imagination, others can be taken on the corporate journey and readily contribute their support and commitment even in changing and difficult circumstances. This role will be supported by the non-executive directors.

Mission

The *Mission* Statement is written to answer "What is the purpose of this organisation?" in a form that that will withstand changes in market expectation, product range or external events.

A mission statement that 'is simply to make money' does not acknowledge the customer and does not give direction. This approach rarely leads to a sustainable company as it can be at the mercy of events outside the control of the organisation.

Organisations that waver from their mission risk a significant fall in customer confidence, market presence or share price.

Objective

Perhaps the most difficult of the responsibilities in that, by definition, there can only be one objective and that it needs to be quantified. For that reason it needs to be significant. An example may be 'to become listed within a given number years'; such a statement is quite precise and the requirements are clearly specified. It becomes important that everyone knows the particular criteria and can see their part in reaching the stated goal. Given a clear objective and knowledge of position other members of the organisation can better make decisions and reduce executive time clarifying or ratifying decisions that can be made elsewhere in the organisation.

The Non-executives

The Chairman also acts as the point of reference for the senior Non-executive director guiding and managing the non-executive team to ensure their contributions are appropriate and timely.

The **Managing Director** (MD)

The key elements that make up the MD's responsibilities are: **delivery of goods or services to the customers, the management of sales and marketing to keep goods and services appropriate, controlling operations to ensure competent staff and effective delivery, and tactical/intelligent management to ensure the organisation remains competitive**

Delivery

Delivery has two main elements: an outward-facing part, ensuring the goods and services that are being sold are properly fit for purpose, delivered to time and in good order; and also an inward facing part providing customer support and effective back-up in the event of additional sales or queries to be resolved. This aspect, plus R&D are the only two activities that actually generate income – everything else is a cost

Sales & Marketing

This is a function where even the most experienced can meet significant tension between tactical selling and strategic development, it demands a very clear understanding of the organisation in its competitive context.

Sales is an outward focused activity generating the revenue to run the organisation; is generally short-term and dedicated to making the sale.

Marketing is the longer-term focus and will involve identifying the products and services that will be in demand at a later date, and usually encompasses R&D.

Operations

Operations must be able to produce to specification and within agreed price and margin parameters. There is often a need for close control of this function as it comprises many interlocking disciplines and opportunities for individuals to interpret requirements in a way that is not consistent with policy or strategy. To support management there are many systems, standards and processes to give that control, for example: ISO 9001, Kanban and Prince to name just a few.

Tactics/intelligent management

Intelligent management is about identifying potential competitive threat and having the agility (and evidence) to support the re-directing of operational resources to stave off that threat and remain competitive.

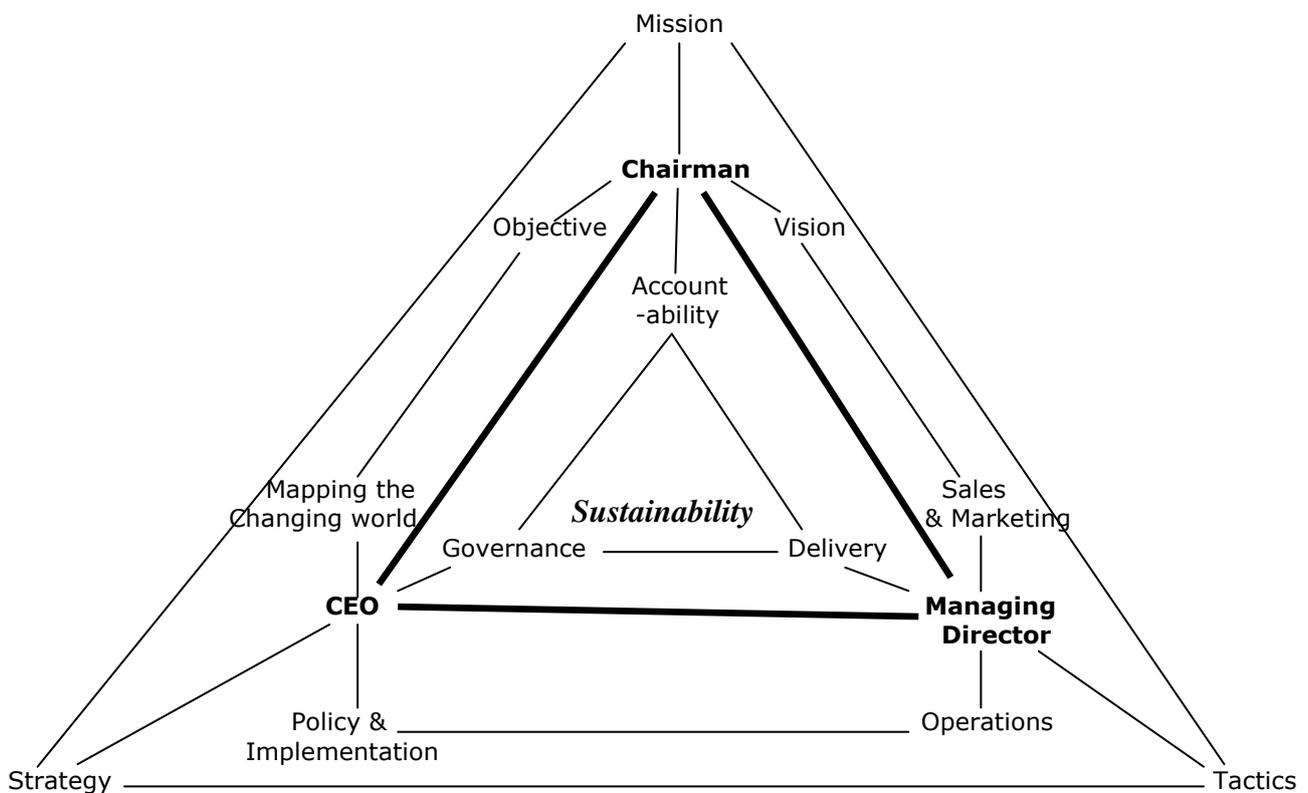
Sound tactical management normally demands experienced middle managers who have good contacts that can be contacted to efficiently overcome some business issue. The strength of these managers is that correct decisions can be made at quite low levels in the organisation, freeing the board for more strategic matters.

The Management team

The three senior people work together as a team to ensure the sustainability of the organisation. In overall terms: the Chairman is accountable for the organisation operating ethically and within government guidelines, the CEO ensures the organisation is well governed whilst developing and delivering the strategy to take the organisation forward and the MD ensures that the organisation can deliver the goods and services it is renowned for.

Working as a team – how the functions interact

A composite picture of balanced and integrated Senior Executives



The three senior positions work in concert as a team, linked by the various areas of responsibility i.e.

Linking Vision with Sales & Marketing

Market research and trend analysis looks a long way ahead at step-changes in products or markets, the skill is to move the product range appropriately or find ways to enter markets more appropriate to the vision

The products or services must be selected and promoted as a means to achieve the corporate vision; for example a drive to enter the luxury market will be served by products such as perfumes and designer clothes, not by cut-price groceries.

Linking Operations with Policy

The Operations function is about getting things right from a practical perspective, and in a way that is consistent with the desires of the organisation. Organisational norms and requirements are embodied in the policies that will be adopted to ensure good governance and sound management, so by bringing the two together risk is reduced, reputation upheld and there is a commonality of purpose.

Linking Intelligence (Mapping the Changing World) with Objective

The world changes whilst the core objective remains firm; in order to meet the objective effectively, the organisation needs to be sufficiently agile to identify and respond to changes in ways that maintain momentum and do not compromise that core objective.

This is an area where the non-executive directors can make a very positive contribution in bringing new perspectives to the business and directing attention to things that might be missed in the pressure of day-to-day business.

Linking Governance, Delivery and Accountability

The style and implementation of corporate governance needs to be accountable – not only to shareholders but also to society, the legislature and other stakeholders.

The ways in which products and services are promoted and delivered need to be consistent with the organisation's own internal rules and still appropriate to the legal, cultural and social norms of the communities in which it operates

Accountability needs to recognise the strengths and limitations of governance and its implementation to avoid over-audit, wasted resource and a stifling of creativity, yet also ensure the company operates within both internal and external parameters and constraints.

In ensuring these three elements are properly managed and supported, the organisation can be more confident of a sustainable market presence and increased attractiveness to shareholders and investors.

Working together

In the model above, there is a common goal; every core function has a champion, and every champion has mutual support.

The **Company Secretary**

The Company Secretary's overall role is to **maintain the formal link with Companies House** which represents government. Additional responsibilities are to ensure **insurances are up to date**; the company **complies with legal requirements**, that **current government policies are adopted** and **fellow directors are properly developed**

Links with Companies House

In maintaining the link with Companies House, there are five main areas of responsibility: to keep the register up to date (for example appointing new directors), that all statutory filing is up to date (such as year end accounts), that all resolutions and notices relating to the shareholders and interested parties are properly issued with regard to due dates and times elapsed, that stakeholders and those entitled to view the company's affairs receive appropriate documentation in a timely manner and that all statutory documents are maintained safely and can be accessed if needed. In days gone by the Company Secretary was also responsible for the company seal.

Up to date insurances

This involves not just renewing premiums but also ensuring the right insurances are in place for the activities and markets the company operates in. The right insurance includes not only what is insured and against what, but also the level of cover to accommodate the time taken to pay for example (e.g. Buncefield is still not fully discharged after several years)

Compliance with legal requirements

There is continuing evolution of legislation designed to help organisations regulate and manage themselves in an ethical and legal manner. As this is continually changing, those changes need to be cascaded down through the organisation, and in a way that is consistent with the values within the organisation and in a format that can be readily understood and assimilated.

Adoption of current government policies

International events can change the way government operates and sets its priorities, so that whilst there may be no formal legal framework there are, in effect, standards of operation that reflect current government policies and where attention is being focused. The Company secretary needs the sensitivity to pick up these shifts and translate them into actionable behaviours and activities.

Development of fellow directors

The responsibility for the development of fellow directors is a recommendation from the Cadbury report and is quite contentious in that many Company Secretaries are unaware of the role and that more than half the board of directors is concerned with future development; yet the Company Secretary's skill areas are in compliance and reporting.

Consequently there can be some resistance to the development programmes designed for directors². Is it surprising that less than 20% of UK directors have any formal training for their role (other than in compliance)

² Google 'Director training' or 'Director development' and with the exception of the IOD the top twelve hits are legal firms providing compliance training; it is very hard to find development programmes directed to moving the organisation into new territory

The **Personnel Director**

The Personnel Director's role is to ensure the company has the right resources at the right level to meet today's requirements and also to be prepared for what should be needed tomorrow.

The role of personnel in today's fast moving environment is becoming increasingly strategic, which demands looking ahead as well as managing for the present. The main elements that make up the Personnel Director's role include: **Recruitment and Redundancy, Performance measurement, Appraisal, Training** and increasingly **policies and legislation**

Recruitment and Redundancy

Whatever the economic climate there will be some movement of staff into and out of the organisation; taking staff into the organisation demands a knowledge of the company strategy and future job requirements in order to recruit the person with the most suitable personality and values to ensure they fit well and work productively. For staff leaving the organisation there are a host of *policies and legislation* that must be considered, however it is important that the person leaving should feel good about the company and about their original decision to join.

Performance Measurement

Effective performance measurement demands an intimate knowledge of where the organisation is headed to identify those areas that will need strengthening and what level of performance will be needed to take the organisation forward. This will be used to establish the minimum number of sensible metrics needed to assess progress towards that goal.

Appraisal

Appraisal follows naturally from performance measurement in evaluating how well people have performed against defined metrics and also in assessing how well people will probably perform against the up coming new metrics. It is quite possible that someone who has not done too well in the past could excel in the future with different needs to be met. The strength of good appraisal is to develop those strengths to go forward, not to dwell on those weaknesses that might have held the organisation back.

Training

The good Personnel Director will ensure training takes place ahead of the need, not after the event – keeping the sails filled and the boat on an even keel; not bailing for all you're worth because the crew are being trained on the job.

Policies and Legislation

As noted above, policies and legislation are an ever-increasing aspect of business which benefits from a close link with the Company Secretary who has the mechanisms and contacts in place to properly stay abreast of new requirements.

The Finance Director

The Finance Director has a complex role: to ensure the **strategic intent** of the organisation can be realised, to ensure **current income and expenditure is sustainable** and to **optimise shareholder value** which includes current finances, investments and the historic data used to calculate taxation etc.

The strategic role

Much of the company's numeric ability sits within finance and can provide a dispassionate analysis of future trend for comparison with today's performance. The Finance Director needs the ability to envision the future, because the progressive company will take decisions where there is no precedent or rules to guide – especially where the strategic focus is changing from *innovative* to *asset-driven* and there needs to be major capital expenditure.

In the energetic and progressive company the IT function will answer to the Finance Director who provides strategic support to the CEO and where IT is used as a means to develop intelligence, perhaps with the NEDs

Current income and expenditure

'You can do what you like with P&L, but get cash flow wrong once and you're finished'. All the various strands of income and expenditure come together with the Finance Director; as does making provision for the future. The various strands include prices, costs and margins for all aspects of the organisation; provision for the future includes financing the capital needed to expand and budgetary support to the various divisions in the organisation.

Optimise shareholder value

Technically, value is added at the point of sale i.e. the goods or services have to have left the organisation before their impact can be realised. Shareholder value comes from an element of the profit generated from the added value in the goods and services, and also through debt management, minimised taxation, treasury and managing investments.

Additionally, some of the profits should be quietly 'salted away' to provide a buffer in case of poor economic conditions to provide reserves that can be called upon to remain properly viable and competitive for the upturn.

Note: - Defining the company type

If the Finance Director answers primarily to the Chairman, the company is more concerned with past events and reporting; if the Finance Director answers primarily to the CEO the company is concerned with breaking new ground and if reporting to the MD the emphasis is on results and growing what is already successful.

The **Operations Director**

The Operations Director ensures the assets in the business are used sensibly to create and deliver the company's specialist goods and services to the right quality, at the right place, on time and within budget. (See also *The Marketing & Sales Director* below)

The more complex operations roles are usually in manufacturing and include: **Operating profit margin, asset management, production control, delivery** and **technical quality**

Operating profit margin

The overriding purpose of a business is to provide value to its owners, and one of the contributors to that value is use of internal resources which might include stock, equipment, job sequencing, quality systems and staff capability. This all needs balancing to provide the ideal level of return.

Asset management

There can be a fine balance between investment in efficient new assets and 're-work' or reduced capacity with overtime. This balance may be swayed by volumes demanded or changing customer expectation. Any significant changes, additions or removals will normally be made with the support of fellow directors as decisions in this area can impact on all aspects of the company.

Production

Production is the activity that adds value – a piece of steel becomes a car door for example and the greater the value that can be added (often through complexity: different alloys, fancier chemicals, new financial instruments etc.) the more effective is the production facility. With this complexity comes the need for balanced investment in people and equipment.

Delivery

Logistics and the efficient control of distribution ensure this 'added value' gets to the customer in the right way. IT can play a part in opening new markets with their own delivery requirements and in some industry sectors (often finance or knowledge-based) IT has become the delivery mechanism itself.

Specified Quality

There are two sides to quality which are intimately linked: perceived quality (which includes brand strength) and delivered quality which is how close to specification is the product provided. The Operations Director has responsibility for the delivered quality of goods and services to support the perceived quality being generated and managed by Marketing & Sales.

The Marketing & Sales Director

The Marketing & Sales Director spans three functions: **Strategic** – taking the company into the future, **Competitive** – managing the medium-term response to competitive threat, **Tactical** – getting the sales today and a **developmental** role, building sales into the future.

Additionally, the marketing and sales activity fits in the supply chain, it does not stand alone, so there is a constant need to manage the customers' customer as well as the direct customer; for example a mother may buy a bar of chocolate – not for herself, but to appease a grumpy child.

The strategic role

The strategic role demands planning through market research and marketing research to identify trends and emerging opportunities and to move away from threats; having identified future opportunity the needs of prospective customers must be assessed to identify the purpose the product will be put to.

The Competitive role

The competitive role supports *intelligent management*³ where the weak signals that indicate competitive activity or short-term market change (fad or fashion) is happening. The response can take place by changes to the product itself or through revised short-term pricing to hold market share until the competition finds their approach untenable.

The tactical role

The tactical role is about getting sales today and supporting those in the field. The two key elements are in persuading people that the product meets their needs through advertising PR and positioning the product. These aspects can be readily changed if a competitive response is needed. Secondly, the product needs to be in a place where it can readily be accessed to make the sale as painless and positive as possible.

The developmental role

The developmental role is one which manages extension selling, key account management, growth in the customer base and new market development. It is based on proving the product meets the customers' needs extremely well and promoting the product in a continual and unwavering way, as evidenced by the big brands.

³ The normal style of management – about two weeks to three months ahead; strategic management is too far away for practical purposes and tactical management tends to be extricating someone from a hole they've just dug

The **Non-Executive Team**

A brief note about the Non-executive team

For many organisations Non-Executive Directors (NEDs) are hired for their specialist knowledge, background, contacts or even title; all too often the particular roles are badly defined if they are defined at all. The Higgs Report gives roles and responsibilities but no structure, whilst Turnbull sees the NEDs as a means of mitigating risk. This section provides some structure to the Non-Executive Board.

The team may be made up of four individuals: a Chairman to ensure co-ordination, a member looking ahead and around collecting intelligence, another ensuring that the products and services are delivered to an appropriate standard and a fourth member who oversees the audit to ensure that recorded and reported activities are legal and compliant.

A brief note about management

Most studies of business identify strategy and tactics as the management foci; strategic management is well into the future and can be changed (many consultancies profit quite handsomely from continual strategic reviews and revisions) whilst tactical management is immediate – ‘made a mistake, who can I phone?’. In reality management normally happens two weeks to six months ahead – intelligent management – something rarely, if ever, mentioned in the text books or at post graduate level; and it is at this level of management that the NEDs can really come into their own.

A brief note about people

Numerous studies of psychometrics and personalities through the ages have identified four basic types: people who go against the tide (entrepreneur), people who stand in the tide (deliverer), people who go with the tide (regulator) and those on the beach observing what’s happening (author). To get the best out of someone an organisation will play to their strengths; so in the corporate world the Company Chairman acts as the regulator, the MD as the deliverer and the CEO as the entrepreneur. Here we look at the NEDs who support the CEO to ensure a sound strategic intent whilst flagging up the weak signals that point to competitive activity or market opportunity.

The **Chairman of the Non-executive Directors**

As with all board roles there is an element of tension divided between supporting a sound future for the organisation (looking forward) and, at the same time ensuring compliance (what has been). The key elements that make up the NED Chairman’s responsibilities are: **to support and challenge the agreed strategy**, to advise and manage the **standards of conduct** of the board and **to co-ordinate the activities of the NED team** as a whole. The strategic intent directs this person to support and challenge the CEO in particular

One possible candidate for such a role could be the Managing Director of a similar, non-competitive organisation who is normally very much focused on delivery; in this Non-Executive role the individual would serve to strengthen strategic awareness from a very practical perspective and act as a reminder for sound governance – aspects that then be taken back to strengthen the NED’s own company.

The NED responsible for **Intelligence**

This post is charged with providing intelligence by **scanning competitive activity** and **market activity** to pick out the **weak signals** that point to subtle changes (such as an improved competitive product) that demand a rapid and proactive response (intelligent management), rather than a late knee-jerk reaction which is an unsatisfactory way to manage any business. This post should support and challenge the CEO

The key strengths needed in this post are a significant number of contacts, the ability to assimilate a great deal of data, pick out the appropriate threads interpret their significance and then seek the evidence to build patterns and linkages. A possible candidate for this role could be the CEO, strategist or scenario planner from another organisation where the NED can take back a closer understanding of *intelligent management* to help keep the own strategic initiative of their own organisation firmly grounded in reality.

The NED **responsible for Values**

This role is concerned with **consistency of delivery**, as perceived by the market. Perceived values are more influential than delivered values and if the products or services are technically excellent, but service and back-up do not meet expectation the sale, and more likely repeat sales, will be lost. The responsibility is to draw together the strands that encompass: **internal values**, **perceived quality** and **external communications** (PR etc) to ensure a **common message** with **consistency of delivery and relationships**; in short, reputation management

A suitable candidate could be the Marketing and Sales Director of a similar organisation who, like those noted above, could take a more focused approach to their role in their own company.

The NED responsible for **Compliance**

The key elements that make up the role of the compliance NED are: **Ensuring internal policies are sound, supervising contracts and sub-contracts, critically evaluating cost management, auditing internal systems** and **intelligence** (which links to the NED mapping the changing world) and ensures **monitoring and control mechanisms are fit for purpose**; in short, ensuring that resources are properly used in the pursuance of the corporate mission and not being diverted.

The post supports and challenges the Company Chairman although managed through the NED Chairman, who supports the CEO. A possible candidate for this role could be the Company Secretary of a similar company who has strength and experience in compliance, and also in how to properly support a Company Chairman

NED Team Structure

Whilst Turnbull gives the NEDs an overall brief to mitigate risk, Higgs and Cadbury offer some very definite posts. In particular:

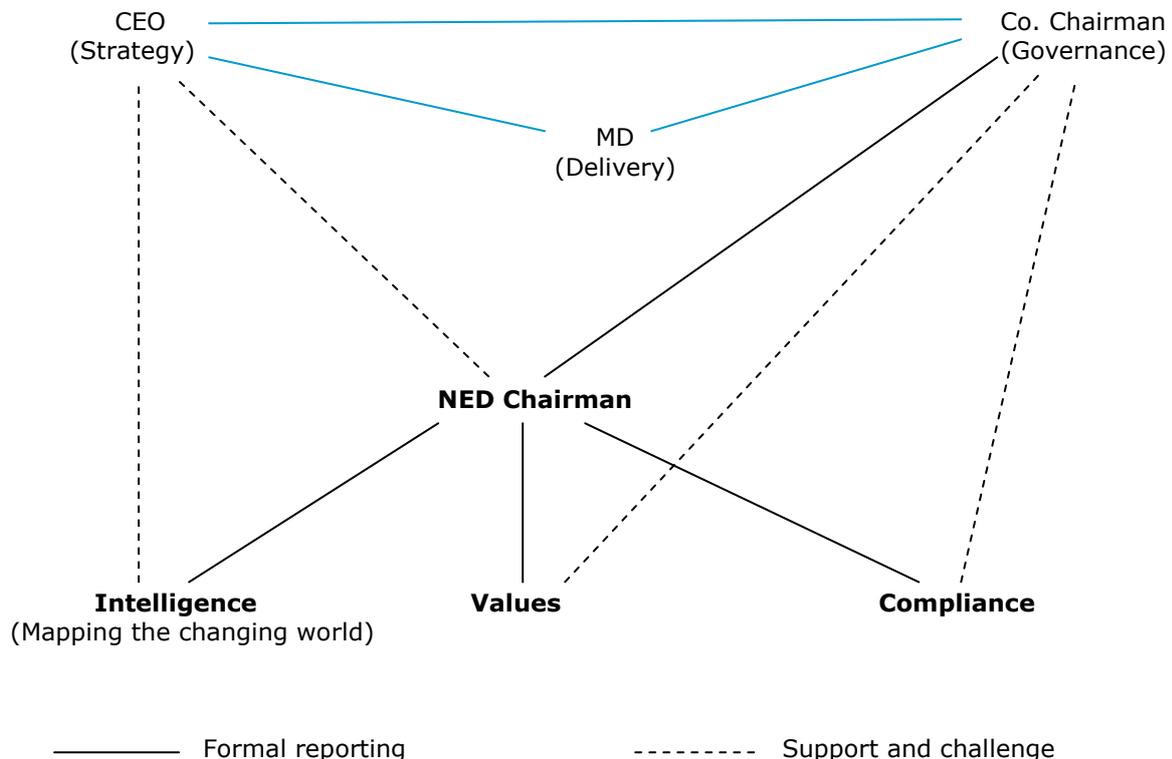
The NED Chairman, has the role to oversee strategy and codes of conduct (Cadbury) – coordinate, advise, support and challenge whilst keeping structure and order within the NED team

The NED responsible for mapping the changing world keeps a very close eye on what is happening strategically in the marketplace to develop a clearer picture of the competition and changing customer expectation. This individual can readily compare the actual performance with the performance of other organisations and is ideally placed to chair the **remuneration committee** (Higgs) and to report on **performance** (Cadbury) – information gathering, trend analysis, moderation

The NED responsible for values has a very clear steer on expectations of people in the company and the ethics, culture and beliefs that guide the organisation. This post is well placed to chair the **nominations committee** (Higgs) and to oversee **key appointments** (Cadbury) – monitoring external impacts and relationships

The NED responsible for compliance can clearly see how well the company observes external regulation, best practice and internal policies. This person is best placed to chair the **audit committee** (Higgs) and to ensure best use of **resources** (Cadbury) – monitoring internal activities and compliance

Summary of the main relationships in the Non-Executive Board



Gender balance and its impact on Board structure

Yes, there are differences⁴

Despite women's lib, equal opportunities, glass ceilings and the like, men and women work well together when they co-operate and recognise 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 logic.

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 but female dominated in nursing.

Table 1. Considering the various responsibilities

Chairman and Sales & Marketing are noted above as potentially industry specific

| Position | Male | Female | Either | Notes |
|-------------------|-------------|---------------|---------------|---------------------------------|
| 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 |

Balancing the Board for gender

Business is currently regarded as competitive, so it is normal for there to be a bias towards a male management structure. The Main Board 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

The commercial nursing organisation could be composed of five males and four females, (plus two of either gender) a ratio of about 55:45.

⁴ 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

See also *Why Women Mean Business* by Avivah Wittenberg-Cox and Alison Maitland, ISBN 978-0-470-72508-5

Board gender structure according to the economic cycle

A very brief overview of the UK 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 section that discusses the selection and balance of the Full Board of Directors. Many books and learned papers have been written about economic cycles and provide a detailed discussion

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.

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

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; it seems there is a good long-term indicator associated with the US banking sector.

Looking back over recent past history, about three years ago (the trigger) there were 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 2008 the media were predicting economic melt-down.

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 to reduce non-core activities and become leaner in their operations.

Relevant gender differences

For too many years men and women have been either fighting one another or trying to be alike, and despite about two thousand years of 'civilisation' the inherent differences remain – derived from millennia of evolution – yet there is much greater strength in working together and collectively drawing on these differences

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.

Managing the make-up of the Full 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 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 – a natural feminine influence

When the economy is in growth, with surpluses; poor business decisions [risks] can often be absorbed in the natural growth going on in the market. In this circumstance risk should be encouraged 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 such a member with an equivalent 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.

The balanced Full Board in a balanced economy

A starting point is required in order to develop the argument; this is taken as the Full Board 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.

In order to provide a gender balance start-point, the assumption is made that two of the functions noted above will be male and two will be female.

Table 2. The balanced Full Board of Directors

| Position | Gender |
|--|---------------|
| <i>Industry specific/non-gender specific⁵</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 ⁶ | |

⁵ Stays in a ratio of 50/50

⁶ Which is the legal balance now in Norway

In times of economic downturn

At times such as this the female element might predominate to 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 alcohol and tobacco can do well as people seek comfort from the prevailing circumstances.

Table 3. The Full Board in times of economic downturn

| Position | Gender |
|--|---------------|
| <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 Chairman and the Non-executive Board become more involved in 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 **Intelligence (Mapping the changing world)** moving from looking for opportunities to looking for problems

Mapping the changing world can be difficult to fill, as the ideal person has been noted as the MD from a complementary organisation which is often a male dominated position – the ideal person could be hard to find.

In times of economic uplift

This is the time that more risks can be taken and new initiatives instigated – as the rising economy should 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 Full Board in times of economic uplift

| Position | Gender |
|--|---------------|
| <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 | |

In order to provide gender balance in times of economic growth, the Non-executive Directors may co-opt a female member of the Main Board.

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 in the Full Board as discussed here is quite small, involving only three positions out of twelve, yet the impact will be quite profound.

The argument is that men and women are not equal, but are equivalent; and it is recognised that people from either gender can be effective in the various roles. In our objective to stimulate thought and cause debate we make no apologies for the sweeping assumptions used in the discussion below

Gender balance according to circumstance.

| Economic circumstances | Senior Non-executive⁷ | NXD Composition | Overall Board composition |
|-------------------------------|---|------------------------|----------------------------------|
| Rising | Male | 75% Male | 75/25 Male/Female |
| Neutral | Either gender | 50% Male | 60/40 Male/Female |
| Falling | Female | 75% Female | 50/50 Male/Female |

⁷ The Chairman of the Non-executives is referred to as the Senior Non-Executive to prevent any confusion with the Company Chairman