

## BOARD LEVEL IMPLICATIONS

*If you contrive each day to outclass the fellow you were yesterday, reaching the top is just a matter of time.*

Source: Unknown

Whether you are a new member of the board, the managing partner in a major firm, or a student, this book will help you to understand the role of marketing at the organisation's governing level.

Specifically we will consider the role of the marketing director, chief marketing officer or any other title that describes the person responsible for guiding the board in the area of marketing. This will include the interpretation of marketing research in relation to corporate strategy, and consideration of the director's responsibilities in the governance of the organisation as a whole.

The book will refer, in the main, to the board of directors or corporate officers "C-level" executive, but the basic role is synony-

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mous with that of the managing partners, trustees of a charity or management team of a government agency. Thus, if you fall into any of the latter categories please read the term “director” in its widest context and with regard to your own organisation’s governance.

### THE ROLE OF THE BOARD OF DIRECTORS

In an Act of Parliament in 1844 directors were described as “the persons having the direction, conduct, management or supervision of a company’s affairs”.

A company is a “Person” in the eyes of the law and can perform many of the functions of a living person; for example, own property, enter into contracts, be taken to court. However, it is clearly not a real person and therefore is often described as an “Article” in as much as it can act only through its agents. Those agents make up the board of directors. Put another way, those who exercise effective control over the company’s affairs are referred to as the board of directors. The number of directors required varies by the type of company, Plc or Ltd, and by the country in which the company is domiciled. A minimum number of directors is often required.

In a very small company the role of the marketing director may be shared with other roles such as finance director, managing director or chief cook and bottle washer, while in medium-sized and larger organisations it is normal to have either a part-time or full-time marketing director. The nomenclature for the post may vary, ranging from the “Sales and Marketing Director” to the “Chief Marketing Officer”.

The role and power of the directors, as well as election and retirement rules, are to be found in the company’s Articles of Association, while the Memorandum of Association defines and regulates the company and its dealings with the outside world. The internal constitution, and hence rules within which the

board are empowered to act, is documented in the Articles of Association. It is imperative that, as a director, you know the content and scope of both of these documents and work within their limitations or have them altered to permit the required actions. Changing any of these documents will involve a resolution and approval by the members (shareholders), not just the board of directors.

The functions of the board are:

- Deciding policy
- Safeguarding the shareholders' investment
- Safeguarding the employees
- C4ISR (see below)
- Compliance with regulations.

### **Deciding policy**

The company needs direction and the board of directors provide the strategic leadership of the company. They formulate the mission, vision and values of the organisation and prepare the strategic plans.

### **Safeguarding the shareholders**

The board of directors are the servants of the shareholders, and they must not only ensure the shareholders' best interests by providing a return on their investment, but must also safeguard the firm's long-term survival.

### **Safeguarding the employees**

The directors are held responsible for the safe working environment they provide for their employees and, as such, must ensure

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that employees are treated in a just, fair and unbiased manner throughout the organisation.

### **C4ISR**

This is an acronym taken from the military and refers to Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance. In the corporate context this means ensuring the growth of the company by keeping its operations under constant review and making any necessary changes without delay when necessary. Constantly comparing results with expectations and reconciling them ensures the efficient and effective operation of the company.

### **Compliance with regulations**

Increasingly new legislation and international agreements appear under a myriad of disguises: for example, Sarbanes Oxley, anti-money laundering, regulations means that company directors are increasingly being held personally liable for the actions of their organisation, and hence must have failsafe controls in place to ensure compliance with the increased bureaucracy involved in running any company regardless of size.

## **THE MARKETING DIRECTOR AS A LEADER**

*I must follow them; I am their leader – (ET Raymond)*

Within the above roles there are three ingredients to which we must pay particular attention:

- Leadership
- Responsibility
- Accountability

To lead means to empower efficient and effective action to those who are accountable to you. It is important to understand that you are responsible, while those whom you have chosen to act on your behalf are accountable to you.

If a plan fails, then you must take responsibility, because you entrusted the execution of that plan to others who failed in its achievement. If the plan is successful, it will have been through the action of others and hence the credit for success lies with them, and not with you. To be a leader, therefore, is not a glorious position. If you are successful, others must be given the credit, and when they fail you must take the blame.

Others may be held accountable for their action, but failure is firmly the responsibility of the leadership.

## **TYPES OF DIRECTOR**

The board may be made up of a number of distinct types of director.

- Executive directors
- Non-executive directors
- Alternative directors

### **The role of the executive directors**

The executive directors work for the company in a full time capacity and are rewarded normally in the form of salary, fees and/or bonus scheme. The contracting of directors is a complex area and there are several law firms that can advise in this area. Rather like a footballer, it can be beneficial to have an agent handle this aspect on your behalf – especially if your skills are in short supply.

### **The role of the non-executive directors**

These are normally part-time members, from outside the company, who attend board meetings, provide specialist input and serve on committees where their outsider view can balance the full-time directors' day-to-day internal management view.

### **The role of alternative directors**

It is normal for the Articles of Association to allow directors to have someone else acting on their behalf when they cannot attend a board meeting in person. There is a procedure set down in the Memorandum/Articles of Association and this should be consulted to define how alternative directors are appointed and the authority they can exercise. (See Appendix 1 for a sample of Memorandum and Articles.)

### **Special considerations**

Whether we are talking about a limited company (Ltd), a public limited company (Plc), or their equivalents in other countries, the basic role of a director is the same, with the only differences being reporting requirements, size of pay check and impact of getting it right or wrong.

### **The trustees of a charity**

Many charities have a constitution similar to a company's Memorandum of Association and Articles of Association, and the trustees perform the role of the board of directors, ensuring that the charity focuses on achieving its purpose.

## Partnerships

There are limited and non-limited partnerships. Where a partnership exists there is normally a partnership agreement, which outlines how the partnership functions. Should there be no formal partnership agreement there is a statutory default agreement that will form the basis in law of the relationship. Limited partnerships are very similar in governance to a limited liability company and are managed by the senior partners or a committee sometimes elected by the partners.

## Family-run businesses

Family-run businesses are a complete book in themselves. There is a lot more to be considered when you are involved in one as an outsider or as a family member. The old terms “Governing Director”, “Life Director” or “Permanent Director” were often used to describe the special powers that founders reserved for themselves – for example, not requiring to retire by rotation, or having no age limit for retirement. Thus, the company may be a dictatorship with other directors playing second fiddle to the master.

There are nevertheless some extremely successful family-run companies that have survived many generations and continue to prosper. Regrettably in the UK they are in the minority, with many failing after the initial founding generation retires.

In order to run a family business you must be strong enough to separate the three core elements found in the business: management, ownership and family.

Many family businesses have survived to the detriment of the family members who work in them, while others have a job only because they are in a family business. A real employer would have fired such people in the first month, but uncle Fred can not do that because of the family connection. On the other hand, I have

seen very talented individuals being forced into working in the family business and earning less than a quarter of their worth.

### ***A split personality***

The governance of family businesses needs special attention on the three antagonistic considerations of management, ownership and family. These three elements have to be balanced if a successful organisation is to survive and flourish from one generation to the next. Rather like the alchemist, turning base metal into gold, these three base elements can, in the right hands, be turned into generational wealth but, in the wrong hands, they can turn gold into lead overnight.

The balance of these goals will set the organisation's objectives but the business must be prepared for this balance to shift over time. It is imperative to optimise all three and avoid dominance of any one, which is not an easy task where emotions, tradition, loyalty and feeling of birthright are involved.

In order to achieve a successful solution the three roles must be separated from each other and there are a number of consultancies, such as Marketing Management Services International Ltd, who can take a family business through this painful process.

### ***Management***

The secret of management is to separate family and ownership from the decisions that need to be made to optimise the organisation's function. Once you have determined the skills that are needed, they should be hired via an objective selection process, bringing outsiders in if necessary to ensure that the right person gets the job. Family members may be encouraged to gain the skills required for the job but they should be evaluated on the basis of suitability and past performance, and nothing else. This is very easy to say but very difficult in the real world to implement. When a family business is formed it should be grooming the next generation very early, thereby ensuring that they are encouraged in the

right direction, that their natural talents are maximised and that the business education and training needed is provided to tomorrow's managers. (Goldman Sachs, for example, was very successful as a family business.)

### ***Ownership***

After several generations there will be distant cousins that have shares in the firm and have, perhaps, paid little attention to the business apart from attending the AGM and asking yet again why there have been no dividend payments. Shareholders should be treated respectfully and the director's duty is to ensure that they receive a fair return for their investment. There are generally industry ratio analysis providers who report sector norms, and these ratios should be used to determine if the shareholders are getting an honest return for their investment in the company. There are huge advantages to having loyal shareholders, and although family members make up one of the strongest groups of loyal shareholders, it does not mean that they should be taken for granted or exploited.

### ***Family***

In reality, the business is there to support the family and, therefore, there are going to be family considerations and a high degree of nepotism. But the business should not divide the family, and the family should not sacrifice too much for the business. The relationship between family and business should be realistic. If cousin Bill is not going to be happy working in the business, it is not in the family's interest to force him into a role for which he is not suitable, or make him feel guilty if he pursues some other occupation. However, the family members should grow wealthier through the business and be encouraged to participate if they show an interest.

There is not enough time to discuss all the intricacies of governing a family business, but the simple division of the core ele-

ments and their individual maximisation is a very powerful starting point. The remainder of the book is as applicable to family-run companies as it is to any other type of organisation.

## THE MANAGING DIRECTOR

While you may, by now, be feeling that the role the marketing director is expected to perform is tough to master, spare a thought for the managing director or chairman. The mind map below outlines that individual's role in chairing meetings alone.

For the formal procedure of a meeting of the board or governing body, see Appendix 2. Although in reality meetings are usually less formal than that described in the appendix, that is not always the case.

If the managing director and chairman do their jobs well, you can concentrate on your marketing role; however, that role will be made considerably more difficult if other members of the board do not perform their roles as you are all mutually dependent on each other.

- Effective boards do not carry passengers, while ineffective boards are so full of passengers it is difficult to do anything other than talk.
- Effective boards get things done through others; ineffective boards talk and hope it will work out all right.
- Effective boards are ahead of the business; ineffective boards never catch up with it and, if they do, it's because the company went into liquidation.

Thus, the secret of being a star is to be on a board full of stars. Very few stars can survive in an ineffective board as they are too big a threat to the status quo. I am sorry to say that I have found this to be particularly true in government-sponsored projects



where the ability to talk far exceeds the ability to act or manage. Therefore, avoid government quangos unless you are nearing retirement and need somewhere to hide from your partner, or some place in which you can pontificate to your heart's content, safe in the knowledge that very few members will act on anything another member suggests.

## **WITH GREAT RISK THERE HAS TO BE GREAT REWARDS**

This statement is wrong as some of the least personally risky governance roles have some of the highest rewards. The person taking on a charity role, often with the least monetary rewards, has the highest risk of finding himself in court, while the well-insured executive of a major corporation can have the highest rewards for effectively very little actual personal risk. What can I say other than the world is just not fair, so you must always assess the situation before you take on any role and ensure that you are aware of all the possible risks. Just because you are not being paid does not release you from responsibility if things go wrong.

Pay and perks raise other interesting points. What can you expect to receive in a board level position (see Table 1.1)?

Now that we know what you should receive, let's turn our attention to how you earn it.

### **The decision-making process at board level**

Because they carry more weight, decisions made at board level are normally formally recorded. It is not always necessary to vote on an issue as it is the chairperson's responsibility to judge the mood of the meeting. However, on some issues votes are cast either anonymously or by a simple show of hands.

**Table 1.1** Pay for executive marketing directors 2006

	Lower quartile (£)	Median (£)	Upper decile (£)	Sample size
Basic salary	54,420	73,750	116,982	116
Remuneration	57,608	78,665	131,060	116
Bonus	6,000	12,000	42,000	49
Age	38	43	55	92
<b>Company car</b>				
Percentage of directors with company car		24%		
Percentage with free private mileage		19%		
Maximum list price of car allowed		£30,000		
<b>Pensions and insurance</b>				
Life Assurance		4 times salary		
Percentage with health insurance		63%		
Percentage with permanent health insurance		45%		
Employees pension rate		3%		
Company pension rate		5%		

Source: *The Marketing Managers Yearbook 2007*

What the board is being asked to approve should have been considered in some depth and will have a sponsor at board level, the person bringing it to their attention. Other “sign-offs” are compliance related, e.g. approving the accounts before presentation at the Annual General Meeting of the company.

It is neither possible, nor necessary, for the board of directors to review all the detail but by approving the resolution, they are taking responsibility for it.

There is a lot of confusion about accountability and responsibility and, at the risk of repeating myself, they are quite easily separated. The board of directors are responsible individually and collectively for those reporting to them. Those that report to you are accountable to you for their actions, and this passes on through the chain of command. As you are responsible for your choice of leaders, and have entrusted them with the task, then if something goes wrong through their mistakes or their sheer incompetence, you are responsible as you appointed them.

Too many board members avoid responsibility and employ scapegoat tactics, blaming those reporting to them. Such members are weak leaders, although, I might add, they are not always unsuccessful.

The true leader takes responsibility when things go wrong and acknowledges and credits others for success. This is completely contrary to what we see in politics, where credit is taken for any successes and the previous governments are blamed for any failures.

## **COMPANY MINUTES AND RESOLUTIONS**

Meetings of the board, other than committees, take three forms: board meetings, the Annual General Meeting (AGM) and the Extraordinary General Meeting (EGM).

A board meeting is the regular meeting of the board. This ranges from monthly to quarterly, depending on the size of the

company and the issues the company is facing. You exercise your power as a director through voting at board meetings and signing resolutions.

Board meeting AGMs and EGMs all require reasonable notice. The period is defined in company law and/or in the Articles of Association. One person, one vote, is customary in board meetings, and there must be a quorum (minimum number of directors present). Minutes must be taken and held in the Company Register. In the case of the AGM and the EGM to which shareholders are invited, votes are based on voting shares. A person who owns 20,000 shares has 20,000 votes while you, as a director – who may not be required to own shares – may effectively have no votes. Some resolutions, e.g. changing the Articles of Association, can only be passed if this is agreed by a certain percentage of all those eligible to vote.

What all these meetings have in common is the keeping of minutes and recording of resolutions passed. As these are legal documents, some of them require to be filed in the Company Register and others with the Registrar of Companies.

## **SUMMARY**

- The marketing director has the same roles and responsibilities as any other director and has to be familiar with that role and its limitations and responsibilities.
- Family-run businesses need special consideration.
- To be successful, choose to join a board made up of stars, but as you win or lose as a team, you should therefore play as a team.

The size of the company and the specific point in a firm's growth curve will determine the exact nature and role required of the marketing director. This will be discussed in the next chapter.

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