Global Boardroom Talent: The New "Must Have"

by George L. Davis, Jr.

The need for greater international experience in boardrooms, especially in the U.S., has long been talked about, but with little real progress. Even S&P 500 boards remain very insular today. Yet the rapid globalization of markets seen over the past few decades will seem modest compared to the coming boom as new countries become top world economies. A board lacking global talent will become a fiduciary handicap.

The "scope creep" in director responsibilities that has unfolded over the last decade can be traced to two factors. The first is the growing expectation that director qualifications align with the company's specific challenges and goals. The directors of a high-performing board can no longer merely be generally "impressive"—they must provide management with informed and experienced insight on specific critical issues.

The second factor is that those issues have multiplied significantly. This reflects a complex business environment where the evaporation of geographic boundaries and the emergence of new markets, faster and better technology and new business models create sizable opportunities and increased risk.

The 2014 Egon Zehnder Global Board Index provides quantitative measures of how well board capability is aligned to business strategy as it relates to globalization, a strategic issue that has left few businesses untouched. The survey, which focuses on the S&P 500, compared the percentage of company revenue from international sources and what percentage of directors were foreign nationals, or had meaningful international work experience. This is not to suggest that the two percentages need to be equal. However, the size of the gap between the two does give important directional guidance on how well board *globality* is tracking company operations.

The Global Board Index found that 37 percent of the revenue generated by companies in the S&P 500 now comes from international sources, an increase of 5.5 percent since the index was first conducted in 2008. Only 28 percent of the S&P 500 still generates all their revenue in the United States. In comparison, however, only 7.2 percent of S&P 500 directors are foreign nationals, and only 14.1 percent have had meaningful international work experience.

To be sure, this represents an improvement over 2008, when those figures were 6.6 percent and 8 percent respectively. Still, the current level of global experience in the boardroom is clearly behind what international business growth suggests should be the case.

Our survey found that at S&P 500 companies with international revenue, just 9 percent of directors are foreign nationals, and only 17 percent have meaningful international work experience.

Indeed, even when the sample was filtered to only include those companies with some level of international sales (that is, those companies with a clear vested interest in the global capability of their board), those numbers improved only slightly. Just 9 percent of directors are foreign nationals, and 17 percent have meaningful international work experience.

Examining the data at the sector level gives further insight. Looking again only at those companies with some level of international sales, a sector analysis shows more similarities than differences: For most sectors, international sales are between 32 percent and 44 percent of all sales, between 8 percent and 11 percent of directors are foreign nationals, and 14

George L. Davis *is co-leader of the Global Board Practice at search firm Egon Zehnder. [www.egonzehnder.com]*

What About Gender Diversity?
Turning Goals Into Boardroom Realities

In 2014, Egon Zehnder also conducted an analysis of board diversity in Europe, with a particular focus on gender. We have found that, today, the drive for board diversity is a worldwide phenomenon.

The case for expanding board diversity is by now familiar: Draw on the full range of the best available talent to oversee, govern, and advise companies in an era of startling change and unprecedented challenges. Diversity is a key to making boards more acutely attuned, broadly capable, and consistently effective than ever before.

Great strides in Europe. Significant progress has been made in Europe, in terms of both gender and national diversity. Only 7.6 percent of the European boards studied in 2014 include no women members, as contrasted with the 32.2 percent that had no women as late as 2006. This is substantial progress in a relatively short time, given that large company boards tend to renew their membership with considerable deliberation. Historically high percentages of new board appointments are now going to women. Nearly one-third (31.8 percent) of all new directors are female.

Reality check. Our 2014 study revealed a continued scarcity of female board chairs and executive directors.

The sustained low incidence of female executive directors may be among the most significant findings in the study. This carries profound weight in shaping the future of board diversity. It poses a clear and direct obstacle to gender diversity at the board level. The pool of women executives who reach the top leadership echelons and hold P&L responsibility (standards which have traditionally defined "board readiness") remains quite limited in many if not most markets.

How can the progress made in gender diversity at the board level (primarily through appointment of female non-executive directors) be replicated at the executive level, particularly in line leadership roles? Over time, the task for boards and companies will increasingly shift to leveraging gains in gender diversity to accelerate other forms of diversity.

Motivation, effort and leadership. Data suggest that gender quotas are clearly producing results in countries as disparate as Norway, France, Italy and India. Yet comparable results are also being achieved without quotas, notably in the UK. Here, the threat of diversity legislation has thus far been forestalled by a voluntary goal to reach 25 percent of women on FTSE 100 boards by 2015.

Board chairs have embraced this effort, with considerable success. The current study shows that 22.6 percent of large company board seats in the UK are now held by women, and all the large company boards examined in the UK now include at least one female director. The experience of the UK illustrates the power of setting specific goals, with or without the backing of a legal mandate.

Board chairs play a key role in creating an inclusive board that welcomes diversity and makes it work. The vigor with which chairs choose to personally lead the pursuit of diversity and inclusion will be a key variable in the pace of continued progress.

Fresh thinking. Around the world, boards' concept of what a "good" board director looks like, though varied, tends to be logically defensible and often slow to change. There is general agreement that fresh thinking will be a key to sustaining and accelerating the momentum.

When evaluating talent for both the boardroom and C-suite, companies can look beyond past experience to assess a leader's potential. How likely is a leader to succeed in roles that extend beyond any they have filled to date?

Similarly, boards may be well served to at least consider the best-of-the-best executives who are CFOs, general counsels, CHROs, and CMOs—roles in which one finds a relatively high proportion of women.

The path forward. The evolution towards greater board diversity is steadily advancing. Globally, we expect that a number of countries will achieve in the next 10 years what European boards have achieved since 2004. The stakes in accelerating board diversity are great, as are the challenges.

No one can foresee just how the path forward will unfold, but it seems clear that strategies for sustaining meaningful advances in board diversity must become ever more active, sophisticated, and aspirational.

to 22 percent have meaningful international work experience.

The similarity between sectors can be further seen by looking at each sector's Board Global Capability Score. This is the percentage of directors who are either a foreign national or who have meaningful international work experience. All sectors had scores between 11 percent and 16 percent. Finally, the study looked at the Board Global Capability Gap—the difference between each sector's Board Global Capability Score and percentage of its revenue from international sources. All sectors showed gaps of between 20 percent and 29 percent, with the exception of technology, with a gap of 44 percent. It is important to note, however, that technology's sizable gap is not because its score is lower than the other sectors, but because the percentage of its revenue from international sources (55 percent) is so high.

Globalizing European boards has proven no easier. Americans are as scarce in European boardrooms as Europeans are in the United States.

That having a global boardroom is easier said than done is driven home by looking at the issue from the other side of the Atlantic. Our experience working with European nominating committees suggests that globalizing boards is no easier for them.

To be sure, most European boards include at least one director from other European countries than the company's home country. This is not surprising, given the number of countries in the region and instances of cross-border M&A. However, Americans are as scarce in European boardrooms as Europeans are in the United States.

Furthermore, it appears that directors of European companies have little more experience working outside of Europe than directors of U.S. companies have working internationally. (The directors of companies based in United Kingdom and Switzerland tend to have the most career experience outside of Europe.) Globalizing boards, then, is an issue that transcends sectors and geographies to reach to the decision-making processes at work in board composition.

The need for boards to develop global capability will only accelerate as the globalization of the economy continues. Furthermore, the coming decades will redefine the word "global," as both the BRIC countries and the rapidly emerging N-11 countries reach their stride, fueled by growing consumer markets and sizable labor forces. By 2030 a U.S. board with a lone director from the United Kingdom will not look very global when the world's six largest economies are China, the United States, India, Japan, Germany and Brazil.

Yet there are megatrends that explain why global capability in the boardroom is important today. An increasingly globalized world will require more than just navigating new cultures as companies buy and sell in new markets.

The world economy will become more complex as a larger number of competitors jostle for relatively finite resources against a backdrop of climate change and sustainability issues. Emerging countries will assert their position in the economic pecking order through more muscular trade policies and shifting economic alliances.

In the coming years, the boardrooms of large corporations will be less and less shielded from geopolitical considerations. Global capability in providing oversight and advising management will become more essential, not merely in terms of directors' experience and perspective, but in their global networks of relationships and sources of influence and authoritative information. The move to this environment has already begun. Nominating committees need to work now to increase their board's ability to navigate it.

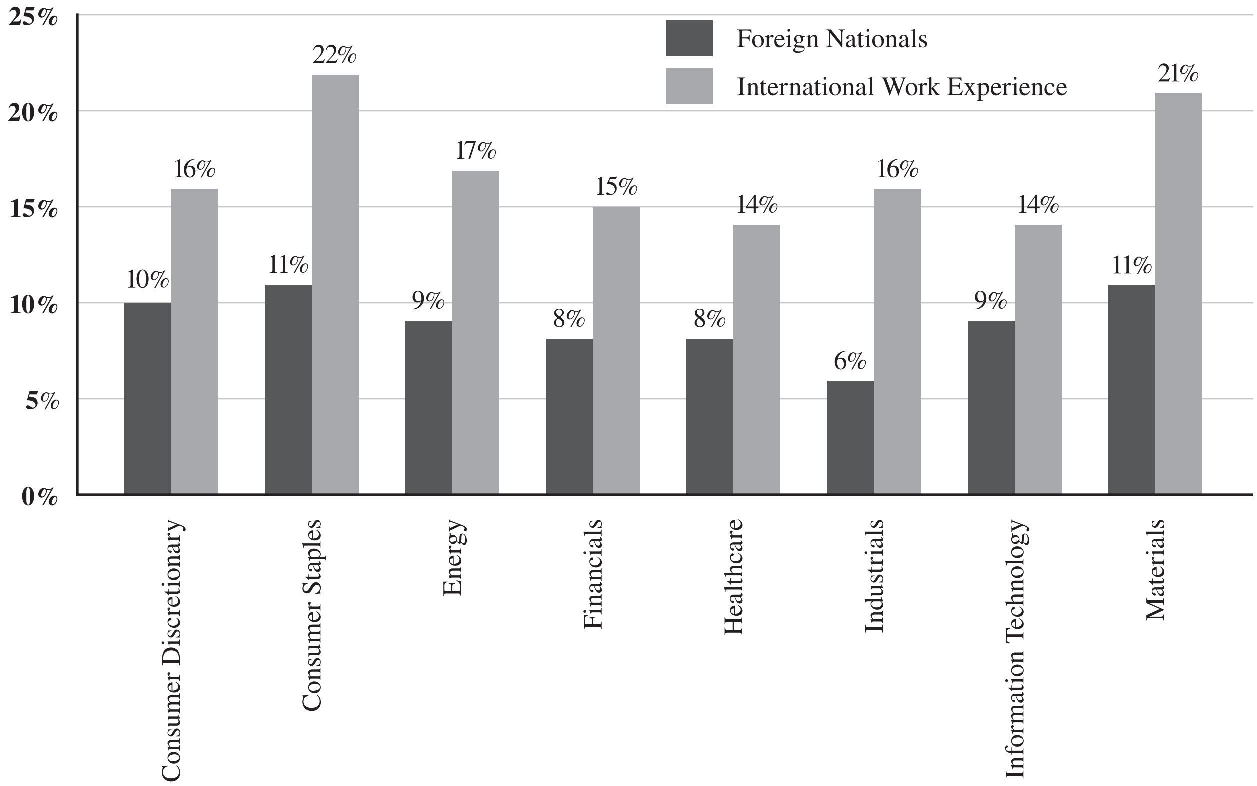
During the formative years of the CEOs in the S&P 500 director pool, it was common to rise to the top without a single international posting.

There are three major impediments that typically prevent boards from being as global as they need to be:t

☐ ***The speed of change.*** During times of great business change, large companies evolve much more quickly than the CVs of the senior executives leading them. A combination of political, economic and technological forces over the last decade has given rise to a truly global economy. Yet during the formative years of the current and former CEOs who make up the core of the S&P 500 director pool, it was not only possible but common to rise to the top of an organization without a single international posting.

It should not be surprising that, given that the overwhelming majority of directors are U.S na-

The Stay-At-Home Director
Global Experience In The Boardroom



tionals, only 17 percent of those at companies with international sales have meaningful international work experience. Similarly, we should expect that the professional networks of the current cohort of directors are heavily weighted toward other U.S. nationals.

Nominating committees can counter these limitations by making a concerted effort to expand the networks they draw upon in the candidate identification process to include international sources. In doing so, they should look where their company strategy leads them. This may well be beyond the easily accessible Western European countries.

☐ ***Logistics.*** Coordinating the schedules of a dozen very busy executives is difficult enough when they are all in the same country. There is an understandable reluctance to make that task even more challenging by spreading the board across continents. The increased sophistication of technologies like mobile communication and collaboration tools can ease the burden, but while technology has become more powerful, expectations of director involvement has grown in ways that technology cannot address.

In addition to the regular schedule of board and committee meetings, a director's calendar now has many more on-site "walk arounds," off-site strategy sessions and dinners with internal CEO candidates than it once did. This complicates scheduling not only for the corporate secretary but for the individual directors. If being a director is much more demanding than it once was, being a director for a company on the other side of an ocean is even more so.

Nominating committees can ease the logistical challenges by focusing on retired, rather than sitting executives in their search for global board members.

☐ ***Director succession planning.*** As discussed above, the imperative to globalize the board is part of a larger move to align the board's specific competencies with the challenges and opportunities of the business.

Board nominating committees need to adopt the deliberate succession planning process that is best practice for CEOs and other C-suite executives.

Nominating committees now are charged with finding directors who can provide authoritative oversight and guidance on not just globalization, but (depending on the company) digital transformation, risk management, cybersecurity, sustainability and C-level talent strategy, plus the statutory requirement for financial expertise.

Crafting a board with this range of knowledge is made all the more difficult because of the limited number of board seats and the relative infrequency with which they turn over. The average board seat changes approximately once every 12 years, according to our data.

Expectations of director performance have become not just higher, but more specific, Nominating committees need to adopt for boards the deliberate succession planning process that is standard best practice for CEOs and other C-suite executives.

Board evaluations should include a director-by-director assessment of competencies that can be measured against both anticipated retirements and the current and projected strategic needs of the board.

When those needs include directors with global experience, nominating committees need to view identification and recruitment as a long-term process, building relationships in advance of when a vacancy occurs.

There is no single solution to aligning the board's global capability with the company's business objectives. It is our hope that these findings can act as a stimulus for fresh discussion within boards and nominating committees as they consider how they can best provide oversight and guidance on globalization today and in an increasingly global future. ■

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4440 Hagadorn Road
Okemos, MI 48864-2414, (517) 336-1700
www.corporateboard.com