CHIEF EXECUTIVE
PRINT · EVENTS · ONLINE

Issue Date: November/December 2009, Posted On: 11/19/2009

How GLOBAL Is Your Board?

How global does it need to be if your customers are around the world?

BY RUSS BANHAM

Imagine: A U.S. multinational corporation that reaps half its revenue overseas, with a half-American board of directors and the rest foreign nationals. Now try to point to an example. While senior management teams of global companies domiciled in the U.S. are increasingly multicultural, their boards for the most part remain all-American.

No one disputes that the competitive chessboard today is global, and will continue to become even more international in scope as emerging markets like China, India and Latin America burgeon. Yet, most U.S. multinationals, alleging impediments like travel impositions and language and cultural barriers, retain boards that reflect the American and not the global marketplace. Out of a total of 2,306 directors sitting on the boards of the 200 largest companies in the Standard and Poor's 500, 141 directors hail from outside the United States, according to a survey by Spencer Stuart. That's a trifling six percent of directors who are foreign nationals. China may be the world's biggest market, but try to find a single Chinese national sitting on a U.S. board. Spencer Stuart did and found them "notably absent."

The arguments for foreign nationals serving on U.S. boards of directors are many and strong. Chief among them—decision making improves when culturally diverse perspectives are brought to bear. As Mark Twain is said to have written, "Anyone who can only think of only one way to spell a word obviously lacks imagination." Simply put, foreign nationals think differently than Americans; they know the pulse of their indigenous culture; they understand the legal and regulatory framework; they can anticipate market behavior to steer clear of trapdoors; and their inclusion on a board sends a message of harmony and hope to customers and employees outside domestic borders.

Indeed, there are no downsides to this United Nations approach to board make-up, although some consultants imply language barriers (read: bad accents) might be a potential drawback. The upsides, on the other hand, are demonstrable. Just ask the companies with multicultural boards. "I'm a physicist by training so to me it is just math—systems that are more diverse are more resilient than systems that are all the same," says Cristobal Conde, president, CEO and a board director at security technology firm SunGard.

One-quarter of SunGard's $5.6 billion in revenues came from outside the U.S. last year, and one-third of its board is non- U.S. in origin. Conde was born and reared in Chile, SunGard's vice chairman is Swiss and two other directors come from England and the Netherlands, respectively. "Implicitly or explicitly, I am taking in a far broader set of considerations when making a decision, thanks to the different backgrounds brought to the table," Conde says. "Competitively, it makes us stronger. And from a values standpoint, it's just the right thing to do."

Multinationals in Multinationals

SunGard is not alone in having a diverse board, of course. Many other U.S .multinational corporations that were all-American a generation ago are less-American today, and for the better, they say. The "Good Old Boys Network" that defined many boards seems to be giving way, as companies earn and spend more via outsourcing overseas. The reasons for diversity are competitive and ethical. "If half your business is outside the U.S., the board should be half non-American," insists Bill George, former chairman and CEO of Minneapolis-based medical device-maker Medtronic. "You need the life experience that reflects the diverse cultures of the markets you serve."

Many organizations believe ex-pats with stints in a particular geography will serve a global company's board as effectively as a foreign national. Not George. "Being widely traveled isn't the same thing," he says. "Going from one Four Seasons hotel to another doesn't give you the feel for what people on the ground think."

"There is no substitute for having grown up in the cultures where your company conducts business," agrees Ed Ludwig, chairman and CEO of Becton, Dickinson and Company, a global manufacturer of medical devices and instrument systems. "There's just a greater sensitivity and awareness of the challenges and opportunities. The nuances would escape someone born and educated in the U.S., even someone who's worked abroad."

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He makes a sharp point, even though it hasn't hit home for many organizations. More than half of U.S. boards do not have even a single foreign national sitting on them, according to Spencer Stuart's survey. "Given the growing percentage of income generated offshore and expended offshore through outsourcing, it is surprising how uncommon it is to have multinational people on boards," says Marc Rosenberg, partner and co-head of the board advisory practice at law firm Cravath, Swaine & Moore. "There is enormous value in having a director who can talk knowledgeably about how consumers in a foreign market think or how the government there works. They will look at the same facts that other directors are presented with, but through a different lens. The more perspectives, the better the decision making. "

There is another compelling reason why boards should consider greater national diversity—the risk of reputational catastrophe. This is the view of Peter Firestein, author of *Crisis of Character: Building Corporate Reputation in the Age of Skepticism*, and a former managing director of Thomson Financial. "If a board is going to make decisions about a company that touches every corner of the world, shouldn't they have the background to understand the cultural dimensions?" Firestein says. "Shouldn't the board reflect the world it faces? Most fail these questions, putting their companies' reputations at risk."

He explains that a company with a sizable portion of revenues coming from Brazil that does not have sitting board members from this country risks the possibility of marketplace backlash if Brazilian consumers are made aware of the fact. "Successful companies today hire locals in their operating organizations around the world, yet they maintain all-American boards— why should the board that makes the decisions be any different?" he says.

Abby Alderman, a managing director at executive search firm Russell Reynolds, has a different perspective, however. "It's not as simple as saying, 'We would not have made this cultural or business faux pas if only we had a board member from that country,' " she says. "The role of the board is strategic oversight—having the right leadership in place. You don't want to select board directors for the wrong reasons, someone from India or China simply because you're doing business there. You may find that a non-Indian or non-Chinese executive who has really figured out how to do business in the regions is a better pick."

SunGard does just that, Conde says. "We don't say, let's get an Italian on the board or someone from China; we say who is the best person we can find, and if they happen to come from one of these geographic regions that is an indication of just one aspect of their value," he explains. "It's icing on the cake."

Keep to Yourselves

So why are U.S. boards so overwhelmingly American? Gail F. Lieberman, former CFO of ratings agency Moody's Investors Services and currently a director serving the boards of four public companies in the healthcare and aerospace sectors, postulates that U.S. boards are U.S. focused, essentially overwhelmed with domestic issues. "Board director responsibility requires a certain amount of knowledge about how U.S. companies and capital markets operate, and the governance and other issues confronting American businesses," she explains. "That's a pretty big learning curve for someone outside the U.S., despite the value of the different perspectives they might bring to bear."

Another issue, she says, is the bond and comradeship that boards seek, which requires trust. "It is hard enough for people from the same backgrounds to develop trust," Lieberman adds. "The cultural divide and the fact the individuals may not be known quantities makes it tougher."

Language is another cited barrier. Rosenberg says some multicultural boards endure "false starts" because their non-U.S. directors could barely conduct business in English, much less read complex documents written in the language. "It is not easy to get the kind of interplay and discourse you want if people are less comfortable with their English," he explains. "Added to this is that some cultures breed people who are not used to a free flow of dialogue. It isn't necessarily easy for a businesswoman from China, even a sophisticated one, to release her opinions to a board composed primarily of white American men."

Small wonder why few Chinese nationals, male or female, sit on U.S boards. But, even other Asian cultures are sorely underrepresented. If directors from England and Canada were removed from Spencer Stuart's survey, the rest of the world would barely register in U.S. boardrooms. More than one-quarter of non-U.S. directors are from the U.K., and another 21 percent are from Canada. "I hate to say this, but Americans are ignorant of Asian cultures," says Linda Henman, president of Henman Performance Group, a consulting firm working with boards of directors to improve performance. "I'm coaching a man from India now on the board of an American company, and he says Americans are racists. I told him it's not racism, it's ignorance. They cannot get beyond the thick accent or different customs, which requires tolerance and adjustment. It's just simpler to stay with homogeneity."

Cultural barriers are not the only obstacles impeding the development of more diverse boards. Blythe McGarvie, author of *Shaking the Globe: Courageous Decision Making in a Changing World*, and the CEO of LIF Group, a consultancy focused on global issues, adds the rigors of travel to the reasons why U.S. boards often look like the tennis squad at Yale. "Someone flying in from China for a board meeting in Chicago is going to be miserably jet-lagged," McGarvie says. "It can take a day or two just to catch up to the new time zone, much less perform at peak capacity."

Finally, just because a board is multicultural doesn't always mean it's better than one that isn't. Alderman, for example, cites struggles in Norway, which imposed regulations requiring that boards of public companies have compositions that are at minimum40 percent female. "What if you can't find a woman who can contribute as much as some guy?" she says. Nevertheless, she agrees there is value in multicultural boards, likening them to a symphony. "Each foreign national contributes his or her own opinion, but you need a great conductor to create a composition that is rich and not a cacophony of voices," Alderman explains.

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Multipart Harmony
Such harmony is in play at business intelligence software provider Qlik- Tech, which boasts a board of directors composed of several Swedes, Germans and Brits, one Israeli and the rest Americans. "We are a very global company, with more than half our revenues coming from outside the U.S. in some 100 countries, and our board and senior team reflects this diversity," says Lars Bjork, chairman and CEO of Radnor, Penn.-based Qlik Tech. Bjork, himself a Swede, maintains that a culturally diverse board adds dimension to the decision-making process. He cites the firm's decision to enter the market in Spain last year as reflective of the board diversity. "One of our board members from Germany had lived and worked in Spain for years, and he brought to us a key understanding of the challenges and opportunities," he says. "He was cognizant of regulations and labor laws there that were quite different from what we have here in the States."

On other occasions, the board's broad makeup led to a better understanding of consumer behavior. "The market in Europe or Asia from a consumer standpoint is different—just because something is appealing to Americans doesn't mean it is appealing to Germans, Swedes or Spaniards," Bjork says. "An all-American board might miss these nuances."

Similar avoidance of strategic mishaps were cited by another U.S. multinational with a multinational board—IHS Inc., a global information provider with $844 million in 2008 revenues. Three directors on the company's 12-member board are foreign nationals, including its chairman and CEO Jerre Stead, a Swedish national. He says that IHS would not have acquired Jane's Information Group, a U.K.-based leading provider of information to defense industries and governments, in 2007, were it not for its culturally diverse board. "Roger Holtback, the former CEO of Volvo, is on our board, and after we polished off two acquisitions in the U.S., he said we needed to make sure we kept to our strategy as a global company," Stead explains.

Even though the U.S. companies IHS had acquired were global entities, Holtback advised the board to buy organizations based outside America, thus sending a message that HIS was a global company, not just an American one. "It was a great reminder for all of us, and turned out to be one of our best moves, enhancing our position in the aerospace, defense and government markets," Stead says. "I've sat on 32 boards in my career, and the better ones were multicultural. I believe in diverse input and collaboration. Who needs consensus, I say. The world is too big for that."

Other U.S. multinationals like Becton Dickinson are seeking to appoint additional international directors to their boards. "We've got two foreign nationals—one born in Jamaica and educated in Israel, and the other born in Egypt and educated in England—on our board of 13 directors, and we are agreed here that the next time we need to search for another board member he or she will be a foreign national," says Ludwig.

A similar view prevails at Carlson, a global hotel, restaurant and travel marketing company employing more than 150,000 people in 150 countries. Until recently, Minneapolis-based Carlson was the prototypical U.S Company with an all-American board.

Former CEO and current board chairman Marilyn Carlson, daughter of the company's founder, the late Curtis Carlson, says one of her key strategic goals for the 71- year-old company is diversity. "When I took over as CEO in 1998, I realized that we were a global company but had retained an entirely American perspective in our decision making," she says.

Shortly thereafter, Carlson met Harald Einsmann at the World Economic Forum in Davos, Switzerland. At the time, Einsmann was the head of the Europe, Middle East and Asia (EMEA) unit of Procter & Gamble and a member of its global board. Carlson asked Einsmann, a Fulbright scholar and Ph.D., to join Carlson's board. "Harald was truly a global citizen and once he joined our board, he helped us to think more globally—not as an American company thinking globally but as a global company thinking globally. For example, he was instrumental in helping us see the value of taking our hotel business in EMEA public on the Scandinavian market, as opposed to a U.S. stock market. It was the right move, sending a clear message that we are as much a global company as an American one."

Since stepping down as CEO earlier this year, Carlson decided to invite a foreign national—Hubert Joly from France—to succeed her, and he has now become the second non-U.S. director to join Carlson's board. Joly had stints at Vivendi and EDS and was a partner at McKinsey & Company. "Having Harald and Hubert on the board is opening our minds up to options like entering new markets where the culture and business and regulatory climate might have deterred us previously," Carlson says. "We've always received solid legal opinions before expanding in another geography, but they bring us a cultural sensitivity we otherwise had lacked."

So what about the cited impediments like cultural barriers and travel arguing for preservation of the all- American board? "There is a way around the jet lag—simply move the board meetings around the globe," says McGarvie, who sits on Accenture's multicultural board, which includes foreign nationals from England, Germany and Japan, and a woman born and reared in Israel and Brazil. "This way everyone is inconvenienced only one meeting at a time," she explains.

Regarding language difficulties, Bjork says, "English is our corporate language. We don't hire anyone in any geography in any position if they don't speak English and speak it well." Although English is not his first language, Bjork had no trouble eloquently conveying his thoughts and ideas.

Ludwig also downplays the supposed detractions, arguing that the benefits of cultural diversity far outweigh the challenges. "We had a woman on our board from Sweden who traveled here for board meetings for seven years, never missing one meeting and always having bright ideas and insights," he says. "The more diversity you have on a board—and not just national origin but age, gender and professional diversity— the more ways you can think about solving a problem. Collective wisdom is power."

What would Carlson's salt-of-the earth father have to say about the transformation of his formerly all-American (and male) board into one reflecting its global market? "I think he would ask himself if it was a good investment to send me to the Institut des Hautes Etudes Economiques et Politiques in Geneva," Carlson laughs. "That is where I learned at a young age that it is stimulating to address problems with people from different nationalities, and that decision making is enhanced by that kind of diversity. I have worked hard to create a meritocracy, and for that I'm sure he is proud."

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