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## Developing A Global Boardroom

*Not just directors with passports, but a true international mindset.*

by Gregory T. Carrott

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# Developing A Global Boardroom

by Gregory T. Carrott

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**As the U.S. economy becomes ever-more deeply part of the greater world economy, American boards have lagged behind in building global expertise. The addition of more international directors is a board trend predicted for decades, but little has happened. Now, with the need for global market savvy a strategic must, this governance development can no longer be delayed.**

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When I first wrote on the topic of foreign nationals on public company boards, in 1991, I had just attended a meeting at which Carlos De Benedetti, then the chief executive officer of Italy's Olivetti, regaled his audience with a story about establishing a joint venture with AT&T. At each stage, De Benedetti said, the negotiations stopped as successive layers of American executives awaited their passports. He told the tale with a great comedian's sense of timing, and Europeans found the story highly amusing.

**One CEO was eager to expand company growth in China, but found his board "an anchor," and "unwilling to learn" about the potential of Chinese markets.**

Much has happened in 16 years, but regrettably, much remains the same. Recently, the CEO of a multi-billion company that generates more than half of its sales from outside the United States became increasingly frustrated with its board of directors. He wanted to expand even more rapidly in China and found the board "an anchor."

The chief executive described his board in anger as "unwilling to learn" and said that one director must have forged his unwavering view of China after hearing a speech by Senator Barry Goldwater in 1964. Several of the directors did not have passports, and in fact, had never been outside the United States.

As frustrations mounted, the chief executive sug-

gested to his board that they hold a meeting this year in China. The board agreed, though reluctantly, as they confessed their need for passports. At subsequent board meetings, several directors came back to question whether the board should be incurring the expense. The CEO persisted, furnished them with readings and made certain that directors made the best use of their time in China. They visited the company's factories and joint ventures, but also learned about Chinese history and culture.

The chairman regards the trip as a resounding success and the beginning step to constructing a reasoned dialogue on China.

In sharp contrast, the board of Snap-on, Inc. has long done a marvelous job of drawing international expertise to its board. Its chairman and chief executive officer, Jack Michaels, spent two tours of duty in France for the old International Harvester. Snap-on's COO, Nick Pinchuk, spent years in Singapore running Asia for Carrier Corporation. Roxanne Decyk, an American, works for Shell in The Hague, and Lars Nyberg, who retires from the board after its November board meeting, now runs TeliaSonera, the leading telecom in Scandinavia. Added to all this is Art Kelly, an American who also sits on the boards of BASF and BMW.

The Snap-on board certainly has the capacity to provide oversight and to assert its fiduciary responsibility. However, it also has the resources, knowledge and experiences to be advisors and a broad sounding board to management.

In Derek Higgs' report to the Chancellor of Exchequer on best governance practices, he wrote:

*"All companies operating in international markets could, I believe, benefit from having at least one international executive director with relevant skills and experience on the board."*

The reasons why seem so obvious that they almost bear little discussion. Everyone will agree:

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□ By bringing a richer set of experiences, a foreign director increases the diversity of thought on the board, and should provide for a more robust discussion.

□ A foreign director should know his or her home markets, and likely others, in much more detail and have a clear understanding of the facts.

□ The director should provide access to new and different resources and networks, particularly political.

□ He or she can inform the board on best practices in corporate governance in other geographies.

Likewise, the *difficulties* with adding a foreign director are equally as transparent:

□ By adding cultural diversity—and quite likely, someone whose first language is not English—the board makes discussions more complex. The director might miss nuances, and there could be misunderstandings that reduce the free and open exchange of ideas.

□ The simple mechanics of flights, time zones and calendars add another layer of complexity to the recruiting process that should not be minimized.

□ While Germany has its Crome Code, France has the Brouton Report and England has had the Cadbury and Higgs Reports, the board may find impatience with Sarbanes-Oxley and the highly legislated approach America has taken to governance issues. We practice an energetic approach of law enforcement in the United States, which would not be acceptable in many cultures.

Making an American board work for a foreign director requires tolerance of differences and a willingness to educate them on the American principles and practices. This is likely much more true of directors who come from a market like Germany, with two-tier boards, and who sometimes have a misguided understanding of how unitary boards function.

Earlier this year, Canada's former Minister of Foreign Affairs, Pierre Pettigrew, encouraged Canadian boards of directors to conduct more political analysis before expanding in foreign markets and said that they "should add more international directors to help with the task."

"Everything we are hearing about accountability is

always about numbers, figures, economic stuff," he said. "Where is the political dimension? The most important question we have to ask ourselves about governance of a corporation is far more political than economic."

Pettigrew pointed to the global business rush into China in recent years, arguing that political upheaval is inevitable because China's Communist system cannot indefinitely coexist with a liberalized economy and a burgeoning middle class that lacks political rights.

"There is economic freedom but no political liberalization. One of the two will have to win . . . Either economic freedoms will translate into political freedoms down the line or it will be the other way around, and China will close again," Pettigrew said. "This is one of the most important questions of the 21st century."

Canadian boards, in fact, are better than U.S. boards in appointing foreign directors, but Pettigrew saw too few Canadian boards of directors looking beyond North America when recruiting directors. "We still talk globalization, but we act North American in terms of everything we do . . . We remain far too North American for the kind of world in which we are."

**Boards should create an independent worldview. Building such a perspective depends upon far more than recruiting one foreign director.**

Boards have been in a defensive posturing over the past decade, with an emphasis on monitoring management and the whole process of governance with an underlying theme of "let's just not get into trouble."

Much has been written recently about rebalancing the agendas of boards, but I suggest something far different. Boards should instead seek to create an independent worldview, and creating such a perspective depends upon far more than recruiting one foreign director.

Consider the Deere & Company board of directors, which has evolved considerably under its chairman,

Robert W. Lane. This has long been a strong board with strong personalities. Sam Johnson of S. C. Johnson, who served on the Deere board for many years, for example, had no problems providing very direct and explicit feedback to underperforming directors, long before appraisals became common on boards.

Deere's tradition of a strong board continues. Under Bob Lane, it has added:

- Vance D. Coffman, the retired chairman of Lockheed Martin.
- Charles O. "Chad" Holliday, Jr., the chairman and chief executive officer of DuPont.
- Dipak C. Jain, the dean of the Kellogg School of Management at Northwestern University.
- Clayton M. Jones, the chairman and CEO of Rockwell Collins.
- Joachim Milberg, the former chief executive of BMW.
- Richard B. "Dick" Myers, the former chairman of the Joint Chiefs of Staff.
- Aulana L. Peters, a former SEC commissioner.

Such a board did not just happen. The selections were crafted to allow for the transition of retiring board members and to make certain that its committees remained strong through the transition. This lineup also provides great diversity of thought.

There are two women. Three of the directors were born outside the United States. Two served as CEOs of foreign corporations, and three sit on the boards of foreign corporations today. Bob Lane, the chairman, spent a long stint in Germany, and Chad Holliday spent an even longer stint in Tokyo running DuPont in Asia.

Every way that you look at the board, it seems to have been well balanced and thoughtfully constructed. Such a board is fit to provide oversight, and it is also fit to provide truly global perspective. Finance, merging technologies, political risk, no matter what the topic, Deere has multiple directors who can bring experience and knowledge to bear.

How does a board go about creating global perspective? After all, there are not enough retired chairmen of the Joint Chiefs of Staff to go around.

Begin with the yellow legal pad. This is a simple exercise that I have used many times with boards of directors. Turn the paper sideways, make some columns, write down the board's committees and committee assignments year by year for five years, and start accounting for retirements. You will clearly see where skills start to fall away from the board.

### **Where do you find board expertise that can guide you and ask tough questions? Who can inform and challenge management?**

The second step is to look at the strategy for the company. In the case of Deere, for example, making its "green machines" smarter through satellite technology matters greatly. That is why adding directors like Vance Coffman and Clay Jones with their insights into advanced technology makes sense.

With strategy, though, often comes the issue of geographic expansion. Today, that inevitably means Asia. Where do you find the expertise that can guide you and ask the tough questions that need to be asked? Who can inform, challenge and make management think better about its strategies? Many members of the Deere board have some experience in Asia, for example, Dipak Jain and Chad Holliday. Their elections could not have been by chance.

By looking at the board composition, what it will look like in a few years, its knowledge, and where the company is going, the board can begin to understand much more clearly whom it needs to recruit. The evolution of Deere's board took six years and the board deserves considerable credit.

To successfully govern a corporation, a board of directors needs information, of course. However, it also needs to build a worldview for understanding the decisions that management puts before it. Corporations can use different approaches to widen this perspective.

□ *Foreign national directors.* A Conference Board survey in 1982 found that one-third of the U.S. corporations it surveyed had foreign directors. There was a strong correlation between size and foreign directors. The larger the company, the more likely

that it had a foreign director.

Along similar lines, Egon Zehnder International surveyed U.S. corporations in 1989. Of the 100 largest, 20 had foreign executives sitting on their boards as outside directors, with almost half coming from Canada. Today, based on a tally made by Cavoure LP, that share may now reach 40 percent.

Recruiting a foreign CEO as a director may be the most direct method of adding global perspective. Yet to make such recruitment a success requires more than simply checking meeting dates and airline connections. It requires that the board take more time and attention on issues of culture fit.

References become critical—not as background checks but references that uncover how someone acts when serving on a board or a committee. That knowledge allows a board to understand what it must do to make the new director successful.

Too many boards shy away from taking rigorous director references under any circumstances, finding them somewhat embarrassing or unnecessary. However, even when recruiting a domestic director, having three, four, or more conversations that highlight the prospect's style in small group settings provides insight into what the chairman must do to orchestrate a high performance board.

The second step, which complements the references, should be an onboarding process that makes certain the new director understands what it means to be on a U.S. board of directors. This includes not just the legal requirements but also the cultural norms. "I know" is not an acceptable answer, even if the new director thinks that he or she does.

□ *Expatriate experience.* Seek out executives from U.S. corporations with significant overseas experience. Many American executives have had foreign assignments. However, realize such experience averages only three years, compared with seven years for the typical Japanese executive seconded overseas.

Likewise, large strategy consulting firms—Bain, BCG, LEK and McKinsey—have retired directors who have spent considerable time working with foreign clients or running foreign offices.

□ *Consider also retired cabinet officers, diplomats or senior military officers.*

**Recruiting a foreign director is not a panacea—it is a start. Changing the worldview of the board demands thought, work and time.**

In the final analysis, too many corporations rely chiefly upon management to provide international perspective. The problem with this approach is that it is very much a bottom-up process. Directors are largely dependent upon the corporations they govern for information and direction, particularly at small and mid-cap companies.

Yet U.S. corporations are not alone in their parochialism. Just two of Japan's 20 largest corporations, Nissan and Sony, have foreign directors—and they are the companies' chairmen and CEOs. However, both were brought in to direct turnarounds and both serve alone.

Many European corporations long ago began operating outside their borders, and their managers had, for the most part, much broader international experience than their American counterparts. It would seem European corporations would have less need for foreign directors. Though logical, that does not appear to be the case in the large European markets.

Corporations recount the same reasons for so few foreign directors, including the largely domestic ownership of shares as well as custom and comfort. Yet customs are subject to change. With shifts taking place, particularly as corporations move into Brazil, Russia, India and China, U.S. corporations will undoubtedly seek more foreign directors, and executives or professionals with global expertise.

Simply adding foreign directors will not suddenly make a corporation a global competitor, nor create a broader worldview on the board. Changing the intellectual ballast and worldview of the board will, and that demands thought, work and time. Recruiting a foreign director is not a panacea—it is a start. Foreign directors, or those with substantive international experience, can expand the policy-making perspective and make the corporation think harder and smarter about its best long-term course. For companies suffering from myopia, which is not uniquely American, perhaps that might prove a valuable step. ■

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