The CEO SERIES

Business Leaders: Thought and Action

The Composition of Boards of Directors in the New World Economy: Globalization—or Globaloney?

An Original Essay Written for CSAB
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Special Edition
CEO Series Issue No. 36
December 1999

CSAB
Center for the Study of American Business
Washington University in St. Louis

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Introduction

Globalization has become the millennium motto of the business world!

However, this report shows that American companies have generally been slow in adopting that philosophy in the composition of their boards of directors—people who could presumably help guide their globalization efforts. There are reasons for this and potential solutions that I outline in the report.

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In his widely acclaimed book, *The Lexus and the Olive Tree*, author Thomas L. Friedman, foreign affairs columnist of *The New York Times*, says it clearly: "Globalization is not a phenomenon. It is not just some passing trend. Today it is the overarching international system shaping the domestic politics and foreign relations of virtually every country, and we need to understand it as such."[1]

Indeed, in 1998, the 100 largest U.S. multinationals drew an average of 40 percent of their revenues from outside the United States, with Exxon the leader at 80 percent ($81 billion). Twenty-five companies had foreign revenues exceeding $10 billion.[2, 3]

I have long been interested in the question of the role of boards of directors in this internationalization of American companies: Have the boards kept pace with change?

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During my last few years as CEO and chairman of the Monsanto Company, we fit that globalization profile: We were among the top 100 U.S. multinational companies, had international sales right about at the average percentage for these companies, and had one foreign director of eight outside directors. I had worked very hard to locate and bring this director on the board and valued his contributions and global perspective—but I was never satisfied that we had gone far enough in globalizing our board. I also knew that many companies had no foreign directors.

In this study I wanted to see how other major international companies have dealt with the same set of circumstances in this critical governance issue.

In tackling the question, How global are the boards of directors of global American companies—and why? I examined three elements.

1. How many foreign directors are on U.S. boards, and what is behind the numbers?

   What countries are the foreign directors from?

   What makes a difference in the numbers of international directors?

   - Size of the company?
   - Percent of foreign sales?
   - Product offering? For example, manufacturing vs. services, consumer vs. industrial, regulated vs. relatively unregulated—or any other categorization.

2. Are there ways to attract more foreign directors? How can a company help overcome the obvious difficulties in attracting directors willing to commit to the travel and time requirements of U.S.-based company board meetings?

3. What has been the experience of companies with foreign directors—do they make a unique contribution in globalization discussions or is their presence mostly "globalization window dressing"—is it just "globaloney"? Why do so many companies have no non-American directors? Is it worth the significant effort required to bring them on board?

I had hoped to find the raw numbers for Question 1 about foreign director statistics in the literature and so concentrate on the more qualitative issues in Questions 2 and 3—but there were no such studies. A survey published by The Conference Board early in 1999 based in part on a sampling of 14 North American companies and several associated executive panels offered directional information, but no set of *complete* statistics was available for all of the major companies.[4] So we set out to get it. The methodology we used was designed to capture all the foreign director names, numbers, and location *accurately* on these 100 companies *for the first time*—and we believe we did.[5] For Questions 2 and 3, I did extensive interviewing among CEOs and board directors—people I knew and whose opinions I trusted. Several of my contacts chair board-nominating committees whose charge is to seek out new directors and evaluate current directors. The conclusions are interesting and provocative—but above all—I hope useful for global players.

In reality, the general rule for American companies is: Global company, American CEO, and largely American directors.

The Findings

Question 1: What are the numbers?

In the 100 U.S. companies with highest international revenues:

- **Only about half have foreign directors (55). These directors represent less than 10 percent of all of their outside (non-company executive) directors—only 88 of 916 total outside directors in these 100 companies.**

To be sure, almost all the companies have top executives and directors with international experience of one sort or another—and a few have CEOs who are not American. In its 1999 annual board of directors study, consultants Korn/Ferry International asked, “What does your board do to obtain a global perspective?” The most common response was instructive: Of those surveyed, 73 percent replied that they had an American with extensive global experience on the board.[6] In addition, several companies have "international advisory boards" that meet usually once or twice a year and can be called on in between, if needed.

All of that international flavor is helpful; however, that system hardly generates the same impact or produces the same resource as having engaged international directors from *outside* the company, but who also have years of involvement *within* the company. In reality, the general rule for American companies is: Global company, American CEO, and largely American directors.

There are exceptions. Three of the 100 companies we studied each had three international directors (9 of 27 outside directors in these three companies alone). One company, Pharmacia-Upjohn, had five—but that was because of a merger that brought together Upjohn and the Swedish company Pharmacia—and brought five of the Pharmacia directors to the newly formed board.

The 88 foreign directors come from 17 countries, with Britain by far the leader in national representation, at 21 directors. But continental Europeans as a group total 31, and their numbers are growing. According to Florian Schilling, a Heidrich & Struggles partner in Frankfurt, "the majority of [Board Search clients] are U.S. corporations who now want a continental European on their board instead of, or as well as, the customary Brit."[7]

Only one board—Gillette's—has directors representing

Table 1

Nationality of Foreign Directors on U.S. Boards

Britain	21	Netherlands	5
Canada	10	Japan	4
Germany	9	France	5
Sweden	8	Brazil	5
Mexico	7	Italy	3
China	5	Australia, Bahamas, Denmark, India, South Africa, Taiwan	1 each

three world areas—Asia, Latin America, and Europe (two Europeans). This has been a conscious plan and a stated objective for a number of years at Gillette and shows that, with effort, one can attract outstanding people willing to commit to the travel and time requirements.

Sixteen boards have directors representing two world areas. Of these, Europe and Asia are the most common pairings.

Table 2

World Area Pairings on Boards of Directors

World Area	Number of Pairings
Europe/Asia	6
Europe/Canada	4
Europe/Latin America	3
Latin America/South Africa	1
Latin America/Asia	1
Latin America/Canada	1

- **Company size is the only discernible factor that makes a difference in the number of international directors.**

Of the top ten companies in both *total* revenues and *total* international revenues (essentially the same companies), nine had foreign directors, and they represented a slightly higher percentage of their total directors than the average of the 100 companies. After the top 10 companies, size made no difference in the number of international directors.

- **Surprisingly, the companies with the highest percentage of their revenues coming from international sales were below average in the number of international directors.**

The top 10 companies in this category earned an average of more than 70 percent of their revenues internationally, but only four of those companies had international directors.

- **Company business type made no difference in the number of international directors.**

While 75 of the top 100 U.S. international companies are in manufacturing and 25 are in services, manufacturers had about the same international director representation as did service companies. Nor were there differences between industrial or consumer companies. And one might have expected to see more international directors in companies that are more heavily regulated in international commerce; however, this was not the case.

- **There was no pattern of international director representation within major business sectors.**

Eight energy companies averaged 55 percent of their total revenues internationally—but only four had international directors. Just five of ten pharmaceutical companies had international directors—these companies averaged 42 percent of their revenues in non-U.S. markets. In electronics, the numbers were lower yet. Sixteen of the top 100 American international companies are in the electronics industry, but with international revenues averaging 45 percent of their total, only seven of the 16 companies had international directors—a total of only 12 international directors in the entire group of these electronics industry leaders (and just nine excluding IBM).

Of the eight financial service companies on the top 100 list, five had international directors totaling only five of 96 outside directors. These financial service companies averaged one-third of their revenues in international markets.

Question 2: How do you attract more foreign directors?

In its 1999 study, The Conference Board, drawing on an international panel, made four useful suggestions for overcoming the principal difficulty in attracting foreign directors—the travel and time commitment:

- Reduce the number of board meetings per year.
- Lengthen the meetings to make them more valuable and comprehensive.
- Rotate the location of the meetings around the world.
- Identify foreign nationals residing in the United

States, but with strong ties to their home country.[8]

A few of the CEOs and directors I talked to said that their company had taken this path.

The Conference Board panel largely rejected teleconferencing for board meetings, saying that the technology is inadequate, disrupts the flow of the board meeting, lacks confidentiality, and misses the give-and-take of effective meetings. Also rejected by many Conference Board panelists and those in my interviews was the idea of permitting lower attendance rates for foreigners. That is because of the liability the director could incur in lawsuits against directors—an unfortunate, but common experience—by being reported in the proxy as consistently failing to attend at least 75 percent of meetings and therefore showing lack of "general duty of care."

Based on my own experience, I would add a fifth suggestion for attracting foreign directors to the four cited by The Conference Board: Examine the names of those who are already foreign directors of U.S. boards, make a list of potential candidates, then check the meeting dates for the boards they are on to see which are convenient to your own meeting dates. A day or two additional stay in the United States would generally not represent an undue hardship.[9] Another useful approach would be to screen appropriate candidate foreign companies to determine if they have a U.S. subsidiary board that includes a desired foreign executive—and has meeting dates convenient to your own.

It is obvious…that if a company is active throughout the world, having one European director does not necessarily represent "global outlook."

Question 3: Do foreign directors make a unique contribution in globalization discussions?

To answer this question, I interviewed CEOs and directors representing more than one-third of the 100 leading international companies. It was clear that a number of companies had actively *sought out* international directors successfully in the past several years—and many others had it "on the agenda."

Those with no foreign directors generally agreed that they should have better international representation. Almost everyone pointed out the difficulty involved because of time commitments required in board travel to the United States. But as I pressed the issue, most admitted they had not tried very hard, relying instead on their own travels, inside executives, current directors with wide international experience, or international advisory boards for global counsel. In general, they felt this was not enough.

It is obvious, of course, as many of my contacts explained, that if a company is active throughout the world, having one European director does not necessarily represent "global outlook" any more than having one Asian director would bring any unique perspective to European or Latin-American business discussions. Indeed, a *single* American director hardly represents a *total* American perspective—it is the "sum of the parts" that brings the needed views in a well-constructed board. One company has a "template" from which to fill in their desired director business sectors—as one director goes off the board, another is brought on to fit the pre-arranged template. Foreign director slots are part of the template.

There are also political issues in picking foreign directors. Well-connected potential directors from the international public sector, who might bring valuable experience and contacts, go in and out of fashion—just as they do in the United States—but with potentially more damaging consequences in certain parts of the world.

The most important conclusion from my interviews is that companies with international directors are generally *very satisfied* with the perspectives they gain, especially when the issues coincide with the directors' specific backgrounds. They were specific and effusive in their praise for the genuine help they receive. But a lesser standard—"great door-openers"—was also a common sentiment, as was the symbolism of having foreign directors and what that meant to their own employees and countries where they did principal business. Another theme expressed in the interviews was, "It's the competence, judgment, and most of all, participation of the individual director that brings the greatest value—regardless of what area of the world the person comes from."

Almost everyone agreed that in the future, they would need more foreign directors.

Some interesting and instructive observations from a sampling of the interviews about foreign directors:[10]

CEO/Director: "We get great advice from him on his particular area. We count on his knowledge of the issues and players."

Director: "Our European director is terrific—he knows everybody and all the issues of importance to us."

CEO/Director: "Our (foreign director) is a helpful door-opener. But it's hard to pick the right world area and person for a director—they go in and out of fashion so easily."

CEO/Director: "We want a foreign director, but we have some higher priorities—like getting a director who understands the Internet. In any case, the person is the real value—it doesn't matter where the director is from."

Director: "Our Asian director holds back in discussions, as many Asians often do. He doesn't really seem to understand the shareowner concept. In private, he's very helpful about conditions in Asia—but shareowner value and the role of American company directors is largely an unknown concept to him."

CEO/Director: "I really should have international directors—from Europe and probably Asia. I haven't been as diligent as I should have been. It's hard work to get an international director, but not impossible. It's just inertia, I guess—I figured it would be hard to attract them. I'm going to give it more effort using your suggestion about lists of those already on boards or on U.S. subsidiaries."

CEO/Director: "It's hard to find an Asian director, and we should also have one or more from the Middle East—but it's touchy politically."

Director: "Our European director was very helpful in merger discussions—knew all the players and EU regulators. I can't say enough good things about his contributions. But I'm going on another board and I noted with some surprise that while they are very international, so far they have no foreign directors."

Director: "Our European director was not just big in Europe, but around the world—especially in Asia. He was helpful on acquisitions, but also where to have an office, the 'real low-down' on important matters—'watch out for this here, etc.'—invaluable advice." He suggests, "Don't just get a director from one world area—get one with wide experience around the world."

CEO/Director: "We brought on an international director who was a major customer and who knew all about our major world area and our markets. We were concerned that other customers of importance to us would find him a 'favoritism' problem—but he was so respected that it didn't matter."

Director: "We have an unusual number of international insiders in our company's management, and I feel very comfortable about our outlook internationally. I'm on another board, though (where he chairs the nominating committee), that has no international influence and definitely should. No director on that board can even spell international, even though the company is huge outside the U.S."

"Don't just get a director from one world area—get one with wide experience around the world."

CEO/Director: "We hoped that finding a director from a Latin American country would satisfy our plan to have an Hispanic on our board. It turns out that it's better than none—but only a little. American-Hispanics want American-Hispanics on the board, not resident Latin Americans. Latin Americans also need lots of background checks because of the politics and the possibility of a backfire."

Director: "One of my boards has a European director—very involved, knows about Europe and has international views on many topics—very valuable." On another board he chairs the nominating committee. "Should have at least one—we talk about it but don't do anything. We should, but we can't decide which country for political reasons. Also, we have too many meetings for many of the candidates." He likes the idea of scanning lists of existing directors to see if their meetings are convenient to his.

Director: "Countries of importance to the company are too spread out. If you are concentrated in one country, like, for example, Germany, then you should have one or more German directors. Otherwise, countries are too diffuse." He thinks a better question U.S. director candidates should be asked is, "How many countries are you really comfortable contributing in?" I thought that was a particularly good suggestion and one that I had never considered—nor did any other interviewee mention it.

Director: "Some years ago, the question about international directors was: Who needs it? Foreigners are a royal pain in the neck—they just don't understand that American boards and stakeholders are different. But things are changing rapidly. "Europe especially is starting to think the way we do about shareowner value. It's time right now for European directors. But the problem is just like recruiting African-Americans—the same international directors will show up on all the boards. So now we need women, African-Americans, and internationals on boards—where's the diversity if the internationals are all the same people?" On Japanese directors: "It's only for show. Wait another 20 years until Asians get real shareowner-value orientation and understand the issues."

Director: "It simply isn't true that you can't find qualified international directors who are willing to make the travel and time commitments. You just have to make it a priority, and work at it. Based on my experience, it's well worth it."

Director: "The company whose board I'm on is really an American company that just happens to do half of its business overseas. We need at least two international directors—a European and an Asian—perhaps also a Latin American. Travel is a problem, but the mindset is as an "American" company and so they're not pushing very hard to get foreign directors. International advisory boards are the usual 'cop out.' They make for nice dinners, but they don't have the real involvement of regular board members."

CEO/Director: "One company whose board I'm on is very international—almost all executives have lived outside the U.S., so they bring a good perspective. But the subject of having international directors has never come up. It should. On another board I'm on they have a U.S.-based foreign national outside director, which solves the travel issue. But they also reduced the number of board meetings (but lengthened them) to help retain 'a terrific' existing European-based director—other companies should consider this step."

Director: "We had a major public relations issue in Europe and our European director was of help—but in reality, several American directors were able to offer advice at least as valuable because of their specific backgrounds."

> *International advisory boards are the usual 'cop out.' They make for nice dinners, but they don't have the real involvement of regular board members."*

CEO/Director: "I'm a strong believer in international boards—now becoming more important than ever. One board I'm on has multiple foreign directors—the meetings are significantly enhanced." "It is the highest priority we have on two of my other boards. The only reason we don't have them, pure and simple, is logistics. Everyone I talk to wants one or more—but logistics kills it. One of my boards tries to accommodate the problem by having advisory director meetings outside the U.S.—as many do—but using advisory directors who meet a couple of times a year is not the same as 'real' directors." Another director on the same board thought the advisory committee was valuable, but had never attended a meeting, so he wasn't really sure. The CEO/Director thought the idea of looking at subsidiary U.S. boards of international companies was a great one—and one he would pursue. He further commented: "There are two categories of directors: the formal ones who meet all the usual external tests of appropriate directors, and the real ones who provide the CEO with real counsel—fresh eyes. Unfortunately, the latter are all too rare, but wonderful when it happens." Wise counsel indeed!

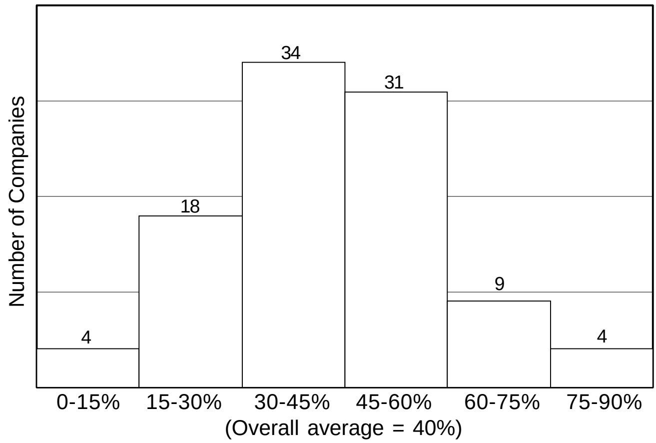
A Final Word

Identifying and attracting foreign directors is hard work. But the vast majority of those who have foreign directors on their boards agree that the effort is well worth it. We trust that our research, database, and suggestions will help move that effort forward.

In internationalizing boards, there are time and travel pressures to be overcome as well as cultural differences. But the business scene is relentlessly becoming more global, requiring more global advice. Until a better governance system is found, the obligation lies with the CEO and the board of directors to ensure that the voices doing the advising sound more like the world—*a world not bounded by the East and West coasts of the United States.*

Endnotes

1. Thomas L. Friedman, *The Lexus and the Olive Tree* (New York: Farrar, Straus, Giroux, 1999) p. xviii.
2. "The Largest 100 U.S. Multinationals," *Forbes*, July 26, 1999, pp. 202-206.
3. Foreign Revenue as a Percent of Total Revenue.



4. *Globalizing the Board of Directors: Trends and Strategies*, The Conference Board Research Report 1242-99RR (1999).

5. Methodology: Forbes magazine annually publishes a list of the 100 U.S. companies with the largest international revenues. The issue published July 26, 1999, covers calendar year 1998 and FY99. CSAB staff member Robin Orvis, using the company web sites and other sources, obtained the names of the 100 company directors. We then went through each company list to determine the nationality of the outside (non-company executive) director. Some companies provide nationality and affiliation of directors, but most do not. For that latter group we relied upon personal knowledge, Internet name searches, telephone calls to the companies or to board members themselves. We believe this list is accurate. In a few cases, we made a judgment call in naming a director as foreign—where the birthplace and principal work experience were primarily international, but residence was currently the United States.

   Further information on this study may be requested from the author.

   An interesting by-product of the web search was the experience Ms. Orvis had with the sites themselves. Many were poorly designed for access and information. It often took 30 minutes or more to get the desired information. Analysis of positives and negatives from these company web sites is being considered for a future report to be written by Ms. Orvis.

6. *Korn/Ferry International 26th Annual Board of Directors Study,* Table 5, p. 23.

Table 5

What does your board do to obtain a global perspective?*

Has an American with extensive global experience on the board	73%
Has a foreign national on the board who lives and works overseas	25%
Has regular reports from outside consultants with global expertise	14%
Sets up off-shore advisory boards where the company has major offices	8%
Has a foreign national serve in an advisory capacity	7%
Has a foreign national on the board who is employed by a U.S. multinational and who currently lives in the U.S.	7%

* *Adds up to more than 100 percent because respondents may have chosen more than one response.*

7. *Globalizing the Board of Directors*, p. 18.

8. *Globalizing the Board of Directors*, p. 28.

9. See Methodology, Endnote 5.

10. CEO/Directors serve on boards other than their own.

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