In Practice

Enhancing the Board's Global Perspective

By Dean A. Yoost and D. J. Peterson

The global landscape is rapidly changing and becoming even more important as new customers and new markets emerge, creating huge opportunities, and along with them, new competitors, disruptions, and risks. Many U.S. companies rely on foreign markets for a significant proportion of their growth and profits. This requires the board's simultaneous focus on far-reaching locations, markets that are often not moving in tandem, a diverse workforce, expanding supply chains, and complex relationships with governments, communities, and local stakeholders. Moreover, as we see with questions about the trajectory of China's economy and the outlook for energy prices, these markets are multidimensional and data and knowledge about them is often very subjective and incomplete.

"The board's oversight of global matters is challenging, complex, and multilayered, so that directors need to be vigilant and proactive. Boards often are stretched to provide the proper global perspective," says Gary Daichendt, a director of NCR Corp., Juniper Networks, and Polycom, Inc. These concerns are echoed by the *2015–2016 NACD Public Company Governance Survey*, which asked directors what attributes they deemed most important for director recruitment. International expertise ranked among the top six traits, along with financial expertise, specific industry knowledge, and leadership skills. Nevertheless, many boards often do not possess directors who have the requisite international expertise to provide a credible challenge to management.

How can boards improve their oversight? There are (arguably) at least three approaches to enhancing the global perspective of the board:

1. Recruit and appoint a new director or directors with global expertise and experience;
2. Form a separate committee of the board to focus on global opportunities and risks; and
3. Appoint one or two designated directors to serve as the board's facilitator on global matters.

Recruit New Directors

Depending on the complexity and importance of international issues facing the company, the board may wish to consider whether it needs at least one director with a sophisticated understanding of key geographies and issues.

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The recruitment and appointment of a new director or directors who are experienced in relevant overseas markets can be very helpful in paving the way and enhancing the board's knowledge of specific markets, relationships with local managers, partners and influencers, and knowledge of local laws, regulations, customers, and business practices. Directors who are foreign nationals or who have led organizations abroad often have an intuitive sense of important issues to watch and what questions to ask, and can play a critical role of flagging potential trouble spots. Moreover, these directors may add something to the board that is harder to quantify than specific market knowhow but potentially adds even greater value: creating a more open and diverse mindset and thereby enhancing the board's deliberation and problem-solving skills.

However, adding a foreign national as a new director can be easier said than done. Despite the increasing importance of global markets to U.S. businesses, foreign nationals remain a small minority on the boards of leading companies. Spencer Stuart reported that foreign nationals account for only 8 percent of the directors in the top S&P 200 companies, and 45 percent of these companies have no foreign national directors. In many cases, there is also a logistical challenge for boards that need to coordinate travel and communications of those outside of the US. "Differing time zones, languages, customs, and cultural nuances can present seemingly insurmountable hurdles, but boards that are truly motivated to add an international dimension find ways to overcome these obstacles," says Elizabeth J. Fisher, a lead consultant with Spencer Stuart. A foreign national joining a U.S. board, in turn, may incur onerous and costly U.S. tax requirements, which the company will have to assist with if it wants to recruit the right talent.

Some boards believe that the appointment of one new "global" director may be somewhat limiting as no candidate would have all of the required country knowledge and this may, in fact, result in an extraordinary burden on a director regardless of international experience or expertise. The board may also have a sense of false security if it relies on one director for all things global.

Form a Separate Committee

The complexity and importance of international issues also should be considered

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in relation to the organization of the board's work through its committee structure. Specifically, the board needs to determine whether global issues warrant dedicated attention from a specialized committee. The board also needs to decide where responsibility for the oversight of global risks is covered, such as the full board or with one of its committees.

Some boards form a separate committee, such as a "markets committee," or a subset of an existing committee, focusing on global opportunities and risks, particularly in relation to assessing and calibrating the company's entry into new foreign markets. The scope of a separate committee often includes assisting management in identifying expansion opportunities, developing entry plans, facilitating local relationships, identifying and assessing risks, and monitoring outcomes.

The same pool of directors would populate a separate committee, which may preclude the board from adding the requisite global expertise or experience. It also could result in over-crowding of committee and board calendars.

Designate a Director

To facilitate the board's oversight of globalization, the board could designate a director or two to serve as primary liaison or facilitator for the board or one of its committees. The designation would relate solely to global matters as defined. The designated director would keep apprised of significant international developments and company initiatives, participate in periodic reporting and key meetings, join in site visits, and regularly consult with management. In addition to management, the designated director would be responsible for keeping the board and its committees informed and facilitating the board's agenda on global matters. The designated director would not have authority to make decisions or otherwise act on behalf of the board or its committees.

As with the appointment of a new director, the appointment of one or two designated directors may result in an extraordinary burden for the director(s) regardless of the international experience or expertise. It may also give the board a false sense of security, which could be mitigated by clarifying that the responsibility is not to be the board's expert but rather its facilitator.

Other Enablers

Irrespective of which approach is pursued, third-party consultants or advisors could be engaged to brief the board or one of its committee(s) on a regular basis. The use of a third-party advisor can enhance market and regulatory information and provide an outside view on the reporting and recommendations of management. Some boards have, in fact, established advisory boards for key overseas markets to provide in-depth perspectives in a focused and sustained manner.

Regular board visits to key markets and operations is often quite helpful in providing first-hand experience and enabling board members to form independent opinions. It is essential on these trips for directors to meet with local managers, government officials, and stakeholders, Robert E. Denham, a partner with Munger, Tolles & Olson and a director of Chevron Corp., says that "many boards are developing a global mindset by holding meetings outside the U.S., adding directors with international experience, and working closely with internal audit, attorneys, accountants, and other external advisors to leverage their expertise."

Finally, when abroad, it's important to venture beyond the conference center or company gates: Chatting informally with tour guides, merchants, and cab drivers is a tried-and-true way to gather personal and often unvarnished insights on the local context.

Exercise Skepticism

For companies to become truly global, it's imperative that they have directors who are globally knowledgeable, experienced, and engaged.

The responsibility of directors is to engage in critical and relevant discussions, form independent opinions, and work closely with management to ensure that international strategies and plans are well-formulated and subsequently met. Directors must possess relevant expertise and experience, and gain sufficient insights to ensure they are in a position to provide thoughtful, meaningful counsel to management, and to exercise skepticism regarding the company's global plans. D

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