

Cornerstone of the Board  
THE NEW GOVERNANCE COMMITTEE  
*volume 2, issue 1*

Adding International Expertise:  
**OPENING THE BOARD'S  
WINDOW ON THE WORLD**

SpencerStuart

Spencer Stuart is one of the world's leading executive search consulting firms. Privately held since 1956, Spencer Stuart applies its extensive knowledge of industries, functions and talent to advise select clients — ranging from major multinationals to emerging companies to nonprofit organizations — and address their leadership requirements. Through 50 offices in more than 25 countries and a broad range of practice groups, Spencer Stuart consultants focus on senior-level executive search, board director appointments, succession planning and in-depth senior executive management assessments.

The premier firm for board counsel and recruitment, Spencer Stuart conducts well over half of all director assignments handled through executive search. For the past 20 years, our Board Services Practice has helped boards around the world identify and recruit independent directors and provided advice to chairmen, chief executive officers and nominating committees on important governance issues. In the past year alone, we have conducted more than 400 director searches. We are the firm of choice for both leading multinationals and smaller organizations, conducting more than one-third of our assignments for companies with revenues under \$1 billion.

In addition to our work with clients, Spencer Stuart has long played an active role in corporate governance by exploring — both on our own and with other prestigious institutions — key concerns of boards and innovative solutions to the challenges facing them. Publishing the *Spencer Stuart Board Index*, now in its 21<sup>st</sup> edition, is just one of our many ongoing efforts:

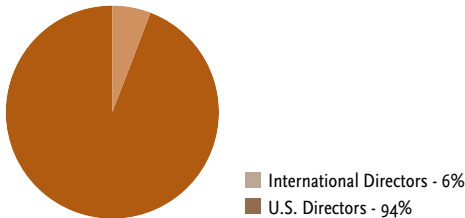
- > We participate in the Directors' Institute hosted by The Conference Board and serve as an advisory board member of The Conference Board's Global Corporate Governance Research Center.
- > Each year, we sponsor and participate in two premier events — the Annual Boardroom Summit, jointly sponsored by the New York Stock Exchange and *Corporate Board Member* magazine, and the Corporate Governance Conference at Northwestern University's Kellogg Graduate School of Management.
- > Together with Agenda, a leading corporate governance publisher, we co-sponsor the Outstanding Directors Awards.
- > In partnership with the Wharton School at the University of Pennsylvania, we founded and annually sponsor Corporate Governance Essentials for New Directors in the U.S. and the Directors' Forum, held in the U.K.

## ADDING AN INTERNATIONAL PERSPECTIVE TO U.S. BOARDS

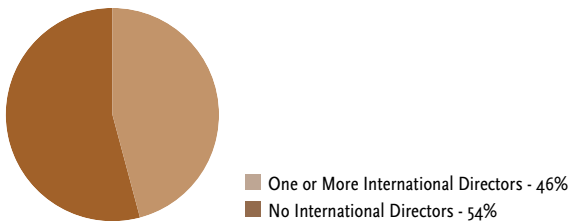
The right board with the right mix of experience and expertise can be an invaluable resource, providing an edge in new, highly competitive global markets. Given this context, it is not surprising that many companies are seeking to add international directors, particularly in markets that align with their corporate strategy.

But this is easier said than done. Despite the increasing importance of global markets to U.S. businesses, international directors remain a small minority on the boards of leading companies. Our recent survey of the 200 largest S&P 500 boards revealed there were only 141 non-U.S. directors out of a total of 2,306 directors, a mere 6 percent of the total.<sup>1</sup> More than half of U.S. boards do not have an international director.

Prevalence of International Directors on Top 200 U.S. Boards



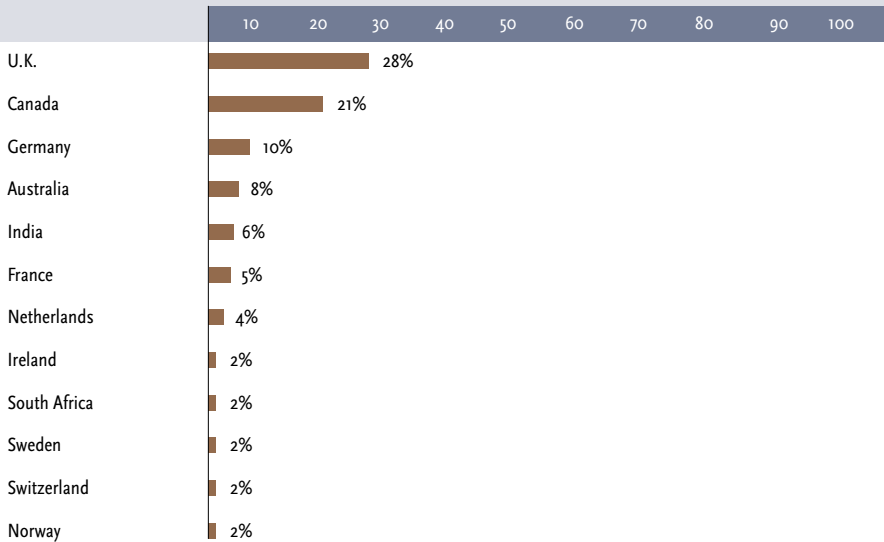
Percentage of Companies with at Least One International Director



<sup>1</sup> Survey based on review of most recent proxies at June 5, 2006. For the purposes of this report, "international" is defined as someone whose nationality differs from that of the country of the company on which he/she serves as a director. We acknowledge that this does not always accurately reflect the individual's working knowledge of a country's business practices and culture; we have used it as a proxy. Ascertaining an individual's level of foreign market understanding is an important part of the candidate due diligence process.

Perhaps not surprising because of cultural and language affinities, more than a quarter of non-U.S. directors are from the U.K. and another 21 percent are from Canada. When additional time zones and languages further complicate the mix, it is increasingly difficult to add representatives from crucial geographies, including Asia. With the exception of a small number of board directors from India (6 percent), Asia is notably absent on U.S. boards.

Origins of International Directors of U.S. Companies



Based on our experience placing more than 230 international directors on boards in 14 countries since 2000, we regard the inclusion of international directors on boards as important for the following reasons:

- > **Providing market intelligence and entrée:** As much as business has globalized, specific customs that affect how business is conducted may vary by country. Directors with knowledge of business culture, regulations and key influencers can pave the way in crucial countries for an American company wishing to expand.

- > **Expanding the board's perspective:** Like women and minorities, international directors may add something to the board that is harder to quantify than specific market know-how, but potentially is of even greater value. That is, creating a more open and diverse mindset on the board can be a tremendous asset when new and different perspectives enhance the board's deliberation and problem-solving skills.
- > **Signaling the importance of an international outlook for the company:** Adding an international director may send a signal to the market about the company broadening its international outlook.

But is it necessary for every board to consider adding an international director? What is the best way to assess the need and then, if desirable, to find the best person to fill it? There are a number of dimensions to consider when thinking about adding international representation to the board, and they need to be carefully evaluated on a board-by-board basis.

## TAKING STOCK

Regardless of the sort of director a board believes it needs to recruit, the process ideally is not done in a vacuum but against the broader backdrop of the company's strategy. What composition of directors will best help fulfill the board's mission? Stan O'Neal, chairman and CEO of Merrill Lynch, a company with multiple international board directors, notes a key distinction between individual expertise and collective capability: "Our philosophy in building our board has been that we don't need one individual with experience in all aspects of the business, but as a group entity they need to be able to deal with any and all aspects of the business."

We suggest that boards begin assessing the need for international representation or any other specialized skill or experience by considering the company's strategy for the next several years, and then considering the skills they currently have on their board (including directors who will be cycling off the board in the near future). Does the board as currently constituted give the company its best shot at success in supporting the strategy? Would additional, and perhaps different, skills significantly enhance the board's ability to do its job?

Just as when adding more women and minorities, adding international representation — another shade of diversity, actually — should not be considered merely a box-ticking exercise. As O’Neal puts it: “We’ve never approached recruiting international directors as a goal, an end in itself. The nominating committee has consciously constructed a board that is strong and has the right mix of perspectives; that has been their goal.”

## WHEN DO YOU NEED AN INTERNATIONAL DIRECTOR?

Suppose you have taken stock of the skills and experience you have on your board vis-à-vis the challenges the company will be facing for the next several years to determine gaps that should be filled. Suppose also that there is general consensus among directors that, given the direction the company is headed, there needs to be greater input from someone more knowledgeable about a market outside the U.S. Currently, only a handful of directors on U.S. boards are international, and while there are a number of historical as well as logistical reasons for the small numbers, the undeniably global nature of business suggests that this will change. How is a board to know what is the best way to secure that input and what are some important indicators for adding an international director?

For boards outside the U.S. — particularly in countries that traditionally have been less isolated and less constrained by geographic borders — the notion of having a non-national director is more readily embraced. Irene Miller, CEO of Akim, who serves on both U.S. and European boards, notes that many European boards are interested in American practices in addition to any market-specific knowledge or expertise. Of one Spanish-based board, where she serves on the audit committee, she says, “The fact that I’m exposed to U.S. governance is a huge draw for them. They are very interested in improving the operation of the board by learning about U.S. best practices — from running meetings, creating agendas and holding executive sessions to our accounting practices. As Americans, we are also known for our direct and open style, which I think they find refreshing.”

At what stage of a company's development will adding an international director be an important asset and what are some things to consider? When expanding into global markets is a key aspect of the strategy, Miller offers the following guidance: "Any company that plans to grow in a meaningful way in another market should seriously consider recruiting an international director." She adds that by her definition, "meaningful" means not merely product distribution but on-the-ground operations. "If you have to put down a large labor force," she explains, "the stakes rise, significantly adding to the company's financial exposure."

"An international director is not necessary for every board, but it is important for any company that has a global footprint or aspires to have one," says Fred Langhammer, chairman of global affairs for Estee Lauder, who currently serves on the boards of Walt Disney, American International Group and Shinsei Bank. "The world looks a bit different outside the U.S. and while there's a tendency to say, 'We'll do it the American way,' companies are learning that can create a lot of obstacles."

Certainly there is no magic number that is a tipping point when it comes to adding an international director, but Miller suggests that any company with at least 15 percent of revenues from outside the U.S. and intentions to expand abroad should be thinking seriously about board representation from that or those markets. "We have a thing or two to learn, too," she says. "We shouldn't have so much hubris to think we can do it all from an American perspective."

## OVERCOMING THE OBSTACLES

If a board takes stock of the skills and experience it currently has and determines international representation is a dimension that needs to be added in light of the strategic course it has launched, the board likely will face a series of challenges in pursuit of this goal. Differing time zones, languages and customs can all present seemingly insurmountable hurdles to adding international directors, but boards that are truly motivated to add an international dimension find ways to overcome these obstacles.

Motivation is key to making it work, because there is clearly much additional effort as well as expense required. Not only may all documents need to be translated if a director's English is not sufficiently fluent, but translators also may be required to assist at board meetings, where casual conversation gives way to often highly sophisticated and technical business terminology — meaning and nuance easily can be lost.

Even if the language hurdle can be cleared, geographic distance also can be a formidable barrier. "It's far more difficult with respect to Asian representation than other places," says one chairman, whose board includes a director from Asia. "We have six scheduled board meetings a year and the person has to be able to make those meetings. We have a full schedule of things you just can't do by phone." Key to making it work has been extra effort and dedication by the individual director.

There really is no substitute for directors who can make face-to-face meetings. While technology can be used as an aid in a pinch, Langhammer points out that, depending on the industry, the board has to determine how comfortable it is from a security standpoint — for example, sharing sensitive information over unsecured telephone lines. In recruiting for clients, one thing we look for in international director candidates is executives who already travel regularly to the U.S., for either business or personal reasons, to see if those plans can be integrated with regular board meetings.

With all the obstacles and moving parts to coordinate, it is not an easy task to recruit international directors and boards should be prepared to compete, just as they would for any excellent candidate. Highly qualified, attractive director prospects have more offers to join boards than they possibly can accept and, not surprisingly, have their own selection criteria.

If they can squeeze in service on an outside board, especially one that may entail even more of their time with extra travel, why should they choose yours? O'Neal, whose board has succeeded in attracting several international directors over the years, told us: "Since they are putting their own reputations at stake, they are naturally seeking a board and company known for quality and integrity. Prospective international directors want to be comfortable with the flow of information and

know that they will have access not only to the CEO but also to his or her reports to get what they need. Of course, this advice holds true for recruiting all first-class directors, but I would underscore it for recruiting international directors because of the increased level of difficulty overall.”

Having an international director who works and lives abroad is not the only way to add a more global dimension to the board. “There are ways to get the perspective and the experience,” one CEO told us, without having people resident in a particular part of the world. “We have one director who spent two years stationed in the Far East; that has been a great help given the importance of that market to us.”

Similarly, many other boards expand the spec for an international director to include executives who were raised, educated or have worked abroad. Another way of opening the eyes of the board wider to key markets is to hold board meetings abroad rather than always having them in the U.S. Coach, where Miller serves as lead director, has expanded into Europe and the Far East and recently had its first board meeting in Japan. “We spent time out of the boardroom in stores in several major Japanese markets,” says Miller, “and it was an incredibly enlightening experience. It totally changes the dialogue in the boardroom and it helps local management when the board isn’t halfway around the world. Now we’re much more focused on opportunities there.”

According to Langhammer, it is an understanding of individual cultural nuances that is crucial when adding an international director — the nuances of the culture, consumer habits and the regulatory environment. “You really need to have been on the ground to understand these differences,” he says. “Otherwise, it’s like getting an M.B.A. and going straight to teaching as opposed to someone who has run a business in between. People who have practiced and have the wounds to show their failures — that’s a different kind of schooling.” This in-depth understanding of cultural differences can be invaluable from a human resources point of view for companies that wish to attract top executives in a new geography and do not understand the different techniques that may be required to attract and retain them. For example, offers Langhammer, “You will never attract the kind of entrepreneur who will make a difference in driving the business in Asia if you don’t give him or her complete responsibility for the operation.”

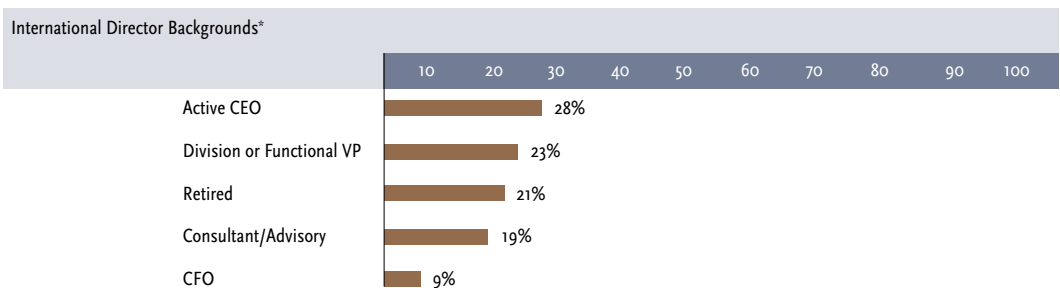
## ADVISORY BOARDS

The topic of advisory boards invariably arises when discussing the desire to add an international perspective to a board. And, while advisory boards are an important resource for many companies, they should not be viewed as a substitute for adding international directors to the board. “Advisory boards can be a smart move, as long as you know what you’ll be getting out of them and what you won’t be getting,” says Miller. “Advisory directors are very high-level people who will open their Rolodexes and open doors, but they have no relation to governance. The networking can be very valuable, but the benefits don’t really extend beyond that.” In the opinion of O’Neal, advisory boards are useful for specific regions that encompass markets with common business and political issues, such as the Pacific Rim or the European Union.

## PROCESS FRONT AND CENTER — BRINGING INTERNATIONAL EXPERTISE ONTO THE BOARD

Since 2000, Spencer Stuart has helped place more than 230 international directors on boards in 14 countries. And there are many others with international experience we have placed, even though they may not be international “by birth.”

When we look at the backgrounds of international directors joining boards, active CEOs and divisional/functional heads make up the majority. Division heads often are running sizable international businesses for large public companies.

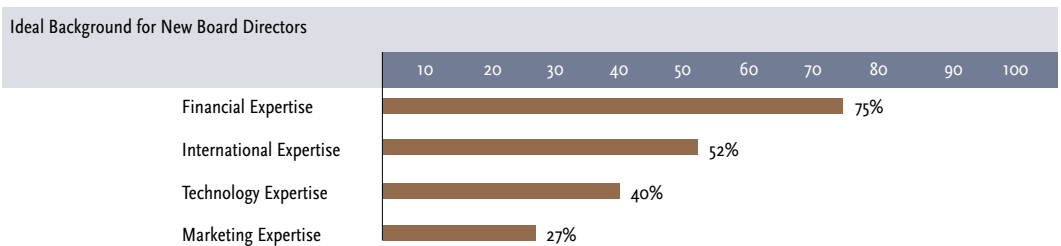


\* 2005-2006 Spencer Stuart placements.

We have found that companies typically have a compelling business rationale for bringing an international director onto the board (e.g., expanding into a new market, building manufacturing and distribution capabilities overseas). We work with boards to determine what set of backgrounds, experiences and competencies are required for an international director is required to bring to the table, and then identify individuals who bring the sought-after expertise.

Boards need to anticipate their own needs by adhering to a rigorous process of regularly evaluating collective skills and experience on the board against what is required by the company's strategy. That may entail adding financial, technology or international expertise in a specific global market. Boards that remain focused on the forest as well as the trees will be on much stronger footing than those that wake up one day and say, for example, "We need to add a director with experience in Germany — what do we do now?"

As companies continue to expand internationally, we expect the demand for international directors to continue. Indeed, in our 2006 survey of corporate secretaries of S&P 500 boards, international expertise was second only to financial expertise as a background that boards are looking for when they seek to add a director.



## ADVICE FOR TACKLING THE SEARCH FOR AN INTERNATIONAL DIRECTOR

Once you have determined international representation is important, you will need to prepare your board for recruiting an international director. Here are a few final words of advice to keep in mind:

- > **Think a step ahead:** To avoid the trap of “fighting the last war,” focus on the strategy several years out, including any plans for global expansion, and determine what sort of global experience will be most valuable to the board.
- > **“Blue sky” it:** The governance committee — or perhaps the entire board — should brainstorm about the sort of individual who will best fill the experience gap highlighted by the strategy, and compare those characteristics to current board resources.
- > **Work with elastic criteria:** In the initial stages of your search, be as inclusive as possible. You always can narrow criteria later on, if necessary. If you require an executive with experience in a particular geography, do not limit your consideration to natives, but be willing to expand your definition to include those who have lived, been educated, worked or even have family ties to a specific market.
- > **View diversity in matrix terms:** Adding international experience is but one way of enhancing a board’s diversity and expanding its thinking. If an international director also can broaden diversity in terms of gender, racial or ethnic perspectives, all the better.
- > **Act globally:** U.S. companies often are rightfully pegged as provincial in their views and approach. A board that demonstrates a commitment to being global — by having board meetings and director site visits outside the U.S., for example — will be more likely to attract an international director.
- > **Be a world-class board to attract world-class directors:** Directors with desirable international experience are highly selective about invitations to serve on boards. Boards that are progressive in their overall view toward corporate governance, specific board policies and relationships with the CEO and management have an edge with hard-to-recruit directors.

## ABOUT THE AUTHORS



*Julie Hembrook Daum* is the practice leader for the North American Board Services Practice of Spencer Stuart, the leading executive search firm in the boardroom. She consults with corporate boards, working with companies of all sizes from the Fortune 10 to pre-IPO companies and has worked on more than 450 director assignments. She serves on the Board of Directors of Spencer Stuart.

Julie also is involved in the organization of the Northwestern Conference on Corporate Governance and the Wharton/Spencer Stuart Directors' Institute. She is a judge for the annual Wharton Board Excellence Award, and is a frequent writer and speaker on governance topics. She recently has been quoted in *The New York Times*, *Financial Times*, *BusinessWeek*, *Time* magazine and *The Wall Street Journal*.

Prior to joining Spencer Stuart, Julie was the executive director of the Corporate Board Resource at Catalyst. She managed all board of directors' activities and worked with companies to identify qualified women for their boards.

After graduating with an M.B.A. in corporate finance from The Wharton School at the University of Pennsylvania, Julie began her career as a consultant with McKinsey & Company in Los Angeles.

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