Chief Executive

The Yawning Skills Gap on American Boards (it’s Not Only About Gender)

Most Fortune 500 companies today expect 50% or more of their future growth to come from emerging markets, and they are investing heavily to back this bet.

Posted by: Tom Manning August 19, 2016

However, while companies spend countless hours fretting about the makeup of their management teams, few are addressing the need for globally experienced directors. As a result, we face a yawning skills gap in the boardrooms of American companies that could soon negatively affect the ability for companies to generate shareholder value.

As a result, we soon will see differences between the returns of companies governed by boards with superior globalization skills and emerging market experience, and those led by under-qualified boards who either unwittingly veer toward the excessively risky or become overly conservative due to anxiety about risk in unfamiliar markets.

One startling example of the latter concerns boards that have experienced a Foreign Corrupt Practices Act (FCPA) problem—they find themselves paralyzed for years after the failure, in effect, magnifying the cost of the initial lapse even more.

Even though most boards have directors who claim international experience, few of these directors (only about 14% according to the most recent Egon Zehnder Global Board Index) have either lived abroad or have led operations in overseas markets. Many directors are internationally savvy to be sure, but that might not be enough in the current hyper-changing global economy. Yesterday’s Europe is not the same as today’s post-Brexit EU, nor is today’s

China the same China a director might have visited just five years ago. How much advantage might be gained if the board could better tune its skill set to match the future geographic profile of the company? Quite a lot, given the benefit of specific and accurate planning and execution in markets that are among the most dynamic and rapidly-evolving markets in the world.

Several quick tests would be valuable for American boards, beginning with the obvious—a check of the real international experience of its directors. Second-order questions are key, such as years lived abroad, languages spoken, frequency of travel, and current links with foreign business projects and overseas influencers. By estimating how much of the current and prospective business can be enhanced by more current and relevant emerging market skills, companies could shed light on the value of re-skilling the board.

It's important to be clear and even emphatic on a few key points. First, this is not about whether directors have ever visited Brazil or China or India. Importantly, a visit every year qualifies the director to be a knowledgeable contributor to the discussion (almost an entry ticket for current boards) but does not mean the director is an expert, *per se*. Second, this is also not about whether directors can engage in debates about foreign affairs or foreign policy. This is about how to win in foreign markets, using detailed insights about local trends, competitors, and potential partners to generate critical competitive advantages. Third, this is not about hosting a board meeting in a given market. That may well be a valuable strategy for exposing the board to a market for the first time, but it is misleading to then conclude that the board is ready to step up to billion-dollar decisions related to that geography.

What is the answer? Should global company boards be comprised of more geographically knowledgeable directors? Should boards try to recruit foreign nationals to their boards? Yes and yes— but perhaps not in the way expected. For most Western boards, obtaining geographic knowledge is key, and yet most boards cannot add a director representing every important geography. The right answer is to determine which markets will bear an unusual weight on future corporate performance because of sales growth, production concentration, supplier reliance, technology sourcing, and future competition. These markets and factors together offer a checklist for board recruiting.

Are foreign nationals good choices? Quite possibly, but many suitable executives from Brazil, India, or China will not have experience yet in dealing with Western boards, so there will be a break-in period required. Additionally, the cultural dynamic might well impede a foreign director from ever contributing fully across all aspects the company's agenda, virtually narrowing his or her contributions to issues which are geographically-specific. On a practical level, the logistics alone often undermine successful participation by foreign directors, particularly in situations where urgent matters such as M&A and regulatory changes come up frequently.

One of the best alternatives involves recruiting expats to the board—former operating executives from one's own industry or other industries, who have current knowledge of the critical target markets. These individuals understand the nature of key markets and also recognize the kinds of mistakes that both CEOs and directors will want to avoid. They also know how to proceed in practical, risk-conscious ways, which will likely result in better approximations of risk-adjusted returns for investments being made. They might also know the language—the best case—and they will certainly know who to call about important matters and concerns.

You might wonder if expats "know the locals" to a sufficient degree—code for knowing influential government officials. You are best advised to avoid such a bias for obvious reasons. While we all believe that relationships are essential to business development, we also know that relationships cannot be the deciding factor or we will find our companies in dicey situations where bribery and collusion become part of the business model. We also need to recognize that local influencers come and go, making a model based on connections with them chancy at best.

You should consider filling the global skill gap on your board with expats who know your target markets, who speak the languages required, and who can help you lever up to that point when more qualified foreign executives become available and you are ready to involve them. Meanwhile, don't wait—fill the gap before it becomes even wider and more costly.

ABOUT TOM MANNING

Tom Manning is a former CEO with extensive experience developing, leading and directing technology-based businesses in Asia over the past 20 years with Ernst & Young, Capgemini, Bain, and Cerberus. Currently, he is a public-company board director, advisor, educator, and an affiliate partner at Waterstone Management Group. He speaks Mandarin and has served on the boards of directors of seven publicly-listed companies, including five Chinese companies, as well as numerous private-equity-backed companies in Asia.

http://chiefexecutive.net/the-yawning-skills-gap-on-american-boards-its-not-only-about-gender/