MARSH & McLENNAN COMPANIES | NACD NATIONAL ASSOCIATION OF CORPORATE DIRECTORS

Global Risk Center

GOVERNING THE GLOBAL COMPANY

OVERSIGHT OF COMPLEXITY

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FOREWORD

The current era of broader and faster globalization presents new questions and challenges for corporate governance and oversight. But what are the implications in terms of boardroom composition, practices, and the necessary skillsets for directors? What constitutes an effective global board?

Despite the rise in international corporate business activity in nearly every industry—according to the International Monetary Fund (IMF), 55 percent of global GDP growth will come from emerging markets by 2019—little has been written about the challenges of governance in a global organization, the unique issues facing the current and future global board, and the experiences of directors who serve on these boards. This report fills that gap.

We set out to explore what, if any, are the defining characteristics of a "global company," and whether a global board is necessary to govern a global company. It is clear that as companies become increasingly global, boards of directors will likewise need to expand on their geographic diversity and knowledge. We explored questions including: What are the challenges for the boards of highly complex global companies? What can global boards learn from each other and what are the implications for board composition, director skill sets, and key boardroom processes?

Understanding that the answers to these questions can themselves be complex, we sought input from a variety of sources. Our research benefited from the insights of nearly 30 experienced directors from around the world who serve on the boards of companies domiciled in Europe, North America and Asia. We thank them for their time and contributions to this report.

We hope you find this report informative and valuable in supporting dialogues in your boardroom about the structure and best practices of the board in an increasingly global marketplace.

Ken Daly
President and CEO
NACD

Alex Wittenberg
Executive Director
Marsh & McLennan Companies' Global Risk Center

EXECUTIVE SUMMARY

The report set out to answer a core question: Does a global company need a global board? The answer, based on the feedback and insights of directors interviewed for this report, is an unequivocal "yes." Yet that answer served to raise further questions: What is a global company, and how should a global board be defined? There is no single definition that sets a truly global company apart from those that are "multi-national"—that is, domestic companies with international operations. Directors shared their views on the characteristics of a global company and the top governance challenges. Governance of the global company can be summed up in one word: complexity.

As globalization continues, the geographic diversity of boards will also increase, as companies seek more directors with international experience. For example, 35 percent of the 339 new board seats of Fortune 500 companies in 2014 were filled with directors with international experience.[1] This will have implications for board practices, director skill sets and more. Our research tapped insights of directors around the world—whose companies are headquartered in Asia, Europe, and North America—to capture their experiences and perspectives on the characteristics that distinguish a truly global company, and, in turn, what makes a "global board."

Based on interviews with close to 30 directors, representing 16 Global Fortune 500 companies and 25 Global Financial Times 500 companies, this report sets out peer perspectives on the challenges and opportunities of participating on a global board and the critical skill sets for a global director. Finally, we captured advice for directors who may be joining the board of a global company for the first time. A full list of research participants is on page 32.

The global board and its directors share many of the responsibilities, skill sets, and requirements of all high-performing boards. However, our interviews highlighted the need for boards to respond to global governance demands and complexity in three ways: board composition with an emphasis on increasing geographic diversity and international experience; board processes and the importance of well-planned agenda and site visits; and the expertise of individual directors, including an expanded time commitment and a true sensitivity to cultural differences.

Key findings and takeaways include:

- Top issues for global-company boards: oversight of risks (including geopolitical, legal and regulatory) and the extended talent pipeline
- Imperatives for global-board composition, including the importance of geographic diversity
- Considerations for the global-board recruitment process: questions for boards and for prospective directors
- Critical boardroom processes in the global context, including agenda development and the flow of information into the boardroom

The research highlights the need for companies to ask: Where are we on the journey to becoming a truly global company, and is our board properly shaped for our global mission?

1 Source: Board Monitor 2015, Heidrick & Struggles.

CORE CHARACTERISTICS OF A GLOBAL COMPANY

What distinguishes a truly global company from one that is domestically based with overseas operations (that is, a multinational)? There is no firm science separating global from multinationals. For example, nearly three-quarters of Standard and Poor's 500 (S&P 500) companies reported international revenue, according to a 2014 study by a global search firm.[2] Nor is size alone a determining factor: 26 percent of US multinationals are small and medium-sized enterprises, according to a recent report from the Business Roundtable.[3]

That noted, truly "global" companies usually have a physical presence in many countries, offer a full range of services across their operating regions, and have a majority of employees and revenue outside the country of the company headquarters. The organizational structure is typically a matrix, with country-level lines of business, products and brands or manufacturing centers, and functional coordination at a global or regional level. In addition, the organizational structure may include joint ventures and partnerships with other local, regional, or global organizations, and composite governance structures (such as subsidiary boards).

In the view of the directors participating in this research[4], there are several additional characteristics that set truly global companies apart, although they are often difficult to measure: culture and mind-set, global talent, and organizational complexity.

DIRECTOR INTERVIEW PROFILE

28 directors representing **82 companies** around the world with an approximate net income of **$183 billion USD**, over **3.3 million employees** globally and over **$16 trillion in assets**.

2 2014 Global Board Index, Egon Zehnder.

3 American Companies and Global Supply Networks, Business Roundtable, 2013.

4 A full list of participants can be found on page 32.

- **Culture and mind-set:** As one director put it, "The distinguishing characteristic of global companies is that they work with the assumption that they are operating in the world." As described by interviewees, global companies take a "contextual" approach to strategy. Beyond simply selling a product or service in a foreign country, they seek to gain a deep understanding about the business environment, including customers, suppliers, regulators, and other stakeholders within the unique context of each country or region of operations.

  The global mind-set is also reflected in the everyday language used by the company: for example, not using a "home country/rest of world" yardstick to assess corporate plans and results, whereby the headquarters location is assumed to be the baseline.

- **Global talent:** Virtually unanimously, the directors we interviewed also noted that the transformation to a global company is marked by a different-in-kind approach to talent strategy. At the seniormost level, global companies do not hesitate to place executives from outside the home country in key positions, as opposed to having an executive team dominated by expatriates, and are comfortable with top leaders residing in various countries, rather than being centralized in one time zone. This approach helps break the headquarters-centric view, as one director commented: "Truly global companies recognize there is no magic to senior executives being all in one place." Global talent pipelines are also important at lower levels of the organization, as discussed in further detail beginning on page 13.

"Governance of the global company is essentially an exercise in the oversight of complexity"

- **Complexity:** The strongest common theme across our conversations with global-board directors was the notion that the governance of the global company is essentially an exercise in the oversight of complexity. Interviewees noted that as the oversight role stretches beyond borders, the director's role becomes increasingly complicated, incorporating considerations of social and cultural issues, variances in governance frameworks, and the necessity for director engagement on a broader range of key issues.

Directors noted that boardroom conversations about risk and strategy are often richer, deeper, and more intellectually challenging in the global company context. For example, the number of variables examined for each business decision—whether related to product design, branding, go-to-market approaches, accounting practice, tax planning, remuneration, HR process, labour markets, competition, or supply-chain design—expand significantly in companies with large global footprints. The rules and the values of the company have to be applied in a huge variety of businesses and operating environments as companies strive to "think globally and act locally" to really penetrate the market and attract customers. Directors and management alike have to consider how the company will customize the application of standards or policies to each of its operating environments—a global approach, a local approach, or some combination of the two.

THE IMPLICATIONS FOR GOVERNANCE

SIMILAR ROLE, DIFFERENT CONVERSATIONS

First developed in 1999 and updated in 2004 and 2015, the OECD's Global Governance Principles have been endorsed by the G20, Financial Stability Board (FSB), World Bank Group, and other international business organizations.[5] They advocate for a common approach to directors' fiduciary duties of care and loyalty, the role of the board as shareholder representatives, and board responsibilities, including guiding corporate strategy, selecting and compensating key executives, and ensuring the integrity of financial reporting. Interviewees agreed that boards carry out their responsibilities with similar goals for global and domestic companies—emphasizing the application of business judgment, constructive challenge of fellow directors and management, and sound oversight, etc. However, they noted that the way individual boards carry out those responsibilities will inevitably differ.

"The difference is much more than just a longer plane ride to get to board meetings"

Governance practices—including committee structure, reporting and disclosure requirements, and so on—will be anchored in the regulations, requirements, and standards of the country where the company is headquartered.

Exhibit 1: Leading Governance Issues

Strategic planning and oversight	**41.0%**
Risk oversight (other than cyber risk)	27.3%
Cyber risk oversight	25.9%
Executive talent management and leadership development	25.9%
Corporate performance and valuation	25.2%
Director recruitment and succession	23.0%
Corporate growth/restructuring (e.g. M&A)	20.1%

Source: NACD 2015-2016 Public Company Governance Survey, Large cap companies only

While recognizing that directors' fiduciary duties are similar in domestic and global companies, interviewees highlighted two particular issues as top concerns for global-company boards: risk oversight and oversight of the global talent pipeline.

5 http://www.oecd.org/daf/ca/Corporate-Governance-Principles-ENG.pdf

TOP ISSUES FOR THE GLOBAL BOARD: RISK OVERSIGHT AND THE GLOBAL TALENT PIPELINE

RISK OVERSIGHT

Risk oversight—from the discussion around the interplay between strategy and risk, to specific oversight of regulatory or compliance risks—is a top issue for global boards (see Exhibit 1). Some areas, such as geopolitical matters and currency/foreign exchange risk, are directly related to the company's operating footprint around the world. Discussions in the boardroom about the cost of capital, risk premiums, and different time horizons for risk and capital investment also take on greater complexity, with the need to consider environments in markets in various stages of development. As one director noted, "When spending risk capital globally, the nature of the oversight role broadens appreciably, and that is a real factor for directors to consider."

A number of factors drive risk oversight challenges for the global company. Risk considerations will be specific to the individual company. However, our global-company director interviews highlighted three areas in particular:

- Geopolitical risks
- Regulatory issues
- Legal and compliance risks

GEOPOLITICAL RISKS

"The number of things you are concerned about, and how you are concerned about them, are manifested differently"

In a context of proliferating geopolitical risks, a wide range of geopolitical issues are a clear concern, and global boards have greater engagement with management on these issues, especially when considering entry to new markets and countries. (See text box and Exhibits 2-3). Given this, interviewees noted the importance of having directors who possess a deep political sensibility and local contacts in key countries and regions to provide valuable insights and guidance to management.

GEOPOLITICAL AND REGULATORY RISK AS TOP CONCERNS FOR GLOBAL BOARDS

Exhibit 2: Top Global Risks Over Next 18 Months and 10 Years

The World Economic Forum's Global Risks Report 2015, prepared with the support of the Marsh & McLennan Companies, highlights four geopolitical and social risks in the top 10 global risks over the next 18 months.

RANK	NEXT 18 MONTHS	RANK	10-YEAR HORIZON
1	Inter-state conflict with regional consequences	1	Water crises
2	State collapse or crisis	2	Failure of climate change adaption
3	High structural un- or underemployment	3	Profound social instability
4	Failure of national governance	4	Food crises
5	Large-scale terrorist attacks	5	Extreme weather events
6	Large-scale cyber attacks	6	High structural un- or underemployment
7	Profound social instability	7	Large-scale cyber attacks
8	Rapid and massive spread of infectious diseases	8	State collapse or crisis
9	Extreme weather events	9	Major biodiversity loss and ecosystem collapse
10	Fiscal crises in key economies	10	Failure of national governance

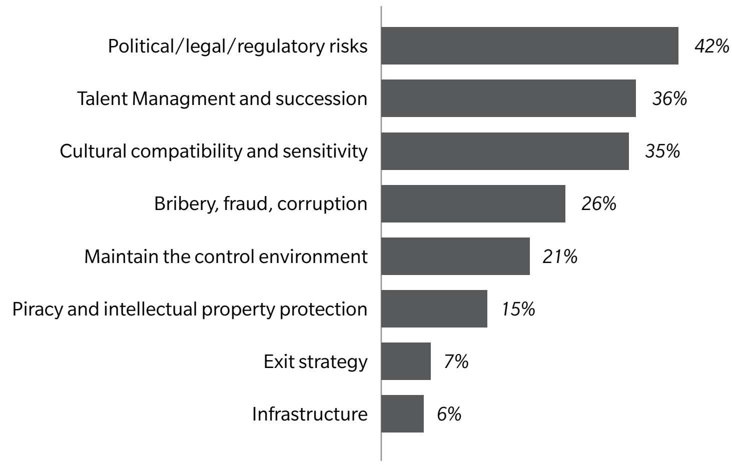
Economic · Societal · Environmental · Technological · Geopolitical

These concerns are also reflected in director surveys (see Exhibit 3). For example, an Australian survey found that "uncertain global economic and political conditions" and "concerns regarding foreign laws and regulations" were the top challenges for cross-border investments.[1*]

1* Directions 2015, Australian Institute of Company Directors and King & Wood Mallesons.
Source: World Economic Forum, Global Risks 2015.

GEOPOLITICAL AND REGULATORY RISK AS TOP CONCERNS FOR GLOBAL BOARDS CONTINUED

Exhibit 3: Biggest Challenges and Risks when Entering an Emerging or High-growth Market[1*]



1* Tapping International Markets: Key Governance Considerations, KPMG, November/ December 2014. Survey responses from 500 directors attending KPMG's Audit Committee Institute Fall Roundtable.

REGULATORY ISSUES

The regulatory oversight challenge—including industry-specific operating regulations, accounting and tax standards, disclosure requirements, consumer protection regulations, and more—is also significant for board members of global companies. For some companies, the potential for conflicting or overlapping regulatory requirements is itself a stand-alone risk factor. Directors should establish with management the frequency with which the board and key committees will be briefed on changes and developments in the global regulatory environment that affect the company, as well as the board itself.

KEY QUESTIONS LOCAL LIABILITIES AND PROTECTIONS

As highlighted in a case involving a global company headquartered in Delaware, board members of global companies have a number of obligations.[1*] While proportionality comes into play, directors must:

1. Have a system of controls in place to ensure that the firm actually owns the assets/operations
2. Retain accountants and lawyers fit to the task of maintaining a system of controls
3. Potentially have the language skills to navigate the environment in which the company is operating
4. Physically visit the local (foreign) operations from time to time
5. Importantly: be an active director

1* See: re Puda Coal, Inc., February 6, 2013, www.delawarelitigation.com/files/2013/02/puda-case.pdf

Given these obligations, it is important to recognize that global D&O insurance policy may not be legal, binding and enforceable in local countries. Given this directors of global companies should consider:

1. The legal landscape in local jurisdictions in which the company operates, including potential criminal repercussions for the company and/or the director
2. Whether any corporate indemnification would exist or extend into any local country
3. Whether their global D&O policy is legally permitted in the local territories

Note: See also, The "Globalness of Risk in a Connected World," Brenda Shelly, Marsh in NACD Directorship, May/June 2015

LEGAL AND COMPLIANCE

Directors cited legal and compliance risks as a particularly challenging example of how regulatory issues affect global companies. The US Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act both have extraterritorial enforcement provisions that, in some cases, can extend liability to a company's actions in other countries if those activities are deemed to have a "connection" with either the US or UK.[6] Directors emphasized the importance of understanding the practical ramifications of these laws and the intersection with local business norms. As one noted: "With FCPA, the rubber meets the road with the front-line managers and how business is done day to day." As a result, companies may determine it is not possible to do business in some countries while remaining within the FCPA, and must forego opportunities in those countries as a result.

"A global company has to be a good global citizen and not just a good corporate citizen"

Directors also noted that in an era of hyper-interconnectivity between print, broadcast, and online media, regulatory and compliance issues are more tightly linked than ever to company reputation and brand management. The importance of "doing the right thing everywhere" has taken on new meaning in a world where what happens in any local market, however small, has the potential to be global news within hours.

RISK OVERSIGHT—IMPLICATIONS FOR GLOBAL-COMPANY DIRECTORS

In the global risk oversight environment, directors highlighted the importance of two key practices. Firstly, directors must take the lead in setting global culture, ethical and compliance standards for the company as a means to support regulatory and compliances programs. Secondly, a combination of top-down and bottom-up

6 Arnold & Porter, http://www.academia.edu/7526985/The_UK_Bribery_Act_2010_in_the_Limelight_A_Strong_Deterrent_to_Corruption_and_Bribery

risk assessment is critical to capture insights into the company's risk profile.

STRONG SUPPORT FOR ETHICS AND COMPLIANCE PROGRAMS

Boards must maintain ongoing visibility into the effective implementation of corporate compliance and ethics programs throughout the organization. Issues to consider include: how will policies be applied across countries in a way that acknowledges differences in cultural norms? How will the company, and ultimately the board, assess performance and identify gaps? Does the company have the right line management in place to ensure cultural and ethical standards filter down into day-to-day business decisions? How will the company deal with situations where local country requirements (for example, employee health and safety or environmental compliance standards) are different than those of the company's philosophy or goals. And what standards are to be applied?

BOTTOM-UP AND TOP-DOWN RISK ASSESSMENTS

Directors viewed a combination of central/top-down risk assessment and in-country/bottom-up risk assessment processes as most effective for global companies. Driven by the span and complexity of business operations, globally operating companies must have in place enterprise risk management processes to support risk oversight that are far more extensive than those of a domestic company. At the global level, the company needs to consider issues and impacts such as macro-trends and economic issues; they must assess the risk and risk management against the corporate risk appetite. At the local level, the local executives need to outline how global risk factors manifest in daily operations. Management's regular risk reports to the board should capture and summarize key information to enable the board to provide effective oversight and execute its risk responsibilities as documented in board charters.[7]

NACD survey data indicate that the board as a whole is playing a greater role in risk oversight.[8] Nonetheless, on a number of interviewees' boards, the audit committee continues to play a key role in regulatory and compliance oversight which can prove to be particularly challenging in a global context. In the words of one director, the audit committee often becomes "chief regulatory and compliance committee for the world." Some interviewees noted that global-company audit committees spend approximately 20 percent or more of their time on reviewing risk assessment information;

7 See also, Risk Governance: Balancing Risk And Reward, Report of the NACD Blue Ribbon Commission, 2009.

8 NACD 2015-2016 Public Company Governance Survey.

others noted that their audit committee ensures that each meeting has at least one hour allocated for discussion of compliance issues.

That said, directors pointed out that ultimately, management is the first line of defense on compliance matters. "There should be no ambiguity here: Companies should only take on as much complexity and risk as they can manage, and that applies to compliance issues especially." The board needs to ask whether systems, processes, and controls are in place in each jurisdiction to enforce appropriate behaviour. For audit committees, this includes assessing the capabilities of the internal audit, compliance, and legal teams in locations around the world and asking management about how gaps will be filled. It is also important to evaluate the qualifications of the external audit firm, including its "bench strength" in key jurisdictions.

"Boards must think about building talent in a global world"

OVERSIGHT OF THE GLOBAL TALENT PIPELINE AND SUCCESSION PLANNING

The risk management and compliance challenges facing global companies highlight the importance of fostering employee engagement and developing strong leadership at all locations and levels of the organization. It is thus not surprising that interviewees consistently identified oversight of the global talent pipeline and succession planning as a second major priority for global boards.

STRAINS IN THE GLOBAL TALENT PIPELINE

Our interviewees' focus on the challenges of the global talent pipeline is supported by research. More than a third of employers globally reported facing difficulties in finding talent last year, and nearly half expected talent shortages to have a negative impact on their business results.[9] Further, as indicated in Exhibit 4, there are mismatches between the availability of human capital (higher ranked countries in the Human Capital Index) and expected economic growth markets, putting further strain on talent pipelines.

Exhibit 4: Top-ranked Countries in the Human Capital Index

COUNTRY	RANK
Finland	1
Norway	2
Switzerland	3
Canada	4
Japan	5

COUNTRY	RANK
United States	17
Russia	26
China	64
Brazil	78
South Africa	92
India	100

Source: Human Capital Index Rankings, 2015, World Economic Forum and Mercer

9 The Human Capital Report 2015, World Economic Forum in collaboration with Mercer.

Our interviews identified three imperatives for directors at global companies regarding talent oversight:

- Set the expectation with management that the company will have a truly global talent pipeline and succession plan.
- Be prepared to invest time meeting with and getting exposure to the pipeline of executives and management around the world.
- Understand the differences (in regulatory requirements, as well as in cultural norms and expectations) in compensation design and related benefits practices in different countries and regions.

A TRULY GLOBAL TALENT PIPELINE AND SUCCESSION PLAN

The board's role in the oversight of talent strategy starts with the CEO and top executives. With the average CEO tenure of a S&P 500 company at about 9.9 years, CEO succession planning is a continuous process for many companies.[10] In the view of some interviewees, CEO succession planning practices in US-based companies tend to be more structured and formal than those of companies headquartered in other parts of the world, and thus US-based directors can bring that perspective to the international boards on which they serve.

In global companies, directors should ensure that the pool of designated "high-potentials," especially CEO and/or C-suite candidates, is drawn from all regions of operations, rather than being focused on home-country executives. In that way, international perspectives based on personal experience become part of the "DNA" of the firm's leadership team. As one director put it, "We want to know that the company is getting the 'best athletes' into leadership positions. If we as directors observe that there's a disproportionate number of leaders coming from one region, we'll start asking questions." Another director said, "The board should set the expectation that executives in a global company cannot aspire to leadership without a willingness to live and work in multiple locations around the world. Otherwise, their perspectives will simply be too parochial."

10 CEO Succession Practices: 2015 Edition, a Conference Board report supported by a research grant from Heidrick & Struggles and authored by Dr. Matteo Tonello, Jason D. Schloetzer of Georgetown University, and Melissa Aguilar of The Conference Board.

The global perspective on talent must extend beyond the CEO and C-suite to include leadership development at lower levels of the organization (see also text box "Strains in the global talent pipeline."[11]) Interviewees suggested a number of indicators directors can look for to evaluate the strength of the company's global talent development program:

- The percentage of non-home-country leaders at the C-level and the next two levels down in the organization.
- The demographics of the "high potential employee" group.
- The availability of career path options, such as rotational programs, that give rising executives experience working in multiple regions and countries.
- The existence of activities to strengthen the incoming candidate pipeline in key locations, including activities with local universities or vocational training centers, local recruiting firms, and so on.
- The level of senior management's comfort with geographically dispersed leadership.

"At one company, we started with 70% expats in China. Over time, we reversed that figure to 70% local—we worked with the universities to build a recruiting pipeline."

One director pointed out that global-company boards should pay attention to the strength of the firm's Human Resources (HR) organization as well: "You need a strong HR leader and HR function, who can look at needs from a country-by-country perspective, rather than simply making adjustments off a home-country baseline." Directors also noted the need for the Human Resources leader to have a close proximity or working relationship to the CEO.

EXPOSURE TO THE TALENT PIPELINE

"Successful leadership of a global company cannot be done by one nationality"

It is important for board members to have the opportunity to interact with high-potential candidates and other individuals who are one-to-two or even more levels below the CEO. Directors noted the implications of this aspect of the board's talent-oversight responsibilities in global companies: "The company could have over a hundred country-level managers, but the board does need quality time with up-and-coming executives around the world." While it may not be possible for the board to have the same level of knowledge of the leadership pipeline in a global company as in a smaller company, directors can use site visits or executive meetings to advantage in this regard (see section, "Maximizing the value of site visits" on page 28).

11 See also, "Mastering the Challenges of Global Mobility in a Rapidly Changing World," Mercer, 2013.

UNDERSTANDING DIFFERENCES IN COMPENSATION AND BENEFITS PRACTICES

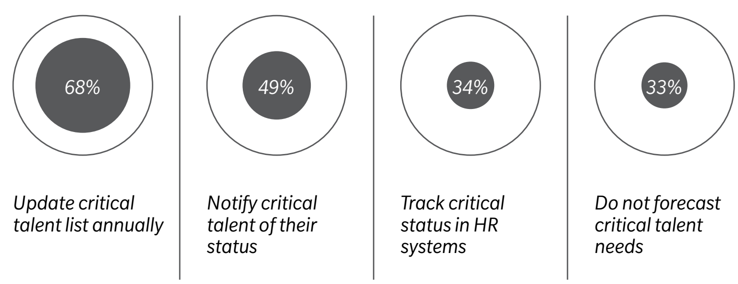
Global companies' compensation models are inherently multifaceted, as a result of variations across markets in everything from mandated requirements to cultural norms. The board and the compensation committee, with support from the HR lead as well as compensation consultants, search firms, or other advisors, must be able to develop customized compensation programs in a global environment. At one director's company, "The head of HR did a great job laying out for the board our compensation philosophy for all of our areas of operation: What's the right thing for Sao Paulo versus Shanghai versus San Francisco?" Another interviewee suggested that directors should "ask whether the company is building differences in areas such as retirement benefits into the plan design, rather than after the fact, using the headquarters as the baseline."

EFFECTIVE GLOBAL TALENT MANAGEMENT PROGRAMS

Organizations can make their talent management strategies more effective by formally tracking and communication the development of critical talent. However, as indicated below (Exhibit 5), many companies are not yet implementing fully effective tracking programs.

Exhibit 5: Few Companies are Tracking and Forecasting Critical Talent

CRITICAL TALENT MANAGEMENT PRACTICES, BY PERCENTAGE OF SURVEYED ORGANIZATIONS



Source: Mercer 2014 Critical Talent Practices Survey

"The board must ensure the company is in the best possible position to compete and take advantage of the global talent pool"

KEY QUESTIONS
OVERSEEING A GLOBAL TALENT PIPELINE

A global board of directors plays a key role in overseeing the health of the global talent pipeline. In doing so, directors should work with the HR leader to consider the following questions:

- Does the company have a standard process for identifying critical roles across the company? Success profiles for these roles? Multi-incumbent succession plans?
- How does the company engineer the both the organizational and managerial experiences needed to prepare employees to step into these roles? What is the yield rate on this pipeline? What is the target time to proficiency?
- How does the company assess the viability of the external talent pool in each operating country? How does the company partner with local governments, non-profit entities and academic institutions to address talent challenges?
- Does the company have a clear vision of its talent that is universally understood by managers? Are senior leaders aligned on high potential profiles for future leaders of the businesses and functions?
- What are the key populations critical to the organization's success? Will the company be able to fill these roles in 5-10 years, or is planning and intervention needed to keep these populations full?

Source: Mercer, see also, Appendix E, "The Board and Long-Term Value Creation", NACD, 2015

IMPERATIVES FOR THE GLOBAL BOARD: GLOBAL-BOARD COMPOSITION, DIRECTOR SKILL SETS AND BOARD PROCESSES

How are global-company boards carrying out their oversight responsibilities given the complexities and challenges of the operating environment? Interviewees discussed the importance of practices in three areas: board composition, director's individual expertise and competencies, and board processes.

GLOBAL-BOARD COMPOSITION: THE REQUIREMENT FOR GEOGRAPHIC DIVERSITY

The Report of the NACD Blue Ribbon Commission on the Diverse Board noted: "In today's business landscape, the board cannot properly fulfill responsibility without having directors who reflect the composition of its stakeholders, particularly its employees and customers."[12] It goes on to note that "a comprehensive definition of diversity must include: gender, race, ethnicity[and] skills, such as professional experience."[13]

"Complexity feeds into governance practices and who you want on the board"

12 Source: The Diverse Board: Moving From Interest to Action, Report of the NACD Blue Ribbon Commission, 2012.

13 ibid.

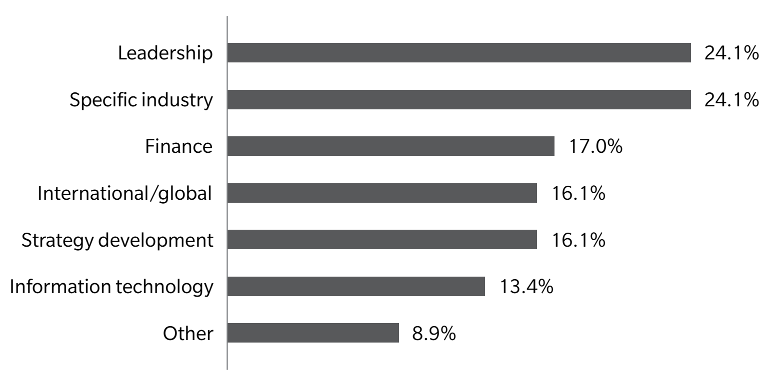
To date, geographic diversity has received less attention than gender or racial diversity on boards. Directors interviewed for this report expressed the strong view that boards "need diversity with a big 'D'," a definition that encompasses relevant geographic, functional and executive expertise as well as gender and racial diversity. There was a clear agreement that, in the words of one interviewee, "The board has to give itself a composition that enables it to function at a high level of performance outside [the company's] home country."

Regarding the geographic diversity issue, interviewees made several observations. First, non-home-country directors do make a difference. Geographic diversity adjusts the lens through which risks and strategy are examined and provides insights into factors which can be quite nuanced, such as the role of the government, regulators, or other stakeholders in the marketplace. "People from different regions come to the board with different issues in mind and different perspectives, and diversity does affect how the board addresses issues." For example, when boards discuss political risk, each director's frame on "politics" or "political risk" is affected by his or her home country. As one director put it: "Having board members with deep experience running global companies does make a significant difference, but it's not the same as having non-home-country directors on the board." Current studies indicate that boards have made more progress on the former than the latter (see also text box, "Limited Geographic Diversity on Most Boards").

LIMITED GEOGRAPHIC DIVERSITY ON MOST BOARDS

The growing target for global perspectives in the boardroom is reflected in NACD annual survey data: Directors consider international experience an important criterion in selecting new board members.

Exhibit 6: Most Important Areas of Experience in Director Recruitment

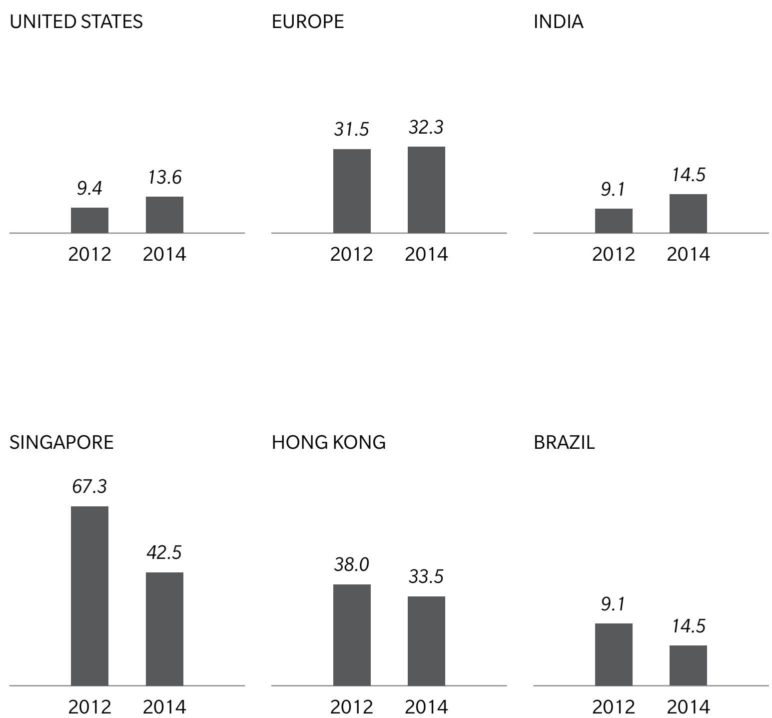


Source: NACD 2015-2016 Public Company Governance Survey.

LIMITED GEOGRAPHIC DIVERSITY ON MOST BOARDS CONTINUED

The boards of US-headquartered companies generally remain quite US-centric even for those companies that have a high percentage of revenues and employees outside the US (such as the S&P 500). In this aspect, many companies remain multinational as compared to global. By contrast, other countries may have higher participation of non-home-country directors. For example, the percentage of international directors (non-Canadian residents) on Canadian boards has been increasing over time, from 26% in 2009 to 42% in 2014[14], and select European countries that serve as regional hubs have relatively high geographic diversity (although the directors are still primarily drawn from other European countries).

Exhibit 7: **Percentage of Non-national Board Members in Selected Countries**



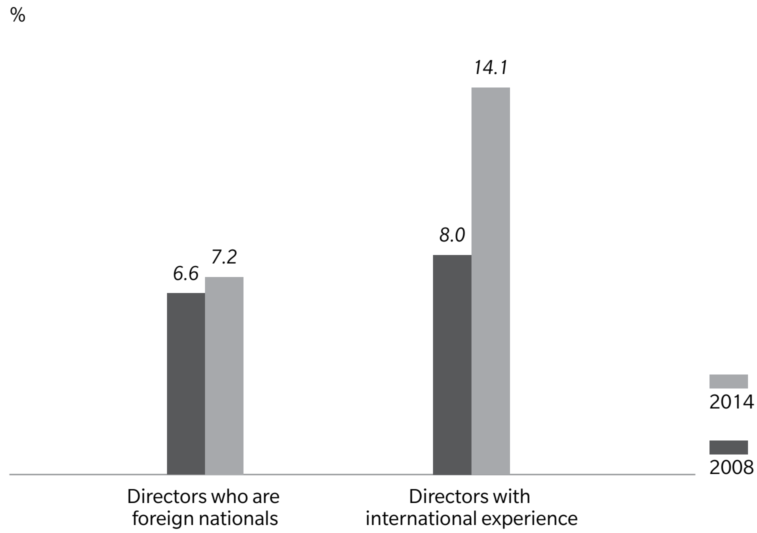
Source: 2014 Global Board Index, Egon Zehnder.

"Global companies must ask themselves: Is your board properly shaped for your global mission?"

14 Canadian Board Index 2014, Spencer Stuart.

LIMITED GEOGRAPHIC DIVERSITY ON MOST BOARDS CONTINUED

Exhibit 8: Board Level Geographic Diversity of S&P 500 Companies



Source: 2014 Global Board Index, Egon Zehnder.

In short, a diversity of board members can help avoid boardroom groupthink or groupthink within the business.

Second, truly global boards must have more than one non-home-country director. Interviewees agreed that a board with a true diversity of nationalities, as opposed to a majority of directors from the home country and others with experience in key international markets, is quite rare. Nonetheless, directors noted that the most effective global boards have a makeup that goes beyond including the one "token" foreign national.

Third, interviewees pointed out the role of geographic (and other forms of) diversity in reinforcing the desired "tone from the top" of a global organization. Global board composition can help model the talent strategy for the senior team and the entire organization by representing a range of nationalities. In addition, it allows a globally diverse management team to tap into individual directors' expertise inside and outside of board meetings.

"Talent management at the board level is as important as talent management at the executive level"

Directors also acknowledged that adding geographic criteria to the already considerable list of desired qualifications for a new board member makes the job of the nominating and governance committee for a global board especially challenging. Some qualified individuals may decline to pursue global board opportunities due to the expanded demands including time commitment and travel demands associated with the role[15] (see the sections titled, "Selecting a Global Director" and "Global Director Skill Set").

Global boards may find it increasingly difficult to attract the necessary A-level director talent. There is a limited pool of talent for qualified directors with in-market global experience and growing global competition for these candidates. Heidrick & Struggles research shows that 35 percent of the directors who filled 339 new board seats of US-based Fortune 500 companies in 2014 had international experience.[16] In Australia, a 2015 survey showed that 25 percent of the boards were searching for directors with global experience and knowledge, and 40 percent of respondents shared the view that their boards lacked skills sets in diversity (gender and/or cultural) and 28 percent lacked skills sets in international experience and knowledge.[17]

SELECTING A GLOBAL DIRECTOR
KEY QUESTIONS

As noted by Heidrick & Struggles' Vice Chairman Theodore L. Dysart, finding a new director on a global scale can often be a daunting challenge. Asking the right questions and deploying a clear strategy can illuminate the path to the best candidate profile and where to find them. With a deep understanding of the board and the company's challenges, the new addition can help grow the organization, reinforce values and vision, and encourage new thinking.

For effective recruitment in a search for new directors, global boards should ask themselves five critical questions:

- What is meant by "global"? The board should be very precise about the geographic knowledge desired, whether it is one country, several, or a continent—and the implications for the candidate profile. Directors need to ask: What do we need and want on the board: do we need someone with CEO experience in Europe or CEO-equivalent experience in Brazil?
- What knowledge does the board need? Define precisely the knowledge required. For example, does the board need knowledge of customers and markets, knowledge about the supply chain and logistics in a region, or knowledge of how to navigate difficult political or regulatory environments? In some instances, political connections or knowledge and experience with compliance may be more useful than specific market knowledge. This can be essential in some countries, and can help reality-check strategic plans for different countries.

15 "Why More Corporate Board Candidates Are Saying 'No' to the Job," September 8, 2015, Bloomberg Business.

16 Source: Board Monitor 2015, Heidrick & Struggles.

17 Directions 2015, Australian Institute of Directors.

SELECTING A GLOBAL DIRECTOR
KEY QUESTIONS
CONTINUED

- Should the board recruit a national residing in the target country or an expat from the target country? Nationals in the target country may have deep cultural, political, and business knowledge but lack the language skills to pick up on the nuances of board's deliberations, or the distance they must travel to meetings several times a year could inhibit their full participation. Recent expats from the target country may have reduced networks and dated regional experience. Expats from the headquarter country working in the target region may know the operating difficulties foreign companies face there, but their knowledge of the culture is likely to come up against limits.
- To what extent do candidates understand the business? Potential candidates must be able to quickly and fully grasp how the company operates and makes money. Otherwise, their advice will often lack relevance and contribute little to board deliberations.
- What kind of governance experience is the board looking for? Board governance practices and regulation vary widely around the world. In some countries, the board may be almost purely advisory, with little real authority. In others, the board may bear ultimate responsibility to the shareholders, and directors must be comfortable with a high degree of personal liability and reputational risk. A candidate who thinks of board service as largely ritualistic or who comes from a tradition of interlocking directorates may have little to contribute to such boards. Conversely, a candidate who regards the board as a check on management may be disruptive in a different governance culture.

The recruitment process should be guided by a long-term vision of the board's composition, chemistry, culture, and diversity of thought to stimulate the board and the business. It is also critical to consider the board culture and dynamics and who would fit in with the board. Committees have to consider the qualities of the director, including values, discretion, confidentiality, and demeanor, and how these will complement the board dynamics.

Source: Bringing the Global Director's Profile into Focus, by Anne Lim O'Brien and Will Moynahan, Heidrick & Struggles; and director interviews.

THE GLOBAL DIRECTOR'S SKILL SET

Baseline skills for a director of any company, global or domestic, include a deep understanding of the business, leadership experience, independence and integrity, and the ability to contribute to an environment of "constructive challenge"—asking probing questions to fellow directors and members of management without being argumentative.[18] Fundamentals such as business

18 See Report of the NACD Blue Ribbon Commission on Director Professionalism, NACD, 2011.

"You can educate people to be internationally-aware, but you have to live and experience life and business in other countries to be global"

judgment and the ability to "work well with others" are key. Directors interviewed for this report highlighted a number of additional criteria that are of particular importance to global boards:

- A diversity of management experience across cultures, continents, and countries. A depth of international work experience is essential to understanding the challenges, pressures and decisions that have to be made by the management team. Directors with this experience will also be more likely to speak multiple languages and have the necessary level of comfort with the demands posed by international travel, both of which will make global board service easier.
- A deep interest in how international trade is carried out, including how laws can affect business priorities, the legalities of international trade, and the strategic and practical impacts of trade issues, such as currency management and foreign exchange.
- Experience in working in and an understanding of the issues involved in running large, sophisticated, matrix organizations and the associated challenge of tracking accountability in such a structure. This can help provide a better understanding of such issues as accounting differences or the impact of differences in political, legal, regulatory, and ideological frameworks in different countries.

The text box "Legal Considerations for Prospective Global Directors" outlines questions candidates themselves can ask before joining a global board.

Along with the experience and skills outlined above, directors identified two additional elements essential to serving on a global board: willingness to make the necessary time commitment and sensitivity to cultural differences, including the capacity to work with diverse groups.

LEGAL CONSIDERATIONS FOR THE PROSPECTIVE GLOBAL DIRECTOR

Candidates for a seat on a foreign board or a board of a domestic company with significant foreign operations should consider the following before accepting an invitation to serve:

- What is the role and duties of the board of directors under the specific laws of the jurisdiction of incorporation?
- What are the duties of individual directors? Can individual directors be held personally liable for a breach of those duties?
- What information systems are in place to ensure that all directors are well informed about corporate activities? How will any language differences be addressed?
- Who can enforce director duties or bring actions for breach? What courts are such actions heard in, and how competent are they to deal with sophisticated issues?

LEGAL CONSIDERATIONS FOR THE PROSPECTIVE "GLOBAL DIRECTOR" CONTINUED

- What controls and procedures are in place to give directors reasonable assurance that the company complies with laws and regulations in all of the jurisdictions in which it operates?
- Does the company have a strong internal legal team with a leader who has a respected position in the senior executive team?
- What systems are in place to ensure that directors can take a deep dive into underlying information as necessary?
- Are high-quality advisors in place, related to legal and financial obligations, and are those advisors fluent in the language, requirements, and culture of both the jurisdictions in which the company operates and the home jurisdictions of global directors, such that they can help to bridge gaps in understanding?
- Are there any significant differences in cultural and ethical expectations that could lead to misunderstandings or disagreements among directors and/or between members of the board and management?
- What is the tenor within the company and in its primary jurisdictions of operations with respect to ethics and integrity?
- Are there any special circumstances, for example, related to a controlling shareholder or sovereign wealth fund that may impact the ability of independent directors to have meaningful influence?
- What is the role of shareholders in the headquarters country? What role are directors expected to play at annual meetings, or in other interactions with shareholders?
- Are there any other regulatory or legal requirements for directors that are significantly different from those of the candidate's home country?

19 Adapted from "Liability Considerations for the "Global Director", Holly J. Gregory, NACD Directorship, May 21, 2014. Holly J. Gregory is the Co-Chair of Sidley Austin's Global Corporate Governance & Executive Compensation Practice.

TIME COMMITMENT

As one director remarked: "The actual time demand for a global board [can be] three times as much as a domestic board. If you join a global board, don't expect to be able to put guardrails on your time or level of involvement—you can't."

"The operative constraint for a director on a global board is time"

NACD data shows that, on average, directors at large-cap companies spent a total of 288 hours on board-related matters in the past year with attending board and committee meetings and reviewing reports and other materials absorbing the highest percentage of time.[20] Global directors can expect equal or greater time commitments.

Adding to the preparation time, global directors must be willing and able to put in time to attend and effectively participate in

20 NACD 2015-2016 Public Company Governance Survey.

global board meetings. The commitment can include the travel time necessary to attend board meetings as well as site visits, meetings with local government officials, suppliers, customers, and employees. One interviewee's board has established the expectation that directors will commit to annual week-long visits with robust non-board meeting time at different overseas sites each year. As noted recently, global boards have to be wary of jet-lagged directors who are not able to fully engage in decision making.[21]

The directors we interviewed noted the limitations of such technologies as video conferencing as a substitute for the richness and depth of communications enabled by in-person meetings. That said, they pointed out that the use of and comfort with technology to support board meetings becomes much easier when there is more than one non-home-country director on the board. As one director observed: "Once you get to two or three board members who are overseas, people make it work. Philosophically it has a big impact as it becomes more than just a token 'non-domestic' board member to accommodate."

CULTURAL SENSITIVITY AND DIVERSITY

Openness to dialogue and willingness to listen to contrasting views and perspectives are critical for all directors, but especially those who serve on global-company boards. Global directors must have the capability of transcending their regional views, demanding that the company's ethics and compliance standards be applied wherever it operates, but not assuming that overseas operations can be run in exactly the same way as those in the home country.

"Focus on getting and giving respect to the other board members—learn to listen—even if the communication style is different"

The difficulties can be greater for the "international" (non-home country) board member. It was observed that every board, no matter how "global," maintains a core culture of the home country—not only in its model of governance but also in the norms for boardroom communications. The challenge then for the "international" director is to provide differing views while working within the style of the culture and communications of the dominant home country and board. As one director observed, "The simple question of when to talk and when to stay quiet can be especially nuanced when you're the foreign director on the board." Another said, "I view my role as a non-national in a global company board as making sure the right questions are being asked, the difficult questions, [the] issues others may not wish to raise." In reflecting on their boardroom culture—for example, in the course of the regular board assessment and evaluation process—directors need to ask themselves if the views of non-home-country directors (who will almost certainly be a minority)

21 DuPont CEO's Tip: Be Wary Of The Jet-Lagged Director, Forbes, June 23, 2015.

are fully appreciated and respected and if the board is really willing to hear and listen to their views.

A further challenge for the "international" director can be the need to communicate well in public and in the boardroom. In the experience of interviewees, English tends to be the boardroom language for a large number of global boards. This language requirement may consciously or unconsciously be a limiting factor for otherwise well-qualified director candidates.

BOARD LOOKING TO INCREASE WORLDVIEWS

A recent survey highlighted that few directors are satisfied with the depth of worldviews on their board (see Exhibit 9.) Yet the 2015-2016 NACD Public Company Survey revealed that only 16.1 per cent of respondents noted "International/Global" as one of the most desirable types of experience for a candidate to possess.

Exhibit 9: Director Satisfaction with the Board's Depth of Differing Perspectives and Worldviews

Source: Tapping International Markets: Key Governance Considerations, KPMG, November/December 2014.

Interviewees spoke to the importance of the board chair in creating an environment that supports constructive dialogue among a diverse group of directors. Studies have shown that diverse groups can be more effective decision makers, but these groups can also be more difficult to participate in and to manage. As one director has observed: "Diversity is less comfortable for everybody. It's more difficult, and that is one reason why it doesn't 'just happen.' You have to do things differently, and show a bit of empathy and imagination in dealing with other people."[22] An effective chair will have the ability to bring out different perspectives so that the board can reach consensus on important decisions, while still ensuring that all directors' views are heard—thus ensuring the value of the diversity of the board.

22 Rachel Lomax, Board Member, HSBC and former Deputy Governor of the Bank of England, quoted in "Women on the Board: Token Or Totem?", Michelle Daisley, Women in Financial Services, Oliver Wyman, 2014.

Interviewees pointed out that cultural sensitivity extends to language as well. Even when all board members are nationals of English-speaking countries, confusions can occur due to differences in business language, jargon, culture context, or analogies that simply do not travel cross-culturally.

PROCESSES FOR THE EFFECTIVE GLOBAL BOARD

Directors noted that the role and importance of board committees in taking the lead in examining issues in depth is of even greater importance for the global board. Given the span of issues that must be addressed, the work of the committees and the supporting management structures is critical.

Board meetings of all organizations require thoughtful preparations, and these requirements are even greater for the global company. Directors highlighted the importance of a well-planned board agenda, site visits, and the "right" flow of information into the boardroom, with well-structured and concise advance materials. Along with this, directors highlighted the need for and importance of a high level of "back office" support for effective global boards.

WELL-PLANNED BOARD AGENDA

Logistics and planning of board meetings is a sophisticated exercise, and "global boards need a well-considered program with clearly defined goals." As an example, for global companies, anywhere from 40 percent to 50 percent of board meetings may happen outside the home country, and thus more time must be allocated for each individual meeting in order to accommodate director and executive travel. (One interviewee factors in an additional four days per board meeting, for travel and time zone adjustment.) It is not uncommon for global-company boards to map out meetings two years or more in advance, including locations and dates, the agenda, and the cycle of topics to be discussed. Technology (video- and/or teleconferencing) and the potential need for translation of written materials, as well as meeting discussions, are additional considerations.

The nature of global board meeting discussions can be different as well. "The span of the conversations is much broader," noted several interviewees. Risks and opportunities tend to arise more frequently, and in more varied forms, which can cause informal and unplanned discussions on critical topics—for example, the immediate impacts of a currency crisis or the need for rapid response to regulatory issues or sanctions—to be added to the agenda. As a result, the allocation of agenda time has to be fluid, while still ensuring that, in the words of one director, "the urgent does not push out the important."

THE IMPORTANCE OF BACK-OFFICE SUPPORT FOR THE GLOBAL BOARD

The successful global board needs much greater and more focused "back-office support" to ensure the flow of information and well-structured, concise advance materials. Interviewees stressed the need to ensure the board communicates these higher expectations.

An effective and active company secretary (supported by a PR group or the Investor relations group) can help support the board by identifying information sources relevant toward understanding key areas of the business and regions, such as trade issues with Russia or geopolitical dynamics in the Middle East. This can include sharing insightful articles, websites, blogs, or videos. It is also important that global company board members are provided with international media sources and materials to stimulate and support a global perspective and mitigate country-specific viewpoints as well as better understand emerging risks—a key challenge for many boards.

Exhibit 10: Directors' Rating of Understanding of Emerging Risks

	OWN	BOARD'S
High level of knowledge	**38.8%**	**32.2%**
Some knowledge	57.8%	61.3%
Little knowledge	3.4%	6.3%
No knowledge	0.0%	0.2%

Source: NACD 2015-2016 Public Company Governance Survey.

"You cannot assess risk and opportunity by just sitting in Houston or New York"

MAXIMIZING THE VALUE OF SITE VISITS

Spending time "on the ground" in the company's various locations around the world has become a commonly accepted element of large company governance and is particularly important for global board governance. Most global boards have become very effective at optimizing the value and opportunities offered by international site visits. The trip may involve a board meeting, as well as visits to manufacturing plants or other facilities, meetings with government officials, executive leadership, key clients, partners/joint ventures, and representatives from legal advisors and accounting firms.

Interviewees described a number of practices their boards have employed in order to improve the value of regional site visits:

- Arrange one-on-one breakfasts between directors and members of management (e.g., business or functional leaders) two levels below the C-suite to gain insights into country operations as well as the strength of the global talent pipeline.
- Attend and participate in employee townhalls.

- Attend employee innovation fairs.
- Join and participate in the company's local philanthropic or social responsibility initiatives.
- Support opportunities to hear presentations by local employees. For example, at one company, the audit committee spends a couple of days at a time in different locations, hearing presentations by mid-level management.

Townhalls and management meetings generate rich conversations about what is happening on the ground and local country challenges, such as campus recruiting or employee safety. These meetings and the associated flow of conversations can provide deep insights into the strength of the corporate culture and signal that the board is attuned to local issues.

In addition to full-board site visits, individual directors or small groups of directors can visit various operations. For example, one board sends out directors in pairs to visit different operations in different countries and report back to the full board. Global boards can also take advantage of individual directors' personal travel schedules to schedule site visits. Interviewees emphasized that directors need clear support from the CEO and senior management for such visits outside formal board trips. One director noted that "good CEOs will not be concerned about this. But it can sometimes be helpful to frame these types of visits as 'ongoing orientation' to minimize the sense that directors feel the need to check up on management."

ENSURING EFFECTIVE INFORMATION FLOW

Information overload is an issue for all directors, especially since the advent of electronic board books that make it easy for management to transmit significant amounts of information with the push of a button, but it is especially challenging for members of global boards. Interviewees noted that it is not uncommon for directors to receive 600 to 900 pages of preparatory material for each board meeting.

Interviewees shared their views on how to effectively capture the right insights to support global board governance:

- Materials from management need to be structured with a clear narrative.
- It is important to use simple language and minimize confusion created by excessive use of business or technical jargon. This is especially true with international boards, where there is a diversity of language and business terminology (for example, "operating income," as opposed to "profit" or "turnover").

- Consider how to obtain information and updates on the impacts of mega trends and emerging risks and how they are playing out across at the global, regional, and local levels to affect the success of company. Some directors commented that it is easy to be isolated once one is no longer an active executive, or to subliminally limit or curate information sources to familiar outlets or single-country information sources. Given this, it is critical that global directors capture a range of information from a diversity of sources. Technology is a real enabler to capture news feeds from leading organizations and think tanks as well as regular updates on key topics.
- Leverage third party expertise. Independent advisers, including audit firms, banks, compensation consultants, and law firms, can play a greater role in providing information to the global board. International firms' combination of global reach and local knowledge of how businesses operate in different countries is viewed as especially valuable by global-company directors.
- Global advisory boards—handpicked groups of senior leaders with deep knowledge and extensive networks of contacts—are also very useful in providing regional and distinct country insights. One director's company organizes regular advisory board briefings that "have effectively become seminars for the board and senior management on emerging issues and regional insights."

ADVICE FOR DIRECTORS JOINING A GLOBAL BOARD

Joining the board of any organization requires significant consideration and deliberation, but nowhere is the challenge and responsibility greater than in joining the board of a global company. Before joining a global board, individuals must ask themselves: Do I have the time, attention, and capacity to serve as a prudent fiduciary in circumstances that are likely to present significant travel demands, potential language barriers, and cultural challenges? Directors provided some advice for those about to join a global board.

- Understand the company and the markets in which it operates in. Ensure you understand the business and the company's product and offering overseas. For example, look for early opportunities to meet the local country managers and opportunities to explore how the company's projects or services are offered in different markets. As one director advised: "Get a global street-level feel for the company's product."

ADVICE FOR DIRECTORS
JOINING A GLOBAL BOARD
CONTINUED

- Do extensive due diligence on the board. Ask yourself: Is this a board where I can contribute and not just be swayed by the global company name? Consider your expected role and contribution to the board and the culture of the board.
- Use every possible opportunity to meet with management teams around the world. Ask the international leaders and internal and external auditors to educate you on the key points of differentiation for their country or region to become educated on key issues. Also ask external auditors for trends across companies.
- Talk to and learn from other board members with global experience. Ensure you sit next to the international directors at dinner or have a quiet conversation to allow you to get specific insights. Focus on giving respect to the other board members—even if their communication style is different.
- Keep an open mind. Understand that not everywhere is like your home country.

CONCLUSIONS

The global economy, and its associated risk landscape, continues to evolve. In the 2015 Global Risks Report, the World Economic Forum noted: "Faster communication systems, closer trade and investment links, increasing physical mobility, and enhanced access to information have combined to bind countries, economies, and businesses more tightly together."

Given the interconnected nature of the business landscape, the reality is that the world—and all its risks and opportunities—is always present in the board room of each company, whether it chooses to call itself a global company or not. As such, there is a growing requirement that boards have directors with strong international experience and geographic diversity.

As companies continue to expand global operations, boardroom processes and director skillsets must evolve in order to ensure effective oversight in an ever more complex operating environment.

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The National Association of Corporate Directors (NACD) is the advocate for the profession of directorship and is focused on advancing exemplary board leadership. Informed by more than 35 years of experience, NACD delivers insights and resources that more than 17,000 corporate director members rely on to make sound strategic decisions and confidently confront complex business challenges. NACD provides world-class director education programs, national peer-exchange forums, and proprietary research to promote director professionalism, ultimately enhancing the economic sustainability of the corporate enterprise and bolstering stakeholder confidence. Fostering collaboration among directors, investors, and governance stakeholders, NACD is shaping the future of board leadership. To learn more about NACD, visit www.NACDonline.org.

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This paper was developed by Marsh & McLennan Companies' Global Risk Center. The Global Risk Center generates insights and explores solutions for addressing major threats facing industries, governments, and societies. Drawing on the combined expertise of our companies and in collaboration with research partners around the world, the Center aims to highlight critical challenges and bring together leaders from different sectors to stimulate new thinking and practices.

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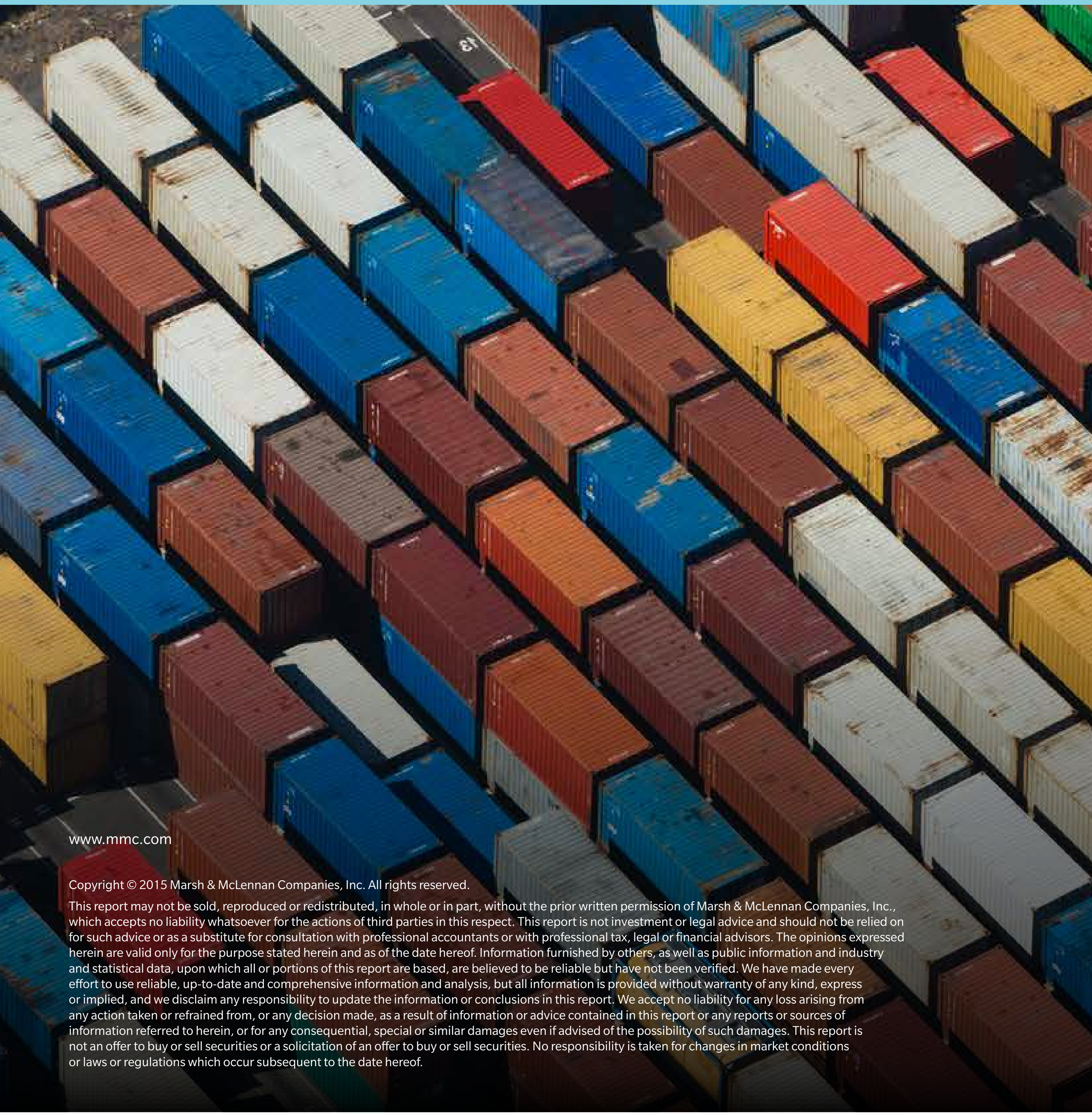

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