FINANCIAL TIMES
WEDNESDAY 8 AUGUST 2018

FTfm

Opinion

Why boards need directors with international experience

US-based companies can learn a lot from their European counterparts which are years ahead in promoting diversity

HOMAIRA AKBARI

Toyota made a rare move in 2013 by appointing former General Motors executive Mark Hogan as its first American director following its 2009-10 recall crisis in the US. With its reputation on the line, the Japanese carmaker needed to articulate, beyond a reasonable doubt, a vision for each region in which it operated and the importance of the US market, while at the same time getting the insights of a seasoned industry executive with global experience.

The decision to diversify the background of its directors led to more diversified thinking by Toyota's board, enabling the company to respond more quickly to changes in its important markets, which subsequently helped support its financial performance.

This example shows that despite the rise of nationalism and populism along with increasing rhetoric against international trade, Fortune 1000 companies are diversifying boards by adding directors with international experience.

However, diversification continues to be more prevalent among non-US-based companies, with European boards leading the pack. According to a 2017 report by Spencer Stuart, non-national directors represented only 7.6 per cent of all directors on the boards of the top 200 S&P 500 companies, while the equivalent figures were 31 per cent for CAC 40 corporations headquartered in France, 32 per cent for UK FTSE 350 companies and 61 per cent for Swiss Market index companies.

International directors bring a diversity of thought and wider experience that is absent in less diversified boards, mitigating homogeneity and myopia that these latter boards frequently experience. This tendency towards homogeneity results in many boards failing to see market disruptions and changing customer trends. International directors can also become strong advocates in influencing a company's position in their country of origin's markets, government and regulatory agencies.

Finding qualified international directors who are prepared to spend the time travelling to geographically spread out board meetings is not always easy. The best directors need to have core competencies in corporate governance, industry expertise, financial acumen and leadership; but, perhaps more importantly, they need to have the emotional intelligence to navigate cultural divides. Also, in most instances, being proficient in the native language is not a "nice to have" but a necessary requirement given that the native language is primarily spoken in board meetings, with English as a secondary language.

International directors must possess a number of qualities to be successful in the boardroom. First, they must bring values drawn from extensive experience. Second, they must possess an understanding of the market and political dynamics of the countries in which the corporation operates. Third, they have to assimilate into a board's culture because this ultimately affects a director's ability to contribute in the boardroom. And finally, international directors have to become part of the flow of information that frequently occurs outside the boardroom, and make a concerted effort to interact with a company's executive team, other board members and even other business and governmental leaders within a corporation's home country.

US-based boards can learn a lot from their European counterparts, which are years ahead in instituting policies and procedures to promote diversity. The best practices European boards have recently implemented in governance, diversification and term limits may ultimately lead to improved shareholder value. Superior performance comes with injecting a diverse but measured set of experience and personalities into a company's boardroom.

The first step is believing that international board diversification is a priority. That, in turn, will make the second step of recruiting, attracting and retaining international directors much easier.

Homaira Akbari is chief executive of AKnowledge Partners and a director in four Fortune 500 companies