

is your company's board as global as its aspirations?

Although many multinationals wish to appear to the world as truly “global” companies, the boards of directors of most of these companies continue to be dominated by natives of the company's home country.

New research I have conducted with Professor Niccolò Pisani shows that only 18% of board members at the 391 companies from the Fortune Global 500 for which we were able to collect data were foreign nationals and, in fact, 36% of these companies had no foreign board members whatsoever. Even companies pursuing global revenues, customers, employees and shareholders still tend to stock their boards with locals.

Foreign board members bring a diversity of experience that natives simply cannot offer. They also have the potential to bring new clients, offer advice on strategic acquisitions, and improve the connectedness of the company within that country. Appointing a board member from a particular country is also a signal that doing business there is a priority.

Globalising the board does come with risks, however. Ronald W. Masulis, Cong Wang and Fei Xie show that in addition

to the benefits, there are substantial costs. Boards with foreign members tend to have poor meeting attendance, their companies are also more likely to pay their executives excessively and they are more prone to restating financials. All of this is consistent with weaker oversight, probably due at least in part to the fact that geographic distance and cross-country differences still matter.

With that in mind, companies must maximise the benefits of diversifying their boards while avoiding the pitfalls. When a decision is made to boost foreign board representation – which typically makes the most sense when a company has significant foreign operations or is targeting expansion overseas – it is essential to be clear about what the firm hopes to gain. This allows candidates to be selected and adjustments to be made such that these goals can be met while managing potential adverse consequences.

For many firms, the priority will be to improve the diversity of opinions presented at the boardroom table. For them, the goal is to find board members with different experiences: people who have different

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Out of the
391 Fortune
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cultural backgrounds, went to different schools and worked in different places. These individuals need not live abroad! It may be that well-qualified candidates

are living within commuting distance of the corporate headquarters. Expatriate board members are in a unique position to bridge cultures, as they have experience both in their home countries and where they live.

Other firms, however, may be looking to increase connectedness in a new region or have someone present who understands the local business environment in a strategic country. In this case, only someone living there will do. Technology can bridge some of the gap, although by now we know that a video conference cannot replace an in-person meeting. For boards that are truly global, rotating between sites so that the burden of travel is shared can be helpful. This also has the added benefit of signaling a commitment to the places where meetings are held. In 2006, IBM held a board meeting in Bangalore, showing its commitment to the country as well as its Indian workforce. The meeting became the centerpiece of a series of events involving employees, investors, analysts and journalists.

Acting globally requires a commitment to flexibility. Geography, language and culture remain barriers, and while the benefits of a more global board are clear, a board member whose voice cannot be heard because of these factors takes up a seat without contributing.

Having a clear set of goals and making the right accommodations to ensure participation are keys to success for integrating foreign nationals into your board.

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