A Board Perspective on CEO Succession in the Global Era

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“International work experience provides broader perspective and thinking ...”
Executive Summary

In 2008, Russell Reynolds Associates, in conjunction with researchers at The University of Western Ontario’s King’s University College and Richard Ivey School of Business, studied the career trajectories of the CEOs of the 100 largest publicly held companies in Canada. The survey found that over the last two decades, international work experience—once something of an oddity—has become an increasingly common CEO qualification, with the proportion of CEOs having spent at least a year in a foreign posting increasing from 25 percent to 37 percent. This finding echoes earlier academic research suggesting that having a CEO with international work experience is a significant strategic asset for a company operating in a global economy.

This survey, *A World of Experience—A Board Perspective on CEO Succession in the Global Era*, builds on that earlier study, expanding it to include Australia and examining the perspective of board members on the issue of international work experience, the priority they place on it and how that priority has been translated into the CEO succession process. The findings of the survey include:

- Board members of both Canadian and Australian companies feel strongly that it is important for CEOs to have international work experience and agree that this qualification will continue to grow in importance over the next decade.

- There is considerable difference between the two countries in the percentage of CEOs with international work experience: Sixty-seven percent of large-company CEOs in Australia have international work experience, but only 37 percent of large-company CEOs in Canada do.

- For many companies, there is a lag between the priority they place on international work experience and the execution of a plan to secure a CEO with front-line international experience. While some boards have taken steps to increase the availability of CEO candidates with international work experience, such as providing internal candidates with international opportunities and including international work experience in the company’s CEO succession plan, many boards have not adopted these measures.

- Developing internal CEO candidates with international work experience will be critical: In their last CEO selection, while almost all board members reported that there was no lack of external candidates with international work experience, many reported a lack of internal candidates. Board members of Canadian companies were even more likely to report a lack of internal candidates than board members of Australian companies.

- Board members of Australian companies reported greater confidence in their ability to attract Australians with international work experience back to their country—an asset that has important long-term implications for the vibrancy of that country’s economy.
While boards prize international experience, it cannot come at the cost of adequate knowledge and familiarity with the domestic culture and market environment. Board members of Australian companies, in particular, voiced concern about the local knowledge and networks of CEO candidates who came from abroad.

Board members in both countries showed moderate concern regarding the compensation expectations of CEO candidates with international work experience—an issue expected to become more significant with the growing demand for these executives.

The survey concludes with a list of implications for corporate boards to consider as they recruit and retain effective and experienced leadership to thrive in a global marketplace.

Introduction

Few organizations have been unaffected by globalization. Expanding supply chains, a movement of talent and resources that increasingly defies borders, and new consumer markets have meant that fewer and fewer companies do all of their business within their home countries. One measure of this phenomenon can be seen in the doubling of the total value of global exports during the last five years, from $7.4 trillion to $15.7 trillion; the previous doubling took twice as long.1 The increasing irrelevance of geographic borders also means that competition can come as easily from abroad as from home.

Boards now have the responsibility to select leaders with the capabilities and experience to help their companies meet the challenges and opportunities posed by globalization. One strategy for doing so is to have a chief executive officer whose career includes international work experience. Research has suggested that firms whose CEO has had substantial international work experience—assignments of one year or more in a country other than that of his or her citizenship—may hold a competitive advantage in their ability to operate in a range of geographic markets. CEOs with international work experience tend to have developed a greater ability to manage international diversification and market entry strategies, integrate knowledge across multinational subsidiaries, and lead the decision-making process that comes with the greater complexity and diversity that international competition brings.2 We expect that these benefits will only increase as economic power and resources become more diffuse across the Americas, Europe and Asia.

The argument that international work experience is a valuable asset for CEOs can be extended to others in the C suite. Indeed, it might be the case that a CEO who lacks international exposure is able to draw on the front-line experience of others on the leadership team who do have it. There is no single prescription that works for all organizations. But examining how the board views international work experience in the CEO selection process can serve as a useful proxy for how it is viewed strategically by the company.

In 2008, Russell Reynolds Associates examined the changing role that international work experience played in the career development of the CEOs of the top 100 companies in Canada. Canada was chosen because, as a mature, midsized and relatively undiversified economy, it feels the effects of globalization particularly acutely. While companies in bigger markets such as the United States and Germany can expand before they have to enter the global markets, Canadian firms and firms based in countries with similar economies and geographies, to a greater extent, must go global in order to grow.

Our 2008 survey confirms that over the last two decades, international work experience has become more common among the CEOs of Canadian companies and that their work experience is drawn from a wider range of countries and has included positions of increased levels of responsibility. In particular:

- Thirty-seven percent of the CEOs surveyed had international work experience, compared with 25 percent in 1987—a nearly 50 percent increase.
- In 1987, 62 percent of that experience had taken place in the United States, but in 2007, only 31 percent had, with postings to the rest of the world rising to 69 percent of all foreign assignments.
- By 2007, most CEOs of Canadian companies who had worked abroad had done so in a senior, general management capacity.

While these findings give a clear window into the increasing importance of international work experience, they also raise a number of questions: How did the experience of Canadian companies compare with those headquartered in other countries? To what extent was this change in CEO profiles the result of a conscious effort by the board? What priority did boards place on international work experience in their CEO candidates, and how was this reflected in the board’s actions?

This 2010 survey, *A World of Experience—A Board Perspective on CEO Succession in the Global Era*, attempts to answer those questions. Expanded to include data and viewpoints from board members of Australian companies, we examine the perspective of board members on the issue of CEO international work experience, the priority they place on it and how that priority has impacted the CEO succession process.

Australia was chosen as the second region of study because, like Canada, it must look to global markets to find growth opportunities. Companies in both Australia and Canada are strongly motivated to:

> “International work experience provides broader perspective and thinking, the ability to attract other senior international executives and the ability to form strategic alliances with international companies.”
> 
> - Board member, Australian telecommunications company
to globalize their reach and to seek whatever advantage will allow them to do so more effectively. These companies, in other words, are representative of the class of countries that, while not dominating the global economy, are important players within it. In addition, the two countries have comparable political structures, the same primary industries, similar reliance on their regions for trading partners and moderately similar levels of foreign direct investment. Exhibit 1 provides a comparison between the two countries.

Methodology

For this study, Russell Reynolds Associates, in conjunction with researchers at The University of Western Ontario’s King’s University College, surveyed board members of the 100 largest publicly traded companies (excluding subsidiaries of foreign companies) in Australia and Canada. Online survey invitations were sent to 880 randomly selected board members in January and February 2010 (roughly evenly divided from each country), resulting in 118 completed surveys (53 board members of Australian companies and 65 board members of Canadian companies).

Exhibit 1: Country comparison

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>Canada</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Population</strong></td>
<td>21,374,000</td>
<td>33,311,000</td>
</tr>
<tr>
<td><strong>Gross domestic product (GDP) (US$ billions)</strong></td>
<td>1,015.2</td>
<td>1,400.1</td>
</tr>
<tr>
<td><strong>Trade-to-GDP ratio</strong></td>
<td>46.1</td>
<td>70.9</td>
</tr>
<tr>
<td><strong>Merchandise exports (US$ billions)</strong></td>
<td>187.3</td>
<td>456.5</td>
</tr>
<tr>
<td><strong>Major export destination</strong></td>
<td>Asia (Japan, China, South Korea)</td>
<td>United States</td>
</tr>
<tr>
<td><strong>Percentage of exports to the major export destination</strong></td>
<td>51.8</td>
<td>77.6</td>
</tr>
<tr>
<td><strong>Top three exports and percentage of total</strong></td>
<td>1. Fuels and mining products (59.7%)</td>
<td>1. Manufactured goods (46.8%)</td>
</tr>
<tr>
<td></td>
<td>2. Manufactured goods (15.5%)</td>
<td>2. Fuels and mining products (35.3%)</td>
</tr>
<tr>
<td></td>
<td>3. Agriculture (13.9%)</td>
<td>3. Agriculture (11.8%)</td>
</tr>
<tr>
<td><strong>Imports (US$ billions)</strong></td>
<td>194.2</td>
<td>415.2</td>
</tr>
<tr>
<td><strong>Major import source</strong></td>
<td>European Union</td>
<td>United States</td>
</tr>
<tr>
<td><strong>Percentage of imports from the major import source</strong></td>
<td>21.0</td>
<td>52.4</td>
</tr>
<tr>
<td><strong>Top three imports and percentage of total</strong></td>
<td>1. Manufactured goods (71.5%)</td>
<td>1. Manufactured goods (75.5%)</td>
</tr>
<tr>
<td></td>
<td>2. Fuels and mining products (17.2%)</td>
<td>2. Fuels and mining products (16.0%)</td>
</tr>
<tr>
<td></td>
<td>3. Agriculture (5.4%)</td>
<td>3. Agriculture (7.7%)</td>
</tr>
<tr>
<td><strong>Inward foreign direct investment stock (US$ billions)</strong></td>
<td>366.5</td>
<td>433.4</td>
</tr>
<tr>
<td><strong>Outward foreign direct investment stock (US$ billions)</strong></td>
<td>197.2</td>
<td>520.4</td>
</tr>
</tbody>
</table>

Detailed Findings

Companies in both Australia and Canada operate in economies in which attaining global reach carries similar importance, and, thus, it can be assumed that both countries share the same motivation to attract CEOs with international work experience. Examining career histories of the CEOs of the top 100 firms in each country, however, shows a significant difference in outcomes. Sixty-seven percent of large-company CEOs in Australia have international work experience, whereas only 37 percent of large-company CEOs in Canada do.4

Selection of a CEO is generally considered a board’s most important responsibility. The boards in these two countries have had significantly different degrees of success in identifying, developing and selecting CEOs with this important qualification. This raises a number of questions:

- What priority do board members of Australian and Canadian companies place on international work experience?
- Do companies in these countries promote international work experience for their rising executives and to what degree?
- How do board members in these countries view the availability of this quality in the talent marketplace?
- What barriers or concerns might affect the hiring of CEOs with what research suggests is a desirable quality?

Clear priority, mixed results

Board members of Australian and Canadian companies said in equal measure that it is important that CEOs have international work experience and that the importance of this qualification will grow over the next decade. When asked about how important such a quality would be in a CEO selection process conducted today, 78 percent of the board members of Australian companies and 77 percent of the board members of Canadian companies said it would be at least moderately important (an answer of 5 to 7 on a scale of 1 to 7). As one board member of an Australian chemical company commented, “Most of our future growth will lie in developing countries. It is and will be vital to have a CEO who has a broad and sympathetic background in the issues that almost inevitably will arise in this operating environment.”

“The trend is encouraging. As a global investor, I was often surprised in the past at the lack of appreciation for the world beyond our borders.”

~Board member, Canadian pension plan

4 Australian data were collected in 2008. Canadian data are from 2007, as reported in A World of Experience: The Globalization of Canadian Corporate Leadership—1987-2007.
A different but complementary viewpoint was offered by a board member of a Canadian bank who noted, “The real value to international work experience is the learning experiences gained—using different leadership competencies, understanding varying workforce cultures, utilizing a range of communication skills and so on. Simply said, international work experience helps develop better leaders.”

When asked, however, about the role international work experience actually played in their last CEO selection, there was a difference between the two countries: Sixty-four percent of the board members of Australian companies said it was at least moderately important, compared with 49 percent of the board members of Canadian companies.

Exhibits 3 and 4, taken together, suggest two findings:

1) The difference between the two charts for both countries indicates that awareness of the importance of international work experience has grown over time in both markets.

2) The greater importance that the board members of Australian companies placed on this quality in their last CEO selection suggests that Australian companies have been more consistent over time in making international work experience a priority for their CEOs. This could be because the board members of Australian companies, who oversee enterprises thousands of kilometers from the nearest major trading partner, have had to address the imperatives of globalization earlier than their counterparts at Canadian companies, who are adjacent to the world’s largest economy. As one board member of a Canadian aerospace enterprise observed, “Some Canadian-based international companies have been able to groom internal CEO candidates through exposure to the international scene without necessarily posting such candidates abroad.”

But while Canadian executives may gain direct experience with the sizable North American trading bloc without leaving Toronto, Montreal or Calgary, Australia’s geographic isolation means its executives must leave Australia to get substantial experience with other markets. This is exacerbated by the fact that few multinationals have regional headquarters in Australia, making it much more likely that high-potential Australian executives will spend some of their careers overseas as part of their senior management development.
Not all experience is considered equal

The survey also asked board members which countries provided the most valuable work experience. The United States was the top choice for board members in both countries, with more than 80 percent saying international work experience there was important. Western Europe, China and the United Kingdom were the second, third and fourth choices for both countries, although in different order.

Experience drawn from the four major markets may be the most prized, but experience elsewhere is valued as well. Board members of Canadian companies, in particular, gave secondary priority to a wide range of emerging markets, including those in South America, Latin America, Eastern Europe and Asia. This finding echoes the original survey, which shows that over the last two decades, CEOs of Canadian companies had increasingly looked beyond the United States when seeking to gain international work experience.

Growing your own

Boards manage CEO succession through their succession planning process and their grooming of internal candidates. While board members in both countries said that international work experience is an important CEO quality, neither group had yet fully implemented the policies that would support that priority. Only 28 percent of board members of Australian companies and 34 percent of board members of Canadian companies strongly agreed (an answer of 6 or 7) that they provide their internal CEO candidates with international work experience opportunities.

Further, board members from companies in both countries were polarized when asked if, during
the last CEO selection, the CEO succession plan specifically called for providing internal candidates with international work experience opportunities: Forty percent of Australians and 32 percent of Canadians strongly agreed that they made this provision (a rating of 1 or 2), but 30 percent of Australians and 34 percent of Canadians strongly disagreed (a rating of 6 or 7).

Some boards, then, seem to be embracing the need to develop globalized leaders more thoroughly than others. Part of the reason for this discrepancy may be structural: Some companies, while having foreign operations and sales, may not have positions based outside the country that are substantial enough to offer to an internal CEO candidate. At other companies, however, there may not yet be a sufficiently strong imperative for making the necessary changes to the board’s agenda.

Bringing—and keeping—their home

Given the relative similarity of board members of Australian and Canadian companies in their attitudes toward international work experience and the opportunities they provide, how does one explain the significant discrepancy between the two countries in the percentage of CEOs who have international work experience? Board members from companies in both countries strongly agreed that external candidates with this quality exist. But when asked about internal candidates, they were split: Sixty-one percent of the board members of Australian companies and 39 percent of the board members of Canadian companies said that internal candidates exist (an answer of 6 or 7), but a still-significant proportion—33 percent of the board members of Australian companies and 36 percent of the board members of Canadian companies—said they do not (an answer of 1 or 2).

In addition to being more likely than their Canadian counterparts to say that internal CEO candidates with international work experience were available, board members of Australian companies exhibited significantly more

“Given our relative strength during the economic downturn, Canadian companies have a sterling opportunity to reach out to foreign nationals and Canadians working abroad.”

~Board member, Canadian bank
confidence in being able to attract Australian citizens back to the country, with 49 percent responding strongly (an answer of 1 or 2) in the affirmative vs. 25 percent for board members of Canadian companies.

These two findings (shown in Exhibits 9 and 10) show why Australia has nearly twice as many large-company CEOs with international work experience as does Canada: Australia’s larger pool of internal candidates, plus its greater ability to attract Australians back to the homeland, gives the country a much larger pool of CEO candidates with international work experience from which to draw.

Here again, geography plays a powerful role. Recall that board members of Canadian companies actually are somewhat more likely to say they provide their internal CEO candidates with opportunities for international work experience. That this effort is not reflected in the internal candidate pool at the time a selection is to be made suggests that Canadian firms—in implicit competition with the United States for top executive talent—struggle with retention more than Australian firms do. Similarly, Australia’s geographic isolation allows it to exert a stronger pull on expatriated executives who must factor in family issues such as aging parents or their children’s education. Whereas Canadian executives easily can live and work in the United States and remain close to home, Australian executives must make the affirmative choice to return; they have no corresponding option that allows them to be close to Australia.

It is worth noting that Australia’s confidence in its ability to repatriate senior executives living abroad has implications beyond attracting CEOs with international work experience. For nations that are not in the first rank of global economies, the ability to attract citizens who are top-tier business leaders back to their home country is a significant competitive advantage: These leaders make it easier to attract executives of similar quality, unleashing a “snowball effect”

“A CEO with international experience can bring a broader perspective to his or her responsibilities.”

~Board member, Canadian railway company
upon the country’s aggregate intellectual capital that drives innovation and growth.

**Managing the compensation challenge**

When it comes to attracting candidates, board members from both countries felt strongly that they offer adequate compensation packages. Nonetheless, there was at least mild concern by board members in both countries regarding the compensation expectations of CEO candidates with international work experience. Board members of Canadian companies seem somewhat less concerned over this issue, which may be due in part to the fact that they have had to compete with historically larger compensation packages offered by American companies.

In any event, the issue of compensation is certain to become more prominent as demand for CEOs with international work experience grows.

**Global citizen, local insider**

A large-company CEO does more than lead an organization. He or she forms part of that country’s cultural fabric and represents the company in its web of interactions with shareholders, employees, customers, clients, creditors and regulators. So while a CEO who has spent a significant amount of time outside the country may have desired international experience, one could ask if it comes at the cost of reduced familiarity with the current business environment of the home country and a less robust network with that country’s business leaders, government officials and other decision makers.

When considering the possibility of selecting a CEO with international work experience, **board members of Australian companies were much more likely to express concern about the local knowledge and high-level networks of CEO candidates with international work experience**. Twenty-three percent of the board members of Australian companies were strongly concerned (an answer of 6 or 7) about such a
CEOs' familiarity with the country's culture, compared with only 11 percent of the board members of Canadian companies, and 32 percent of the board members of Australian companies expressed strong concern about a possible lack of adequate professional networks, compared with 20 percent of the board members of Canadian companies.

What might be called not just distance but cultural distance may play a role here. Canada, in many ways, is culturally positioned between the United States on the one hand and the United Kingdom and Europe on the other. If so, Canada might be perceived to be culturally closer to a wider range of places from which a CEO could be recruited than Australia is perceived to be.

Implications for Boards

The survey findings, and our experience in working with boards around the globe on CEO succession, suggest several recommendations for boards looking to ensure they have the human capital needed for success in a world with more porous national borders:

• **Like attracts like.** As globalization accelerates, more and more companies are seeing the value of having senior leaders with firsthand international experience. Companies that establish a successful track record of building a globally oriented senior leadership team will find it easier to attract and retain similar executives in the future—further increasing the benefits these companies accrue.

• **Globalization impacts everyone differently.** The need for leaders with international experience will be different from enterprise to enterprise. A company looking to build presence in emerging markets is affected by globalization differently from one expanding its supply chain. Boards need to determine how globalization specifically impacts their business and adjust their succession plans and candidate qualifications accordingly.

• **Make it happen.** The survey findings illustrate the difficulty of successfully selecting a CEO with international work experience. Many boards have yet to reflect the importance they place on this quality in their succession planning and professional development efforts. Boards that hope to appoint a CEO with international work experience must make that a proactive goal and plan accordingly. This includes ensuring that the company is effectively communicating its value proposition, objectively measuring the tradeoffs that may be required and being truly competitive on compensation.

• **Don't guess on fit with external candidates.** If the search for a candidate with the requisite level of international work experience leads the board to hire an external candidate, attention must be paid to the cultural fit between the candidate and the company. Trained specialists—either internal or external to the company—can assess a candidate's cultural fit and help guide the design of an effective onboarding plan that addresses any issues of concern.

• **Look under your nose.** Given that the competition for CEOs with international work experience will only increase, relying largely on the external talent market is not without risk. Forward-thinking companies also will make a proactive, long-term investment in developing internal options.

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Know your context—and then leverage it. It is important to understand the particular environmental forces at work. In the hiring of CEOs with international work experience, the accident of geography may play a larger role than expected. In building a globalized leadership team, each company will face its own combination of externalities—including history, location and culture—that shapes its options. Organizations that don’t have global operations through which to develop their senior executives need to be creative in helping them find other avenues, such as involvement at global leadership events (for example, the World Leadership Forum), or membership on the board of either a not-for-profit or a commercial organization with a global presence.

The need for leaders with international work experience is clearly on the board agenda. The survey suggests, however, that getting the issue on the agenda is only the first step; a successful response depends on a number of factors both within and outside the board's control. Awareness of those factors can help the board elevate its performance and maximize the value it delivers to the company and to its shareholders.

Acknowledgments

Russell Reynolds Associates and The University of Western Ontario’s King’s University College gratefully acknowledge the nearly 120 board members of Australian and Canadian companies who gave generously of their time and insights in the survey on which we based our findings.

“A CEO without foreign experience is at a severe disadvantage in dealing with top management in the foreign countries where the company is engaged.”

~Board member, Canadian energy company
A Strategic Approach to Today’s Leadership Challenges

The leadership challenges faced by today’s CEOs, boards and senior leaders do not occur in isolation and cannot be addressed that way. Russell Reynolds Associates’ consultative approach to executive and board-level search and assessment provides leaders with tailored strategies that help drive long-term growth and success.

About Russell Reynolds Associates

We are a leading global executive search and assessment firm with more than 300 consultants based in 39 offices worldwide. Our consultants work closely with public and private organizations to identify, recruit and assess senior executives and board members as well as to provide cultural diagnosis and cultural fit assessment.

We value teamwork, serving our clients with a collaborative approach that spans our international network of sector and functional experts. Our in-depth knowledge of major industries and our clients’ specific business challenges, combined with our understanding of who and what make an effective leader, ensures that our clients secure the best leadership teams for the ongoing success of their businesses.