

Western boards need Asian link

Having board members from diverse backgrounds and skill sets is necessary for businesses in an increasingly globalized world says Kathryn Yap



Kathryn Yap
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IT'S ironic. Although western corporations are undertaking significant expansion into Asian markets, many of these companies have failed to take the essential step of including Asians on their boards of directors.

This failure is taking an obvious toll: The complexities and unique characteristics of the various Asian markets pose great challenges to those western boards that lack a subtle and sophisticated understanding of the Asian

marketplace and customer dynamics. The failure to include Asians on western boards reflects, to a large degree, the long-term failure by these boards to recruit significant numbers of diverse directors from many ethnic and geographic groups. Yet my colleagues and I at international executive search firm CTPartners, see promising signs of change.

Thanks to the globalization of so many industry sectors, as well as other key business trends, a growing number of corporations now recognize the value of broadening their board representation to include qualified men and women with diverse backgrounds, skill sets, and leadership experiences. There is much room for improvement, though. When CTPartners analyzed the board composition of 10 major US-based technology, media, and telecom (TMT) corporations and 10 European TMT companies, we found that, with the exception of a single board member from India, no Asian country was represented. We also found that there were no South American board members.

According to our firm's findings, three of the 10 US companies in the study had no international representation on their boards at all. At the remainder of the US companies we analyzed, the highest number of international directors was British.

Meanwhile, the greatest number of international directors on European TMT boards was from the US. Other research into the global business marketplace has produced similar findings. According to a recent study by the Committee of 100, a US-based organization of Chinese-American leaders, only 1.5 per cent of corporate board seats at Fortune 500 companies were held by Asians in 2006. That represented only a slight increase from the previous year, when the rate was 1.2 per cent.

One might ask, therefore, why my colleagues and I are hopeful that western boards will become more inclusive of Asians and other diverse directors. There are a number of reasons for our increasing confidence.

First and foremost, global corporations are confronting what we characterize as a growing director shortage. Regulations tied to International Financial Reporting Standards and the US' Sarbanes-Oxley legislation have significantly increased the workload — as well as the potential liability — for board directors. With more and more demands on their time and attention, CEO5 and other C-Suite executives simply cannot serve on as many outside boards as they may have done in the past.

Meanwhile, some corporations have begun imposing limits on the number of outside boards upon which their employees can serve. As a result, we see many senior executives becoming more selective when considering and accepting board positions.

This selectivity alone has had a tremendous impact. In terms of opening up board opportunities to a different and much larger pool of candidates. Today's potential director may include experienced senior executives from Asia, South America, and other target geographic regions previously overlooked; retired CEO5 and other top-level executives from corporations headquartered around the globe; and a group that we call Next Generation leaders, rising executives who often possess cross-cultural and sometimes cross-industry credentials.

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It's worth emphasizing that today's director shortage is scarcely the only trend that is changing the nature of director demand by western boards. The global marketplace is evolving rapidly, while competitive dynamics are shifting at an unparalleled pace.

Within some sectors — such as the life sciences and technology, media, and telecommunications, companies are blending together once separate business lines or experimenting with new and different types of business alliances and joint ventures. At the same time, shareholders, regulators and other stakeholders around the world are pressing for greater corporate accountability, transparency, environmental reforms, and other major changes.

If corporations are to succeed in such a new and different universe, their boards must seek out additional skills and perspectives. Greater diversity simply makes savvy business sense. Corporations can only expect to sell globally when their boards are truly global.

Today's ideal board candidates are those who will contribute independent perspectives, essential skills and experiences, and an understanding of the evolving global marketplace. The right search partner can, and should, work with corporations to identify candidates within those three categories who are best qualified to help achieve key business objectives.

Given the importance that many corporations assign to the Asian markets, it seems likely that Asian Next Generation or retired C-Suite executives will be increasingly desirable, as will candidates with extensive business experience in the region. An exemplary model is Minoru Makihara, who, after retiring as chairman of Mitsubishi Corp in 2004, has continued to play a major role in the global marketplace, serving in a variety of key capacities, including as a director of IBM, a member of the international advisory board of The Coca-Cola Co. and a member of the international council of JPMorgan Chase & Co.

My colleagues and I expect to see many other Asians follow in Mr. Makihara's footsteps. As an executive search firm, we have seen our client requests for board members from this region rise by about 50 per cent during the past 18 months. We expect to see this trend continue, imparting all types of corporations, but simply those within technology or any other individual sector.

What can we expect next? The most promising board candidates will not be deterred by the increased demands placed upon corporate directors, even when those demands involve greater potential liabilities, difficult travel schedules, or complex leadership challenges. As directors, these candidates will welcome the opportunity to bring their unique perspectives and backgrounds to bear on the leadership challenges of our business era.