POINT *of* VIEW 2012

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Spencer Stuart is one of the world's leading executive search consulting firms. Privately held since 1956, Spencer Stuart applies its extensive knowledge of industries, functions and talent to advise select clients — ranging from major multinationals to emerging companies to nonprofit organizations — and address their leadership requirements. Through 53 offices in 29 countries and a broad range of practice groups, Spencer Stuart consultants focus on senior-level executive search, board director appointments, succession planning and in-depth senior executive management assessments.

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"The world is just changing faster than it used to."

This observation, shared by an experienced director of two global industrial companies, rings true for most of us — and has all sorts of implications for businesses, senior executives and boards of directors. From our many conversations with clients around the world, it is clear that this era of constant change has business leaders everywhere grappling with many of the same questions:

- Is our strategy adequately responding to the business threats and opportunities arising from the economic shift toward the East?
- How prepared is the organization for the changes being wrought by the rapid advancements in digital technologies and social media?
- As our global footprint continues to shift, the old way of grooming leaders with international experience no longer works, but what should take its place? How do we tap into the rich knowledge of leaders in local markets and make room for them in regional or global roles?
- What does it mean to be an effective board today? How can we make sure that our board is contributing meaningfully where it really matters to improve company performance and advance the interests of the shareholders?
- When choosing leaders, how can we get better at diagnosing the capabilities that are essential for success in specific roles?

In this issue of *Point of View*, we tackle these questions and others that get at the heart of the challenge facing board directors, CEOs and other senior executives: successfully navigating the dynamism, uncertainty and volatility that characterize today's "new normal" business environment.

On behalf of all of us at Spencer Stuart, I hope you enjoy this issue of *Point of View* and welcome your comments.

David S. Daniel
Chief Executive Officer
Spencer Stuart

In the Boardroom

WHAT BOARDS MUST GET RIGHT

As the past several years have demonstrated, when a business today faces a crisis or erosion in performance, the board's action — or inaction — is in the spotlight as never before. Stakeholders and outside observers are looking for answers, or parties to blame, and often assume a deep level of board involvement in the company and knowledge of its inner workings that may be well beyond the board's actual capacity.

But it's not just outsiders who can lack a clear view about the precise role of the board. As the board's agenda has expanded and expectations on boards have grown, directors themselves have some fundamental questions about the board's role in far-reaching, complex areas like strategy, succession planning and risk, as well as emerging areas such as the environment and corporate social responsibility. Yet rarely do boards and management teams have a frank discussion about how expectations have changed and how the board's responsibilities should evolve.

Boards clearly can't do everything; but what must a board do and do well? What must a board get right? In this time of growing complexity for business — when companies are expanding globally, facing more regulation and scrutiny from investors, and adapting to evolving customer expectations and technological change — boards need to spend time on the right things, carefully defining their role in several critical areas of responsibility:

- Strategy
- Building and sustaining strong company leadership
- Risk

We asked experienced directors from companies in Europe and the U.S. to discuss how expectations have changed, how boards are defining their role in these critical areas, and what boards can do to make sure they are being effective in practice.

New expectations and familiar constraints

High-profile business failures and the crisis in the global financial system have heightened the attention on the role of boards, both in a company's response to a crisis and in the decisions leading up to it. "When things go wrong in a company, it's only natural for the media, shareholders or others to look to place blame somewhere, and that may include a board in certain instances," said Linda Cook, who serves on the boards of directors of The Boeing Company and Cargill.

While it is natural and to some degree appropriate to look to the board for answers, these expectations can be at odds with reality when stakeholders or the public overestimate a board's decision-making authority and knowledge of the day-to-day operations of the company. Supervisory boards have particular limits, said Klaus Peter Müller, supervisory board chair at Commerzbank and chairman of the Government Commission of the German Corporate Governance Code. "What these criticisms tend to overlook is that, for instance, a major project is prepared by the executive board members over months, sometimes with a hundred or more people involved, while the nonexecutive board members receive information packages just two or three weeks prior to the meeting," he said. "Therefore the supervisory board can but question and challenge, can only comprehend premises, yet it is supposed to be fully responsible for such decisions."

Boards also are limited by practical constraints. Typically with just a half dozen or so in-person meetings a year, directors have limited exposure to the company's operations and management team and, given the complexity of any large, global business, not nearly enough time to delve into the raft of issues they might like to cover. Boards in many countries already have a long and growing list of responsibilities that they are required to address, not the least of which is oversight of effective financial reporting.

"Time is a very scarce resource for a board," said Robert Lumpkins, chairman of the Mosaic Company board. "It's important that boards do those things that matter well, and not try to do everything because there isn't time to do everything."

Strategy development

Oversight of the business strategy always has been a core responsibility of the board, but, for many companies, strategic discussions have become more urgent in the past few years as threats and opportunities have become increasingly dynamic. "The world is just changing faster than it used to," said Cook. "The emergence of new competitors in a globalizing world, the economic and political shift from West to East, the competitive and business threats and opportunities arising from advancements in information technology, all of these things are coming at companies faster and more frequently than in the past. Therefore, boards need to ensure that management teams are adequately responding to these developments in a strategic manner."

"When an organization is functioning well and is forward thinking, then it is the role of the board to approve management's strategies, which management develops through a collaborative process with the board."

The CEO and his or her team take the lead in developing the strategy, but the board must be fully involved. "Strategy is an area where the board can be a great help, but the initiative really must come from the executives," said Jan du Plessis, chairman of the board of Rio Tinto and a nonexecutive director for Marks and Spencer Group. The executive team should initiate the strategy process, present strategic scenarios and their pros and cons to the board, and draw on the experience and judgment of the nonexecutive directors for their views about the strategy. "But the nonexecutives cannot and should not drive the process. The executives must drive the process, but at the same time be open-minded enough to respond to directional guidance from the nonexecutive directors," he said.

While the board does not propose the strategy, it does have the right to challenge the assumptions on which management is basing its strategic plan and evaluate the soundness of the strategy. "The role of the board is to review and discuss the strategy proposed by the management and to check its validity and its strengths and then to either approve it, amend it or reject it. It is not the board's role to propose the strategy, but it should be strong and competent enough to conduct a robust discussion on it and independently make its own judgment," said Patricia Barbizet, vice chairman of PPR, chairman of Christie's International and board member of Air France-KLM, Total and Bouygues.

Furthermore, while management should be taking the lead on strategy development, there may be times when a board needs to be more assertive. "When an organization is functioning well and is forward thinking, then it is the role of the board to approve management's strategies, which management develops through a collaborative process with the board," said Scott Carson, professor of strategy, Queen's School of Business, and chair of the corporate governance and conduct review committee of The Economical Insurance Group. "However, not all companies are strategic and performing well. In some situations, the board must force management to do the planning. In a circumstance like that, the board becomes far more active in the strategic planning."

CEO succession and talent management

CEO succession planning and selecting a new CEO are unquestionably board responsibilities, but how hands-on do directors need to be to make sure that the company is developing capable leaders with the skill-sets that will be needed in a future CEO? Beyond the CEO, what should the board be doing more broadly to ensure that the company is developing strong leaders?

The board should be deeply involved in succession planning for the CEO role. CEO selection is arguably the most fundamental board decision, and it is a responsibility that cannot be delegated. Directors argued in favor of a multi-tiered approach enabling the board to identify the skills that will be required in the next CEO, get to know potential candidates and evaluate their developmental needs and the plans to address them.

Boards like to see potential CEO candidates in action, both in formal settings, such as presenting to the board, and in more casual environments. "It's important that we get to see them outside of the boardroom with their teams or with customers, to see how they interact and how other people react to them. Also, it is helpful to get to know them a bit personally by having dinner with them to begin to understand what's driving them, what their passions are, and what their aspirations are," said Cook.

In boards that function well, the CEO tends to take a back seat during succession planning discussions, said Cees van Lede, chairman of the supervisory board of Heineken, a member of the Philips Electronics supervisory board and a nonexecutive director for Air France-KLM, L'Air Liquide and Sara Lee Corporation. "If it's really done well, the CEO makes his or her point of view known to the nonexecutive board members and then sort of withdraws and leaves it to the board, because in succession you may wish as a board really to change the nature of the job and have a completely different individual."

While less agreement exists among directors about how involved the board should be in influencing talent decisions further down in the executive team, directors said the board should be sure that the CEO has a strong team and that the organization has an effective succession planning process in place for other key roles. "The top priority needs to be the CEO, although enough time needs to be set aside for the four or five other key people involved in the leadership of the company," said du Plessis. "In some ways, the nonexecutive directors are better equipped than any of the executives to judge the qualities of the rest of the leadership team because they have a healthy degree of detachment."

Many boards monitor the succession planning for the top 10 or 12 positions in the company, making sure development plans are in place for these executives, that they are given challenging assignments or new roles, and that they gain exposure to the nonexecutive directors, for example, by presenting during strategy meetings. So important is the management team to the success of the company, Müller meets with each of the top 60 global executives in his capacity as supervisory board chairman, and provides for other board members to meet them as well by arranging for six or seven members of the top executive level to have dinner with the supervisory board prior to the board meeting.

"In this way, the supervisory board gradually meets all upper management members and can form an opinion," Müller said.

Risk oversight

Risk management is an area where expectations on boards have changed dramatically, and boards' approach has evolved to become more in-depth, broader in scope and influenced by real-life scenarios. In the past, boards, led by the audit committee, tended to focus on financial risk. Today, risk is defined more broadly, encompassing not just financial matters, but also areas such as health and safety, the environment, information technology and security, industrial relations and corporate reputation.

"Boards have seen really big risks materialize all over the world during the past few years. As a result, the discussion covers a broader set of risks, and the scenarios we use to test management's assumptions are much wider in scope. Things have happened — the credit crisis or the oil spill in the Gulf of Mexico, for example — that boards never thought about in the past. That's been helpful for boards because it has given them the credibility to ask 'what if' questions that might have been considered irrelevant previously," said Cook.

Boards should determine whether they have the optimal structure for overseeing risk, including whether there is a clear delineation of risk management responsibilities between the board and the executive team and the extent to which the board will focus on the big themes or the processes that the management will execute. "At a minimum, the board has to exercise a marginal judgment as to whether the areas that the management has identified as high risk are indeed the right ones. That's No. 1. Secondly, you have to make sure that once these risks are identified, there is a system within the company that follows these risks or reports on them, and that if areas need attention that attention is properly given," said van Lede.

> *"The job of the board is to appraise the overall quality of risk management and the assumptions, set the terms and influence the culture."*

Boards should spend most of their limited time on the risks that could have a major impact on the company — the "bears and not the rodents," but also monitor a wider range of potential risks to ensure risk-taking stays within the agreed-upon risk appetite for the company, said Lumpkins.

Again, though, it is up to management to execute risk management policies and procedures, said du Plessis. "The job of the board is to appraise the overall quality of risk management and the assumptions, set the terms and influence the culture. It is very much for the executives, at the end of the day, to monitor the actual risks. It is the executives who have responsibility for individual risks. The nonexecutives need to set the framework and see that it is adhered to," he said. "Most boards in recent years have become much better at risk management. However, shareholders often do not realize that it is not appropriate for nonexecutives to be involved in the actual execution of risk management."

Tools for a more effective board

With so many demands on them, how can boards make sure that they perform well in these three critical areas of board responsibility? Boards that contribute at a high level in shaping company strategy, developing and selecting strong leaders, and appropriately balancing the company's risks tend to have the following characteristics.

Have the right people on the board. Boards can add value through the collective judgment of members — resulting from a robust discussion of issues — and from the deep expertise a single director has on a specific topic. Particularly in the areas of strategy and risk, this diversity of perspectives is valuable. No one director has all the skills and experience needed for the range of governance and strategic issues the board handles, but a well-represented board can be helpful in thoroughly examining the range of potential issues and obstacles.

Therefore, boards should consider whether they have the right representation of expertise in strategically important areas, or whether there are emerging issues where additional skills would be valuable to add. Boards should include directors with a range of different perspectives and skills, but also individuals with a deep understanding of the business, including the history, the marketplace, competitive landscape and the drivers of success. Where there are gaps, the board can use vacancies to add needed skills.

Beyond having the right expertise, boards need directors who are able to devote sufficient time to board activities, as serving on a board today takes much more time than in the past. That may mean that directors will have to re-evaluate their board commitments to ensure that they limit their board memberships only to those where they can actively contribute in the key areas of board responsibility. In fact, the regulatory bodies in some countries and some boards already have acknowledged the risk of overcommitted directors by restricting the number of boards on which nonexecutive directors may serve.

Manage the board's time well. Boards are most effective when they are well prepared and structure directors' limited time together to focus as much as possible on the most valuable board activities, including strategy, risk and succession planning. With so much on the board's plate, board and committee chairs must be diligent about running meetings efficiently and focusing on priorities spelled out in their charters. Materials should be distributed well in advance and presented in the most useful format so directors have ample time for review and can use meeting time for unscripted discussion about critical issues. Board and committee chairs also should continually review whether meeting time is being used appropriately.

Conduct a regular board effectiveness assessment. Regular board assessments provide boards with an opportunity to identify and remove obstacles to better performance and to highlight what works well. They can cover a wide range of topics, including board composition and organization, board processes, roles and responsibilities, communication, boardroom dynamics, the relationship between the board and management, and the quality of boardroom discussion. Importantly, board assessments provide a platform for ensuring that the board and CEO are in agreement about their respective roles and responsibilities.

"A board review is extremely important. A critical analysis of the supervisory board's efforts enables the supervisory board chair to recognize in time where action should be taken and to align the board concerning its activities or its members," said Müller.

With so many disparate views about what boards can and should be doing, ensuring that there is alignment between the expectations of the CEO and board — and even among directors themselves — about the role that the board should play in strategic decision-making, succession planning and risk management is essential to improving board performance and focus.

Who we interviewed

Patricia Barbizet, vice chairman of PPR, chairman of Christie's International and board member of Air France-KLM, Total and Bouygues

Scott Carson, professor of strategy, Queen's School of Business, and chair of the corporate governance and conduct review committee for The Economical Insurance Group

Linda Cook, board director for The Boeing Company and Cargill

Jan du Plessis, chairman of the board of Rio Tinto and a nonexecutive director of Marks and Spencer Group

Robert Lumpkins, chairman of the board of the Mosaic Company

Klaus Peter Müller, supervisory board chair at Commerzbank and chairman of the Government Commission of the German Corporate Governance Code

Cees van Lede, chairman of the supervisory board of Heineken, a member of the Philips Electronics supervisory board and a nonexecutive director for Air France-KLM, L'Air Liquide and Sara Lee Corporation

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The rise of social media

Is your organization ready for the new transparency?

Regarded merely as a hub for high school and college students just a few years ago, social media now exerts tremendous influence over the way people around the world — of all ages — get and share information. The implications for business are profound.

To get a sense of what's at stake for companies as social media platforms become even more entrenched in individuals' day-to-day lives, consider that more than 60 percent of Internet-connected individuals in the U.S. now participate in social media platforms every day, according to a report by Bain & Company[1], with Europe not far behind. Social media channels such as Facebook, YouTube, Twitter, Renren in China, Badoo and countless others are drawing millions of people a day who want to read messages from friends, find restaurant or product recommendations, share their views on politics or social concerns, check the latest Twitter feed for news, and comment on the quality of a company's products or service or even voice concerns about its environmental record.

1 *Putting Social Media to Work, Bain & Company, 2011*

For businesses, social media represents both opportunity and risk. On one hand, social media provides brands with an intimate platform to connect with customers and shape their perceptions, whether through timely and targeted promotions, responsive customer service or the creation of communities of interest. On the other, social media has unquestionably shifted power to the individual, who can tarnish long-established brands with a single angry blog post or quickly coalesce vast numbers of people behind a cause. Organizations' successes, failures and missteps are now on display as never before.

While most consumer-facing companies have acknowledged this shift and begun to adapt their organizations in response — for example, embracing social media as a key platform for advertising and corporate communications — no business can afford to be complacent. Social networks will continue to change the way people act and make decisions, and business leaders need to determine how their companies should respond.

Drawing on our own experience as well as the expertise of C-level and corporate communications executives in the U.S. and U.K., we explore the ways organizations are approaching social media and the implications for leaders.

Getting smart about social media

For a business, engaging customers and consumers on social media raises a range of organizational, leadership and cultural considerations, requiring leaders to delve into questions such as: Who should be responsible for social media strategy and planning? How should senior leadership reshape itself in that context? What skills should executives be expected to have in this new age of transparency, and what cultural changes may be required? How much time should I spend on social networks?

Organizations' successes, failures and missteps are now on display as never before.

To begin answering those questions, leaders must get a fundamental understanding of what social media means for their business and the transparency it demands.

"Social media is, in many respects, the window that customers have on your business," said Phil Rumbol, founding partner of Agency 101 and former marketing director of Cadbury U.K. Pulling the curtains shut over that window — as some companies would have it — risks insulating the organization from important customer feedback or alienating consumers who crave a new kind of relationship with the brands they use. In fact, recent research has shown that customers who engage with companies through social media are more loyal, and spend up to 40 percent more with those companies than other customers, according to Bain.

If nothing else, businesses should be looking intently out of Rumbol's metaphorical window: They should know what their customers and employees are saying about them on social media sites, and with that knowledge in hand, use trial and error to discover the best response. What does that mean in practice?

We have identified several steps that organizations should be taking to get smart about their audiences and formulate a successful social media approach.

Understand what the organization already is communicating through social channels

A comprehensive social media audit — one that identifies how much employees are already talking about the business in public forums, the windows these interactions are providing into the company and the impression customers are getting as a result — is a good first step for understanding how the social media phenomenon already is affecting your business.

"Our employees are already engaging in social media, whether we like it or not," said Gary Sheffer, vice president of communications and public affairs at General Electric. Even in the absence of a coordinated corporate social media program, product specialists may be responding to online customer complaints, and public relations staff might be monitoring and responding to negative Twitter campaigns. The head of HR may be writing a wonderful blog about corporate life, while retirees are chatting on LinkedIn about changes to company policies and benefits. These individual efforts are creating a public image for the company via social media, and may well be contributing to a positive view of the company externally, yet it is important to understand the ways the company is interacting in social media already and whether they support the company's desired image.

Once they have a clear outside-in perspective, companies should do their homework on the view from the inside out. How are customers, employees and retirees getting information about the business? What channels are they using to contact the company, and which social media communities influence them? How much time do they spend in those communities or on social media in general?

Find out what key stakeholders are saying about the company

Companies also need to find out what their customers and employees are saying about them, tracking the leading social media networks with one of the many monitoring tools currently available. Of course, it will be impossible to know what is being said by Facebook's approximately 800 million users, for example, but hearing every stray comment about the company is not the point. Replying to every negative comment would be distracting and counterproductive. Instead, by tracking the core discussions about the company on the leading social networks and employing reliable sentiment analysis tools, organizations can gain a real-time view into what consumers are saying and how they feel about the company.

The results may be eye-opening. "Social media is like a big coffee shop, and everyone's talking and you're allowed to listen in. So, what are you going to do about it?" asked Darren Huston, former corporate vice president of Microsoft's Consumer & Online organization, now CEO of Booking.com. "Do you want to open up a store inside the

Social media is like a big coffee shop, and everyone's talking and you're allowed to listen in. So, what are you going to do about it?

coffee shop to serve these customers or just listen and then, when those same people show up at your store, have a better sense of how to serve them? Whatever you decide, you should at least be listening because, in my experience, they will tell you things you won't hear otherwise."

Of course, some companies and executives may not be as eager to listen as others. There is likely to be some inertia in any organization to continue with the status quo, allowing the various departments to respond to social media as they see fit, along with reluctance among the leadership to believe that social media is an important tool. "When you have hard data, though," said Sheffer, "it's a lot easier to convince people that they ought to be in the game."

Taking the first steps

Having discovered to what degree social media is important to each of its target audiences, whether customers, employees, retirees or even vendors, a company can align its resources accordingly. The approach should be disaggregated, targeting the areas of the business and brands for which social media is most important. Different sites and activities — blogging, Twitter feeds, viral campaigns, Facebook — will be appropriate to different target audiences and age groups.

One straightforward initial approach is to create a neutral Facebook site or corporate website to answer customer queries, whether about how a product works or where it can be purchased. An organization can later expand its use of social media monitoring services so that that it is able to respond quickly to customer complaints. For example, customer service can follow the Twitter feed about the company, reaching out to customers who are angry, and dealing with an issue the moment it becomes serious.

Tesco, one of the world's leading retailers, has gone a step further, creating a specialized website called Real Food (www.tescorealfood.com/) that provides customers with recipes, a meal planning tool, articles about healthy eating and information about store promotions. It has become a virtual community, with half a million unique visitors. The company also has a Real Food Twitter feed, with more than 4,000 followers subscribing to Tesco updates on a daily basis.

If these customers were not coming to the Tesco site, noted Lucy Neville-Rolfe, executive director (Corporate and Legal Affairs) at Tesco, they would be going to competitors' sites. "It's all about conversations, and then you use those conversations to try to build better individual relationships," she said. The company has also created blogs for its Fresh & Easy grocery store chain in the U.S. that have brought customers into the store, often without the need for a great deal of traditional TV and direct mail advertising.

Defining responsibilities: Whose job is it?

At some point along the way, companies must determine who is responsible for social media strategy and the execution of that strategy. Should it be the CEO? Corporate communications? A social media specialist hired for the purpose? While there is no single right answer, it is clear that CEOs and board directors hold ultimate responsibility for making sure the organization is addressing the key strategic opportunities and challenges presented by social media, and defining success for social media initiatives.

The day-to-day responsibility for social media activities is often handled by a chief communications officer or a social media "guru" — someone hired specifically to stay at the forefront of social media developments, make sense of it all and come up with a suitable response. The CEO may certainly choose to tweet or to write a regular blog on the company website, but will look to the corporate guru to take the lead on social media planning and policy.

Some experts argue that the bulk of social media strategy and planning should remain in corporate communications because of its inherent media expertise. Certainly, market-facing functions, notably customer service or support, will want to prioritize the channels that best serve customers; meanwhile, product experts may answer customer queries as they come into the website and marketing may use social media in advertising and customer communications, while HR uses social to search for new employees, learn more about job candidates and field job queries.

No matter who has ultimate responsibility, organizations will expect leaders across the business, regardless of function or location, to be savvy about social media, understanding how to exploit the opportunities that specific platforms provide and to monitor the risks related to increased transparency.

Everybody needs to be listening, and everybody needs to be aware of what's being said, at levels which are relevant to their particular responsibility within the business.

The implications for leaders

The new era of transparency and openness brought about by social media has broad implications for an organization's senior leadership and the skills and strategies they require. No one should be immune from participating; therefore, it's important that all leaders become knowledgeable about these platforms and build relevant skills. As Niall FitzGerald, chairman of Hakluyt and the British Museum, noted, "Everybody needs to be listening, and everybody needs to be aware of what's being said, at levels which are relevant to their particular responsibility within the business."

At the same time, the shifting social media landscape can be confusing and intimidating to experienced executives who are less familiar with the new platforms, noted Ian Wright, corporate relations director of Diageo. This can lead senior executives "to turn off or switch out, as it were, because they just don't understand it, and it's embarrassing. They think — wrongly in my view — that it's unacceptable to say, 'I don't really know what X is.'"

Nonetheless, corporate leadership should develop at least a headline understanding of social media, and preferably use social media channels, if only to gather news and information relevant to their day-to-day activities. Beyond that, the approach may vary with the type of company, the extent of customer activity on social networks, and the willingness of C-level executives to become involved. "If you're a general, you don't really need to understand how a Pershing missile works," said Wright, "you just need to know what extra capabilities it gives you above the previous missile." In other words, senior executives can leave the workings of social media to those who report to them, trusting savvy practitioners to carry out the day-to-day work. Of course, "if you don't understand it yourself, you've got to find someone that does," Wright said. In contrast, senior executives who choose to take on a visible social media role, whether blogging on the corporate website, tweeting or simply communicating about their team and products online, will need to develop "a more visible and affirmative, optimistic kind of leadership," rather than just a set of technical or operating skills, according to Sheffer. The most important skill is that of storytelling: "the ability to succinctly, simply, compellingly talk about your product and your company."

Such leaders will need to understand what resonates with their customers and employees. And they must be willing to devote time and energy to the task. Many executives start out tweeting or blogging with a passion, only to find they have less time, or less to say, than they had imagined. "You've got to keep watering it," pointed out Neville-Rolfe, and "you need to not be too stodgy and, of course, be able to spell," she added with a laugh.

? Questions executives should be asking themselves

> Are we monitoring social media on a practical level?
> Are we doing enough to listen, to analyze and to engage regarding our online reputation?
> Are we using social media tools to help us grow?
> Do we have a policy around engaging in social media?
> What security measures or rules of the road should be put into place?
> How have we structured our social media team? Is it centralized in marketing? Decentralized in the business units?
> Who owns social media? Who responds and to what extent?
> What should the CEO know?

If you're not somehow engaging on Facebook and Twitter as a communicator, you really are out of the game.

Be willing to dive in...

Whatever the role they ultimately wish to play, senior executives who are not of the generation that grew up with social media can increase their understanding by becoming users of sites such as Facebook, LinkedIn and Twitter. "It's no good being a Luddite," pointed out Richard Edelman, president and CEO of Edelman. "If you're not somehow engaging on Facebook and Twitter as a communicator, you really are out of the game."

Executives can seek out mini-courses about social media that may be offered by their own companies or by their company's marketing partners. Another approach is to find young people in the organization or in the family who can provide training — a "reverse mentor," so to speak. The mentor can begin by simply programming the executive's Blackberry, iPhone or iPad to receive the latest company news, setting up a suitable Facebook access and Twitter feed — if necessary, under a pseudonym at first — and helping to build an understanding of contemporary communications.

"We will be communicating in four or five years' time with a generation that only communicates online through social media," said FitzGerald. "The consequences of that are something executives really need to invest a lot of time in understanding."

...But exercise caution

Senior executives know to be cautious when speaking publicly about their companies, whether in the press, at events or in other public venues. Employees and the general public listen very carefully when a senior leader — especially the CEO — speaks or writes, often not distinguishing between the individual and the company. But the characteristic speed and urgency of social media platforms, and the desire for "authentic" communication, can lure executives into being too casual or less careful than they might be in other channels. When communicating through social media channels, leaders should apply the same discipline they do elsewhere, being thoughtful, purposeful and consistent with company strategy and values — understanding that social media participants expect responsiveness and genuine communication.

Conclusion

Social media is driving tremendous change in the way companies interact with their customers, employees, partners and general public, providing new opportunities for businesses to influence and engage with key stakeholders while exposing the company and its employees, products and service as never before. Executives not only need to be knowledgeable about social media channels, but increasingly they will need to possess a set of skills that allows them to navigate today's fast-changing, communications-oriented environment. These include:

- **Agility in interacting with a wider range of constituencies than in the past.** Leaders who do this well are able to accurately identify the issues and perspectives that are central to multiple audiences and apply them in decision making.
- **Communications skills.** Organizations and leaders will have to excel at listening and ensure that communications are relevant and responsive.
- **Comfort with ambiguity.** Gone are the days when organizations controlled the information and messages about themselves. The social media landscape is dynamic and fast-changing, and leaders will have to be comfortable operating in an environment in which they have little control and frequently don't have all the information.
- **Strong business judgment in evaluating opportunities and risks.** Leaders must be able to frame problems accurately, evaluate ambiguous information, tease out areas of priority and anticipate the potential consequences.
- **Willingness to take risks and get out of their comfort zone.** Advancements in social media come at a dizzying pace. Executives need to push themselves to participate in these networks and channels to make sure their organizations stay relevant to key constituencies.

About the authors

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Expat 2.0
The Global Executive

As businesses the world over expand their operations into foreign markets, they have to be able to identify executives who can move seamlessly between markets and cultures, compensating for deficits in local talent and spreading best practice and corporate values into the farthest reaches of the organization.

The longstanding caricature of the expat — typically a Western executive imposing the wishes of the head office on far-flung markets while enjoying a privileged lifestyle and preferential tax status — is fast becoming outdated. Mindful of the negative connotations, a number of leading global organizations have even deleted the term “expat” from their lexicon.

In this article we offer a conceptual framework for thinking about the evolving role and expanding mandate of what we prefer to call “global executives” and explore the competencies, aptitudes and experiences commonly found in the most successful of this new breed of leaders.

What has changed for the expat

Two trends have affected how companies deploy people in overseas markets today and how they think about the talent they send abroad. The first significant shift is that when a company expands into new markets, its center of gravity changes: it starts to source leaders from a broader geographic pool, and places its best people into the right positions regardless of their nationality. In the best cases, talent becomes mobile. "Employing a wide spectrum of people from different countries can bring different experiences and fresh thinking into the organization," says Damien Marmion, CEO of Max Bupa Health Insurance, based in New Delhi. Ray Gammell, chief people and performance officer of Etihad Airways, the United Arab Emirates' national airline, agrees. "The experiences of these global executives and their contribution to our rich culture are a huge competitive advantage to us — a real differentiator."

The second clear shift is a growing preference for developing and deploying local talent with the skills and market knowledge to manage and grow businesses in local markets. Since this is not always possible in the short term, non-nationals (expats) often have the twin roles of stewarding the business effectively while hiring and developing high potentials from within the market who can take over leadership positions. One of the true tests of a global executive, then, is whether they prioritize building a legacy for the business above their own personal career goals.

What makes an outstanding global executive?

Today's expat could, theoretically, come from anywhere and go anywhere — a very different situation from a decade ago. The criss-cross of talent within the organization becomes more complex, so there is a premium on being able to assess who has the right skill-sets and personal characteristics to handle international assignments. "To be considered for an international assignment, you must either bring something to the table like a deep set of skills and expertise, or be someone identified with high potential, for which this will be an accelerating development opportunity," says Assaf AlQuraishi, vice president of human resources — North Africa & Middle East, Unilever. "You must have a solid track record of performance in your established role, because once you become an expatriate the expectations of you are so much higher."

Terry Kramer, former group human resources director and chief of staff at Vodafone, looks for people who have demonstrated an ability to adapt and be flexible in the course of their careers. "Perhaps they have made a successful transition between two very different divisions, have moved successfully between staff and line jobs, have led high- and low-performance teams, or maybe have moved extensively within their own country. All of these examples provide some evidence that a person is able to adapt to a new cultural context outside their home market."

"You must have a solid track record of performance in your established role, because once you become an expatriate the expectations of you are so much higher."

Global executives may be a highly eclectic group with incredibly diverse roles and responsibilities, but they generally have a strong desire to be part of something that's successful. "They want to apply their skills with the best and the brightest, and have the platform to grow personally," says Marmion.

Motivation is clearly important, but what sets successful global executives apart is cultural dexterity, which comprises several qualities, including humility, sensitivity, intellectual curiosity and agility.

Humility. The natural desire to exert influence in a new role needs to be tempered by a willingness to learn. "Management pride

CATEGORIZING INTERNATIONAL EXECUTIVES

To help companies understand the candidate population, we have developed the following framework for thinking about different groups of executives with international experience:

GLOBAL CITIZENS: Executives who have spent long periods of time outside their country of nationality and who have demonstrated their ability to lead and succeed in multiple markets. They transcend any one nationality or culture.

RETURNEES: Executives who return to their country of origin or birth after long periods in other markets, bringing with them knowledge of how to operate across cultures and to be the bridge between multinationals and their operations in new markets. Returnees form an important part of the jigsaw puzzle of international talent; they are an appealing option for many companies, but successful examples are not as common as some would believe because of "tissue rejection."

REVERSE EXPATS: Executives from "emerging" markets who are sent abroad to lead expansion of emerging market-based companies into developed markets. They bring the dynamism and momentum of their companies and cultures into developed markets.

IN SITU GLOBAL EXECUTIVES: Executives with a history of extensive and successful global experience who are based back in their home markets (often in developed economies) and serve as effective bridges to international operations, drawing on their successful past experiences abroad.

TALENT DEVELOPERS: In certain developing markets, executives are hired to fill a skills gap, but are given explicit responsibility for creating a succession pipeline inside the company and taking firm action to coach, mentor and promote national talent.

is dangerous," says Jean-Luc Butel, EVP of Medtronic, a medical technology company. Said another experienced expat: "I watch to see whether people are smart enough to say they don't know something. It's a sign of intelligence, not a sign of stupidity. Having a little of the "imposter syndrome" [not believing you have all the answers] is uncomfortable, but healthy. It forces you to be open to new learning and to consider the opinions of others on your team. In a situation of power, it's easy to be seduced into thinking that you know everything or that you are supposed to."

For Anthony Christie, chief marketing officer of Level 3 Communications, listening is crucial. "One of the main reasons international executives do not work out is that they try to impose their own cultural or world view, trying to make everything operate the way it does in their own market, which is often company headquarters." Kramer agrees: "You need natural relationship-builders who don't make snap judgments."

One international group president recounted interviews with two candidates for a senior finance position in China. One spoke fluent Mandarin and asserted his plans for the new role. The other came with five books on China in his briefcase. "He said, 'I know little about the country, but I've started to read a lot and inform myself. You are not going to get someone more dedicated and excited than I am to go to China.'" The less experienced (but highly capable) candidate disclosed what he didn't know and was awarded the management role instead of an overly confident, more senior candidate. "He took a while to get going, but over time became a real star."

Sensitivity to cultural nuance is a critical quality for any executive operating on the international stage. It cannot easily be taught, although for Vsevolod Rozanov, CEO of MTS India, the key is "cultural immersion." Effective global executives immerse themselves in the local culture to sharpen their understanding and insight, says Rozanov. "In India, for example, taking a genuine interest in Bollywood, cricket and Indian food would increase a foreign executive's chances of gaining acceptance within the company and the wider business community."

Intellectual curiosity is useful at two levels. It deepens the understanding of what drives the local business and what motivates its employees; it also helps develop an appreciation of the broader cultural context. Global executives with a willingness and propensity to learn become increasingly valuable to their organizations over time. "I look for people who are driven by intellectual curiosity," says Christie. "Much of an expat's success and enjoyment comes from having a genuine interest in how people and cultures operate. You want the executive who will be energized by the differences, not frustrated by them or seeking to change them."

Agility is a quality that every global executive must possess. It has multiple dimensions: intellectual, cultural, social and emotional. The most effective executives can adapt their style and approach to what they see in front of them. Culturally agile people will use their guile and influence to locate the resources they need without trying to learn or do everything by themselves. They are prepared to work with what's available and are interested in finding the best solution, regardless of whose idea it might be.

The formation of a global executive with these characteristics often begins well before their arrival in the workplace. Upbringing, education and other early experiences all play a role. Cultural fluency can result

"Much of an expat's success and enjoyment comes from having a genuine interest in how people and cultures operate. You want the executive who will be energized by the differences, not frustrated by them or seeking to change them."

from being raised abroad; or it can be acquired from parents who encourage their children to be tolerant, flexible and to have "eyes wide open to the world," says Rozanov, who credits his openness to other nationalities, languages and cultures to being raised in Russia during an era of social equality.

Whereas in the past people often became expats in the twilight of their careers, today's global executives represent a completely different demographic — younger, mobile, ambitious and risk-oriented. They also tend to be internationally educated. Those who have not yet been exposed to overseas environments have often benefited from attending educational institutions that deliberately foster a global outlook, something that Asian business schools are increasingly good at.

Long-term commitment required

One of the biggest changes to the expatriate experience is the length of commitment companies expect from their international assignees. "In my view, a one-time expat is of little value to the company," says Nalin Miglani, global human resources director for Tata Global Beverages. "These are the most expensive ones, and they often fail. I insist that people who work internationally do five years minimum. In the traditional three-year model, the first year is to learn, the second year is productive, and in the third year they're already thinking about what they'll be doing back home. To extend the productive period, we look for a five-year commitment. I also consider whether people are there just because they want to say 'I've done it, now I can progress further in the corporation,' or whether they have a genuine interest in developing a more comprehensive international career."

As global executives leverage their prior experience in a succession of roles, they become increasingly useful to their organizations. This gradual accumulation of diverse experiences is what brings the greatest value to the business, says Gammell. "You work in different parts of the world, you build your portfolio of skills and learn from each location while seeing what is common about the corporate strategy, culture and language."

The success of an international assignment is measured not just by time commitment but by the legacy the executive leaves. AlQuraishi says of his own experience: "Identifying my successor is entirely appropriate, and I see it as one of my objectives. I would say to any executive that if you haven't built a strong succession plan, the business hasn't fully benefited from you as an expat."

THE EXPAT EXPERIENCE AS CAREER DEVELOPMENT

It used to be the case in the Western-dominated world of multinationals, when overseas competition was limited and stakes weren't so high, that developing high potentials was one of the main reasons for expat assignments. Executives taking up overseas postings usually did so because it was an opportunity for personal growth and preparation for greater things. Today, however, underperformance in these roles has more serious consequences, so companies can't take the developmental risks they might once have done. That said, the development of international assignees is fundamental to any organization's talent base; finding a balance between offering high potentials the opportunity for personal and career growth and securing the best outcome for the organization is particularly important when it comes to overseas assignments. "The company needs to be clear about whether they need an expat's skills and experiences to 'export' to a new environment, or whether the assignment is for that expat to learn from other successful markets and be groomed for future opportunities," says Terry Kramer. "These are both valid but different objectives, but the leadership team must be really clear about this."

Positioning the global leader for success

International assignments need to be managed with rigor and discipline, to ensure that both the company's and the individual's needs are being met, and to prevent people from staying in roles long after they have ceased being useful. Butel recommends that whoever is sending the person out to become a representative of the business should work with the destination country to draw up a job specification, "so that the task is fully understood by all parties, and to make repatriation easier at a later stage." Kramer believes that defining the goal of an international assignment is essential in selecting the right person. "The company needs to know what it is trying to get out of the assignment, and the individual needs to know what success looks like."

Employers have to make wise choices about which executives to send around the world. Mistakes are costly, so investing time and effort in the careful assessment of candidates will greatly improve the chances of success. One senior executive, for example, makes a point of interviewing candidates in the new country where they would be assigned: "It is expensive, but not nearly as expensive as a bad decision."

To be successful in an international assignment, you have to relish diversity and embrace change — "be comfortable being uncomfortable," as one executive explained. Since international assignments involve a lot of first-time learning, the technique of unnerving candidates can be a useful way to test how well they will cope when thrown into unusual situations, according to Butel. "I make a point of taking candidates out of their comfort zone during the interview. I want to see how they react to the unexpected."

An executive's willingness and ability to make a long-term commitment to working overseas often depends on his or her family situation. A good employer will assess carefully what the family is prepared to put up with and how well they are likely to adjust to the new environment. A significant percentage of expatriate assignments fail, and one significant contributor to those failures is spousal or family issues. Moving someone to a new country is a major upheaval, so the employer has to take care over the decision, then provide practical support to ensure a smooth transition. However, leaving arrangements entirely to the employer can be a mistake, cautions Marmion. "I want the person to be a driver not a passenger, to take responsibility and plan meticulously — not just for an international move, but for their whole career."

A well-developed onboarding program plays a vital role in helping executives settle in and become productive. Some companies are good at this, but many are not, especially those that do not send many executives overseas. The difference between success and failure can be as simple as appointing a mentor to help navigate the early acclimation period.

Conclusion

In today's more nuanced and complex world of international business, the concept of the expat has expanded and taken on multiple forms. The demand is growing for globally minded, culturally sophisticated executives who can produce results on the world stage, regardless of nationality. Finding and developing these executives should be a major priority for any multinational.

There is more work to be done in developing sophisticated assessment methodologies that can assess cross-cultural fluency and help identify the executives most likely to perform well in diverse markets. Judging by many of our conversations with senior executives responsible for making such appointments, intuition still plays a big part in decision-making. Spencer Stuart is currently conducting further research to pinpoint the characteristics that make global executives successful and to develop the assessment tools that will help companies make the best possible decisions.

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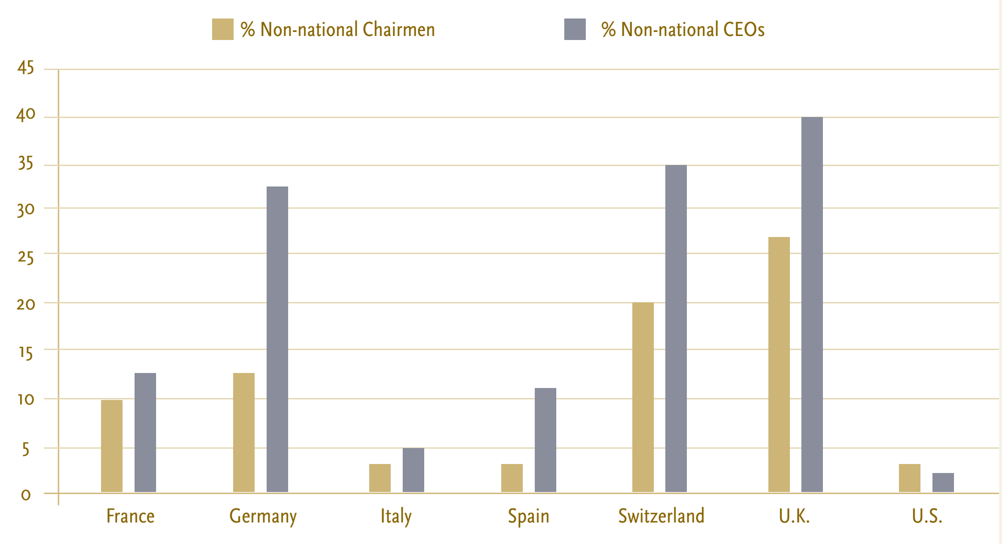
Global View

The International Leader

More companies are casting a wide net for top executives

Globalization and the rise of BRIC and other developing economies have resulted in a proliferation of multinational companies dispersed all over the world. More and more businesses are shifting their focus from national to international markets, resulting in a dramatic increase in the proportion of revenues generated by overseas operations.

In our role as advisers to leading businesses across continents, we see enormous variation in the readiness of companies to hire the best talent regardless of nationality, background or domicile. Recent research by Spencer Stuart into the nationality of CEOs and chairmen of many of the world's leading companies shows that when it comes to appointing non-nationals into the top roles, there are astonishing differences between countries, as the chart below shows:



We believe that the companies best placed to take advantage of opportunities in international markets are those most open to hiring talent from anywhere in the world. This is particularly true at the board and senior executive levels. Yet many companies that need to take a more expansive, global approach are still a long way from even considering non-nationals in the top roles. These companies are in danger of losing out to their global competitors by limiting the pool of candidates they are prepared to consider. The point is not that every company with global ambitions should be led by a non-national, but that most organizations should be open to the possibility.

Certain factors influence whether or not a company will turn to a non-national as its leader. Where the majority of a company's revenues come from outside the "home country," there is every reason why the CEO should be a non-national. The location of some stock exchange listings carries a greater likelihood that boards and senior executives will be internationally diverse. Foreign companies attracted by the status and access afforded by a London listing, for example, have no particular affiliation to the U.K. and are just as likely to be led by a foreigner as a British citizen (although where this is the case, they tend to recruit a British chairman for reasons of governance credibility and to win the respect of the local establishment).

In some sectors, such as defense, nuclear power and utilities, it can be mandatory for companies to be led by nationals. And in some countries, such as France, the level of political influence over top corporate appointments can be very strong, resulting in top leadership positions invariably going to nationals.

Despite these factors, there are still plenty of businesses operating on a global scale that could be casting their nets far wider in order to benefit from fresh ideas and new ways of thinking. There are multiple ways of introducing international experience and perspectives into an organization, such as appointing a non-national to the role of CEO; creating a more internationally representative executive committee; and nominating foreign directors to the board. For some companies, this is a necessary, low-key first step towards introducing a more internationally diverse executive team. Another option is to assemble an advisory board, which can be a useful means of tapping into local expertise when building presence in a specific region or market.

Although today's market for leadership talent is truly global, some companies face significant cultural, social, political and linguistic barriers that prevent them from accessing this talent. To succeed on the global stage they will need to take positive steps to overcome such barriers if their leadership teams are to reflect the international footprint of their businesses.

Factors influencing leadership nationality

More open to non-national leader	More likely to have a national leader
Significant revenues generated from outside the "home" country	Revenues outside the home country are not significant
Stock exchange listings outside of home country, especially for nonexecutive chairman role	High degree of political influence over senior corporate appointments
Presence of international directors on the board or an advisory board with local expertise in key markets	Nationally important strategic sectors, such as defense, nuclear power and utilities

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Leading Voices

Lessons from an international assignment

An international assignment has long been seen as providing executives with an opportunity for personal growth and professional development, while enabling companies to place executives in markets where specific capabilities are needed or to spread corporate values and best practices throughout the organization. With business footprints expanding and international markets becoming increasingly important drivers of revenue and profit growth, companies need executives who are global thinkers with broad-based business perspectives and the agility to master an array of markets, cultures, competitors and workforce differences.

As these capabilities become even more important, having a meaningful assignment outside one's own market has become a critical element of executive experience and is likely to become a prerequisite for career advancement at a growing number of multinational companies.

We asked several senior executives to think back to their first or most memorable international assignment and share how those experiences helped to shape or influence their leadership styles. What surprised them the most? What did they learn and how have they continued to apply those lessons in their current leadership roles? Finally, what advice would they give to other executives about succeeding in an international assignment?

Philippe Bourguignon

Vice Chairman, Revolution Places, and CEO, Club Med

Early in his career, Bourguignon, a native of France, led development in the Middle East for Accor, based out of Beirut. He has held leadership roles in France and the U.S., including president of Disney Europe, and served as co-CEO of the Davos-based World Economic Forum.

What surprised you?

Someone who was born and raised in his country and, when he is 25, 28, 30, is posted abroad, obviously, learns so much during his first assignment. I was raised in Morocco. My father worked for a U.S. company, and I came to the U.S. almost every year when I was a young boy. Therefore, I've been exposed and living international from basically almost the time I was born. It is more a way of life, and, by the way, this has been a huge gift. My two children were born in New York and raised in the U.S., and today they are totally bicultural.

What have you learned?

I like to say that I've learned patience in Asia, and I've learned what competition means in the U.S., because I'm from a country where there is no patience and limited competition.

What I also learned by working internationally is that if you keep good sense — remain grounded in basic business judgment and rules — you can work in any foreign environment. Good sense is key. Some people try too hard to be too local, understand everything, but you will never understand a foreign country as well as you understand your native country, even if you speak the language. But good sense is the same everywhere.

What advice would you give to others based on your experience?

To an executive, my advice would be to listen and be humble. Listening is very important. Be humble and respectful. The tendency, particularly if you go into emerging countries, is to consider that everything else is not as well done. But being humble and respectful of people buys you tremendous mileage no matter where you go. You need to be more humble abroad than you are at home and more respectful.

When you are abroad, things are over-amplified. Being abroad over-amplifies your body language, your words and your decisions. Whatever you say is listened to twice as carefully as when you say it at home. You are watched much more closely than you are at home — for both good and bad.

John Doumani

Managing Director, Australasia for Fonterra Cooperative Group

A native Australian, he held various senior roles at Johnson & Johnson in Italy, Australia and the United States, before leading the Asia Pacific business and, later, all of international, for the Campbell Soup Company.

What did you learn?

The business issues were not that hard to discover, but the bigger issues for me were actually more cultural. The culture in the U.K. was similar to here, and there was a relatively informal work environment where you can joke around a bit. This is my style and it translated really well. However in Italy and the U.S., the work environment is more formal, and I had to adjust my style to be conscious of this. Had I not done so, I would not have been able to be effective working for the organization. You have to be very careful not to offend people. If you want people to follow your leadership, you have to engage them in a way that works for them.

What advice would you give to others based on your experience?

Seventy percent of what you know about business will translate, but the other 30 percent — the difference between success and failure quite often — comes down to truly understanding the business dynamics that might be different. Market dynamics vary greatly in terms of regulations, trade and competitive structures. You've got to make sure you get your head around this because it will affect your ability to implement what you want to do, and you have to modify whatever you do to fit in.

The bigger issue is to be really sensitive to cultural differences. There's no shortcut in being able to do this other than to have an open mind and be willing to accept any differences. You can't go with the attitude of, "I'm just going to do what I do and if they don't like it, stuff it!" The first thing is to accept that the cultural issues are really important. Accept the fact that it may be different and be really open-minded. The sooner you identify and are open to any differences, the better.

Philip Earl

Executive Vice President and General Manager, Publishing for Activision Blizzard

Earl began his career with Procter & Gamble in the U.K. and was later relocated to Saudi Arabia. He worked for Glendenning Management Consultants in the U.K., before joining Nestle, where he worked in both the U.K. and Australia. At the U.S.-based Activision Blizzard, Philip has worked in Australia and U.S. West Coast.

What most surprised you?

Having worked in Saudi Arabia, having worked in Australia, having worked in Los Angeles, what surprised me the most is that there are more similarities than differences in the people across countries.

What have you learned?

I learned the importance of understanding the pace of change: how much to do and how quickly. You have to be very astute in understanding the capabilities of the organization in the marketplace. It can be too fast, but can also be too slow. There is no right or wrong answer. You have got to accept that you can have a very strong strategy and you can have a very good vision, but unless you bring the team with you, it is just disconnected. Your people capability platform will determine whether to go faster or slower.

What people leadership insights have you gained?

Something interesting I have learned is the fact that people are motivated by different things, and understanding what most drives a specific individual lies at the heart of leadership. Often you assume people are concerned about money. It almost always isn't the case. There has to be a base level of remuneration, but in three years working with video games people, I have Harvard graduates who just want to work in that industry; it motivates them to be part of something amazing. It is a passion for them. Some people are motivated by a very strong sense of family and a sense of community. If you are not careful and gloss over individual motivations, you never get the most out of people. You have got to understand people. There can be 10 nuances of what motivates them, and if you get that right, despite cultural differences, you can usually do quite well.

What advice would you give to others based on your experience?

My advice is to "be in." When you go to a new market, don't hang around on the side; just get in there. Absorb the culture, language, food, sport, everything. You get a reaction from your work colleagues that is really incredible and makes you feel that you really want to be here, and as a consequence, they see you as an expat wanting to be here.

Conrado Engel

Chief Executive Officer, HSBC Bank Brazil

After several human resources and general management roles for banks in Brazil, he joined HSBC in Brazil, later relocating to the company's headquarters in Hong Kong to lead the retail banking and wealth management area for the Asia Pacific region.

What did you learn?

The most important thing was how careful you have to be about managing cultural differences. People react differently to situations, and this is very challenging. For example, the way you interact with a Chinese company is completely different from an Indian one. Individuals can interpret situations very differently. Early during my assignment in Hong Kong, after a meeting where we were assigned tasks for a particular project, I asked an executive for a status update prior to the due date. I realized later that this made the executive feel very uncomfortable, because, as he said, he would fulfill his commitments; it was part of his responsibility. Again, it demonstrates the importance of understanding cultural differences.

What personal or professional lessons from your international experience have remained with you?

Managing any business is about managing people. Dealing with different cultures and reactions is crucial. I learned to listen more and reflect more before taking immediate action. I also learned that people can significantly benefit from each other's experience. For example, I believe that my experience in dealing with crisis management as a Brazilian executive was very beneficial to the HSBC Group when I was in Hong Kong.

What people leadership insights have you gained?

You have to visit people, go and visit the countries and the operations, and establish strong professional connections. Personal relationships may also help. Understanding the cultural environment is of vital importance. Learning how to navigate a large organization like HSBC — with a strong internal culture, with very strong roots in Asia — is also critical for success.

What advice would you give to others based on your experience?

It is always best to listen, comprehend and then act.

Kirk Kinsell

President of the Americas, InterContinental Hotels Group

An American, Kinsell served for four years as president of Europe, Middle East and Africa for InterContinental Hotels Group, based out of the company's headquarters in the U.K.

What surprised you?

Based in London, with responsibilities for Europe and Africa, the things that surprised me were the diversity of thinking and the distinctive cultures and, therefore, how people felt, how people thought, how they processed information and what was important to them varied tremendously. As a result, there was more dialogue, which oftentimes meant debate. Having to have that broader discussion on issues was intriguing, challenging and fulfilling. Initially, the discussion can feel like it's slowing things down, but when you reset expectations and build in opportunities for debate, what I have found is that, even though people may not agree with the ultimate decision, the process allows people to align and walk out of a meeting on the same page.

What personal or professional lessons have remained with you?

I made it a point to get underneath the differences between my new environment and what I was used to at home, and understand the history and the stories behind the surface. I began to appreciate the differences for how they enrich the environment that I was in, creating a more holistic and colorful tapestry from an aesthetic standpoint.

Coming back to the United States, I find myself wanting to go deeper with people who I otherwise would have thought were just like me. As a result, I think I have the potential to build stronger relationships. I have the potential to be a better leader. Because our job as leaders is to unlock the potential of the people we work with and the people we have the privilege of leading and managing. And, therefore, I can get perhaps a better perspective of who they are and their motivations and how they align with the company's purpose and objectives.

What advice would you give others based on your experience?

To another American, I would say dialing down the fact that you're American and dialing up being a global citizen is probably a much more effective way of engaging people. It doesn't mean that you change your principles or your beliefs or your value system; it means being sensitized to how you come across. Saying things like, "We do it this way back there" — meaning that was the only good way — can come off as being too American, too know-it-all, too celebratory, too cheerleading, too shallow, all those things that are sometimes attributed to being American.

Murilo Portugal

President of Febraban (Brazilian Federation of Banks)

He held several senior roles for the government of Brazil, before moving to the U.S. as executive director for the World Bank and, later, deputy managing director of the International Monetary Fund.

What most surprised you?

My most relevant international experience was to work with International Monetary Fund. It provided me a great opportunity to understand the reality of other countries. Since I was responsible for the fund's relations with 81 countries in all five continents — from advanced countries such as Sweden to developing countries such as Bhutan — I had to understand different environments and market dynamics. In this role, I came into direct contact with the reality of different countries, different economic cycles and stages of development, from crisis to growth moments. What did not surprise me, unfortunately, was the reaction in some places to the economic crisis in 2008, in particular, the difficulty of entering into a discussion with governments and the denial about the gravity of the problems.

What did you learn?

Do not postpone the inevitable. Trying to escape an inevitable conclusion will increase the costs related to the decision, but it is hard to define what you should fight for, and what to give up.

What personal or professional lessons from the experience have remained with you?

Life is the best teacher. The only problem is that there is only one pedagogy. You learn when you hit a wall, and usually you have to go through this painful process to learn. Even if you rationally know what to do, usually you only change when you hit a wall, because of the limitations in the decision-making process and human behavior.

What advice would you give to others based on your experience?

Respect the level of the professionals who work with you, and learn how to best deal with very smart people and motivate them. Well-qualified people, of course, have their own ambitions and personal interests. It is critical to maintain the enthusiasm of people in a multicultural environment, and devote time for that. You have to be a manager of people, otherwise you will fail even if you are capable of managing processes and tasks. Technical knowledge alone will not make you successful.

About the interviewers

Fernando Carneiro, São Paulo, manages the Spencer Stuart operations in Latin America and heads the firm's Financial Services and Private Equity practices for Brazil and Latin America. **Robert S. DeVries**, Miami, co-leads the firm's global Hospitality & Leisure Practice and is a member of the Board Services and Consumer Goods & Services practices. **Kevin A. Jurd**, Sydney, is a member of the Consumer Goods & Services Practice and formerly led the practice in the Asia Pacific region.

Point/Counterpoint

Have We Placed Too Much Faith in Corporate Governance Reform?

Across the globe, the trend toward corporate governance reform, increased governance legislation and more elaborate governance codes continues in response to the global financial crisis and to the opening of markets in developing economies. Advocates of these measures sometimes speak of them with missionary zeal, as though increased corporate governance is good by definition — and able to halt risk, corporate malfeasance and negative earnings reports by its mere implementation.

But through our work advising the boards of some of the world's leading companies, we encounter both high-performing companies that exhibit poor corporate governance and unsuccessful companies that embody every corporate governance best practice. Clearly, governance regulation plays a valuable role, but those who elevate its standing to that of corporate savior are exaggerating its power.

Embracing Basic Principles

There is no doubt that basic corporate governance guidelines have great value in helping to protect the interests of investors, particularly minority shareholders, and in aiding informed investment decisions. For these reasons, disclosure and transparency is integral when it comes to public companies' financial and operating results, company objectives, executive pay, board independence, major share ownership, shareholder voting rights, and governance structures and policies.

In a global business world where international investment becomes more widespread by the day, the adoption of these practices has become increasingly critical for public companies wishing to attract and reassure investors, and for investors seeking a degree of protection as they consider investment abroad. Therefore, the basic principles of corporate governance such as those proposed by the Organisation of Economic Co-Operation and Development and the United Nations Conference on Trade and Development should be a starting point for all public companies. Only global adoption of these principles can create a basic harmony of regulation that will allow shareholders to invest with confidence anywhere around the world.

Board Composition and Structure

Likewise, certain guidelines addressing the composition and structure of the board of directors can be considered general best practices for all listed companies around the world. For instance, to avoid conflicts of interest, it is generally advisable that a majority of directors and those of certain committees be independent. We would also view it as a best practice to appoint a lead, presiding or senior independent director to check the power of the chairman in unitary boards, particularly those where the CEO and chairman roles are combined.

But even these basic guidelines can sometimes fail to account for all the nuances of the real world. For instance, a 2009 study in the *Journal of Financial Economics* found that boards that had independent directors with social ties with the CEO correlated with higher executive compensation and lower CEO turnover after poor operating performance. This illuminates the fact that even established standards of independence do not account for all of the possible conflicts of interest that a board director may have, and can never truly guarantee director objectivity. At the same time, current independence requirements can also have the opposite effect of disqualifying some directors who may be able to provide both an objective perspective and invaluable industry and company experience that a true outsider may lack. This is especially true for industries in which directors need specialized technological or financial knowledge to contribute meaningfully to strategy discussions.

Independent directors, particularly those who complement the board's existing industry or geographical perspective, can provide fresh thinking and valuable contributions to the strategy discussions of the board. They can also help prevent majority shareholders from having undue influence. But legislation regulating the percentage of directors that must be independent often fails to account for the inherent differences in the talent challenges individual companies face and the very real contrasts between industries when it comes to the performance of industry outsiders as board members.

The Quota Question

Similar considerations should be weighed in viewing the relative merits of the gender quotas that have recently become law in several European nations. There is no doubting that talented women directors add value to boards. An oft-cited 2007 study by Catalyst found that Fortune 500 companies with the highest percentages of women board directors outperformed those with the least by 53 percent. This statistic is likely due, in part, to the diverse perspectives that these directors contribute, but also in part to the fact that the best companies are likely to have the most success in attracting qualified women directors.

Unfortunately, the current dearth of women in the boardroom is also mirrored in the senior executive ranks from which qualified board directors are typically drawn. Even in Norway, which pioneered quota legislation in 2003 by requiring public limited companies to fill 40 percent of board seats with women, just 10 percent of senior executives are women. Given that the percentage of women among retired executives is even lower, and that active executives tend to serve on far fewer boards today than they once did, we see intense competition for top female board talent today — even in countries with no quota legislation.

In our board recruitment work around the world, our clients highly value the diverse perspectives and insight that qualified women directors can bring. But they are also faced with the reality that adding women to the board sometimes requires the selection of directors who are more junior in rank and less seasoned in board experience than they would choose otherwise. In Norway, for instance, statistics show that the women who have been added to boards in response to the quota regulation are better educated, but also younger and less likely to have CEO experience, than the men they have replaced.

Though the addition of women directors contributes to deeper discussions and new perspectives on a board, companies are also taking a broader view of diversity as they thoughtfully strive to assemble boards that can provide a competitive advantage when it comes to company strategy. For instance, companies are eager to bolster their existing board talent with international executives who have experience in emerging markets, and with experts who add specific knowledge in areas such as social media.

This broader view of diversity — one that encompasses diversity of skills and knowledge, as well as gender — is most helpful in building boards that can create long-term shareholder value. For this reason, gender quotas should be viewed as a temporary means of addressing gender inequality in the boardrooms of countries that choose to adopt them, not as a template for effectively addressing the specific business needs and unique challenges of individual companies.

Regulating Board Effectiveness

Another area in which well-intentioned regulations can sometimes have unintended consequences is in requirements focused on improving board operations. For instance, there is considerable value in the idea that board directors should be trained, because there are many things about being on a board that first-time directors don't know. And, with continued enhancements to governance regulation, even seasoned directors are being charged with responsibilities in new and sometimes unfamiliar areas. As a result, requirements for board director training have become law in several jurisdictions.

But while the idea is good in principle, its implementation is often poor. When legislation without specific definition is passed requiring directors to get recurring training, it can spur a cottage industry of mediocre training companies, from which corporations may then select the lowest-cost provider who can help their directors meet the mandate most cheaply. And sometimes the actual content covered is so basic that many directors end up viewing the exercise as a waste of time.

Similar issues occur with board effectiveness reviews. When done well, these reviews are a tremendous asset in highlighting areas where there is room for improvement and greater efficiency. But codes requiring board effectiveness reviews can produce a box-checking approach, unless boards embrace the spirit of the assessments, rather than treat them as a compliance exercise.

A Blunt Instrument for Precision Work

By its very nature, corporate governance is a complex topic which must be viewed through many lenses. These include the dynamics and maturity stage of a company's market, the governmental environment it operates in, the maturity of the company itself, the unique demands of the company's industry, and the market for available talent at the board and senior executive levels, among other factors.

As a result, there is no one truth about what makes good corporate governance, beyond the near-universal acceptance of the need for disclosure and transparency. These basics serve as a protective barrier for investors and business systems against the worst corporate governance practices, but still give companies the latitude they need to make decisions that are in the best interest of the company and its investors.

Beyond these basic principles, however, it may make the most sense for individual countries and exchanges to decide for themselves what level of regulation is most appropriate based on where they fall on the business life cycle. For instance, in economies with closed markets or a preponderance of family-owned corporations, we justifiably see less pressure to adopt governance regulation. As economies open up, they may require greater regulation as a temporary measure to ensure adoption of corporate governance best practices. And in more established market economies, an argument could be made for rolling back regulations once governance best practices become understood by companies and ingrained in their behavior. By its very nature, regulation is a blunt instrument that must be used with discretion.

When governance reform becomes too prescriptive in its specifics, it can prohibit companies from making the right decisions for each unique boardroom situation when it comes to complex questions such as whether to split the chair and CEO roles. For this reason, comply or explain approaches that give boards the latitude to make the right choices are often most helpful when regulation goes beyond the basic measures that ensure disclosure and shareholder protection.

The Real Key to Good Governance

Good corporate governance cannot ensure that a company has the right strategy to succeed — and too much focus on compliance issues can take too much of the board's attention away from its primary responsibilities. Most importantly, the jury is still out on the effectiveness of increased governance legislation, a fact that was reinforced when the epicenter of the financial crisis developed in the world's most regulated markets.

While some regulation is necessary and helpful, there is a danger in placing too much emphasis on it. When it comes to the boardroom, the most important considerations are, instead, assembling a board of executives who combine integrity with the right mix of knowledge, experience and vision to perform the board's defined roles with excellence.

Beyond even these considerations, qualities such as judgment, engagement and strong communication skills are critical attributes for every director. And, just as it is a component in any high-functioning team, interpersonal chemistry also plays a role in every effective board. Wise decisions regarding board composition are complex, multifaceted and impossible to legislate. In the end, the true foundation for great governance can only be built by making these careful, thoughtful decisions in the service of a company's long-term needs and goals — not through governance reform.

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The Executive Guide

IMPROVING BOARD EFFECTIVENESS

FIVE PRINCIPLES FOR GETTING THE MOST OUT OF A BOARD ASSESSMENT

Corporate boards today are expected to be more engaged, more knowledgeable and more effective than in the past. One tool that a growing number of boards are using to examine and improve their effectiveness is the board evaluation. Annual assessments have become the norm for boards in many countries, with nearly all listed companies in Canada, France, the U.K. and the U.S. conducting some sort of assessment each year. The practice is also widespread in Italy and Spain and is gaining attention in many Asia Pacific markets, where the issue of board effectiveness is moving up on the corporate governance agenda.

Despite their growing adoption, board assessments are falling short of their promise of enhancing board effectiveness in some cases. Boards that take a compliance-oriented approach — or structure the process in a way that prevents a true examination of the impediments to board effectiveness — lose the opportunity to gain valuable shared insight into the operation of the board and ways to improve its composition, processes and relationships.

When done effectively, board evaluations provide a forum for directors to review and reinforce appropriate board and management roles and ensure that issues that may lie below the surface are identified and addressed promptly. In short, evaluations give the board an opportunity to identify and remove obstacles to better performance and to highlight best practices.

How can boards make sure that they get the most out of the assessments, so that they really improve board effectiveness? In our experience, boards derive the highest value from a board assessment that is shaped by five key principles:

The board has clear objectives for the evaluation.

A board leader drives the process.

The process incorporates perspectives from senior managers who regularly interact with the board.

The assessment process goes beyond compliance issues to examine board effectiveness across a broad range of measures.

Directors commit to reviewing the results of the assessment together and address issues that emerge.

1 The board agrees on clear objectives for the assessment.

One of the most common mistakes boards can make when embarking on an assessment is failing to agree at the outset on the purpose and objectives of the process. While it may seem obvious, coming to a shared agreement about what directors collectively want to accomplish through the

How common are annual board assessments?

An annual board effectiveness assessment is now a widespread practice in many European markets and in North America. Interest in board assessments is growing in Asia Pacific.

Percentage of Major Listed Companies Conducting an Annual Board Assessment

Canada	France	Germany	Italy	Spain	U.K.	U.S.
100%	100%	44%	84%	60%	98%	99%

Source: Spencer Stuart research, company reporting assessment encourages board members to commit time to the process and to provide the candid feedback that is essential to identifying and addressing potential roadblocks to board effectiveness. Without the commitment from the board as a whole and directors individually, an assessment is unlikely to yield the desired results. Clarifying objectives and defining the scope of the assessment also helps to avoid a situation in which the board is using the process as a way to put off dealing more directly with non-performing directors.

For some boards, a "triggering event," such as the arrival of a new CEO or a change in board leadership or composition can shape the priorities and objectives of the assessment. For example, an assessment occurring amid a CEO transition can help forge an understanding between the CEO and the board about expectations and accountabilities, clarify the respective roles of the board and CEO and ensure that time is spent early in the CEO's tenure to consider whether changes are needed in the way the board is composed, structured or operates.

Furthermore, board structures, governance issues and cultural norms differ by company and country, and these differences also can affect the style and scope of the board assessment. To be most effective, a board assessment must be tailored to the company's current business context and include any relevant issues.

Among the questions boards should consider at the outset:

What is the scope of the assessment?

For example, should the process only involve assessments of the board and committees, as required in many countries, or also include individual director assessments? Boards with little experience conducting assessments may define a narrower scope the first year, expanding the scope in subsequent years as directors become more confident and comfortable with the process.

What's the most appropriate assessment approach for the board?

Boards approach assessments in a variety of ways, ranging from a director questionnaire to a robust process in which directors are interviewed individually, typically by a third party, to draw out candid views about the board's effectiveness.

Should board leaders be assessed?

Our experience is that the board's effectiveness is impacted directly by the board's leadership. Even though the chair is guiding the process, the best situation is when that person is open to feedback about his or her leadership.

What areas does the board want to delve into more deeply?

These areas could include board process, behaviors, communication issues, the effectiveness of executive sessions, the role of the lead independent director, the board's relationship to management and development of the board's agenda. In countries where annual assessments are required, some boards find the process more valuable when each year they choose a specific topic — such as the board's committee structure or its role in the strategic planning process — to examine more closely.

What gaps exist in the current assessment process?

Boards can become dissatisfied with assessment techniques that fail to get at issues that are impacting their effectiveness. It is helpful at the start of the assessment to consider whether to evolve the assessment approach or the issues that are reviewed in order to make the process more productive.

2 A board leader is responsible for driving the process.

Essential to a successful evaluation is having an independent board leader champion the assessment process. The independent board chair, chair of the governance committee or the lead independent director is in a position to drive the process — involve the right people, ask for directors' time, schedule time on the agenda to discuss the results and ensure that the board follows up on the issues that emerge. And while the CEO should be an integral part of the process, he or she should not be leading it.

The board leader driving the assessment process plays a significant role in managing expectations about the process, serves as an independent resource for directors and management to turn to with concerns, and may deliver feedback to individual directors, if the board is not working with a third-party to facilitate the process.

3 The process incorporates perspectives beyond the board directors themselves, including those from senior management and best practices from outside the company.

Another way the board can limit the value of a board assessment is to look only inwardly at its own effectiveness. An emerging best practice among U.S. boards, although still less common in European boards, is to seek input about the board's effectiveness from the key senior management team members who interface with the board. Soliciting input from the executives who participate in most of the board meetings — such as the general counsel, the president, the chief financial officer and head of human resources — can broaden the perspectives on the board's effectiveness in key areas, including board/management relations. As regular board observers, these executives often have very thoughtful feedback about what the board does well and what it could do better.

What can a board effectiveness assessment include?

- Board processes and supporting materials
- Board composition
- Committee organization and processes
- The role of the board and board leaders
- The board's relationship with the CEO
- Board culture and dynamics
- Potential board development needs
- Overall board effectiveness
- Individual director effectiveness

Board assessments also can be more valuable when boards benchmark themselves against other high-performing boards in the same industry segment or against best practices in a specific area. For example, boards often want to know how they compare to peers in areas such as committee structure, compensation and mandatory retirement age. A third-party facilitator with significant experience in the boardroom and knowledge of governance guidelines and regulations can provide perspectives on how the board compares to its peers or "measures up" to the evolving standards of corporate governance by providing an up-to-date perspective on best practices.

4 The assessment process should go beyond compliance issues to examine board effectiveness.

Many boards have relied on director questionnaires to conduct their assessments. This paper-and-pencil approach can provide a sense of how directors are feeling about compliance issues — whether or not the board is involved in strategy discussions or CEO evaluations, for example — but they are less valuable in revealing issues or concerns that are affecting the board's effectiveness. While a board may be doing all of the things it is supposed to be doing by law, these activities may not be yielding results that are improving the outcomes for the company. Similarly, behaviors on the board may be preventing the board from serving as a strategic adviser for management or limiting its strategic influence.

In the most effective board assessments, directors are interviewed individually on a confidential basis and asked for both their qualitative and quantitative assessment of the key areas that determine the effectiveness of the board. The assessment interviews should be conducted by a seasoned boardroom consultant who understands boardroom issues and CEO/board relations. Interviews typically are wide-ranging discussions, examining everything from board composition and organization, board processes, roles and responsibilities to communication, boardroom dynamics, the board/management relationship and the quality of boardroom discussion.

As part of our process, we recommend that a full board evaluation include a review of governance documents, committee charters, board meeting minutes, board meeting agendas and observation of a board meeting. Observing the board dynamics and exchanges between directors during live meetings can be a very useful input when providing advice and recommendations for improvement, particularly related to the quality of board discussions.

The assessment process can reveal a variety of issues and obstacles to better board performance. These range from easily addressed operational complaints about meeting length or the composition of the agenda, to larger, thornier issues concerning the board's role in strategic decision-making, gaps in knowledge and competencies on the board, and executive and director succession planning. The corrective actions range as well — from improving the timeliness of board materials and winnowing overly long agendas, to making changes in the composition and, occasionally, the leadership of the board.

While many of the concerns that surface through evaluations focus on board procedures, they sometimes go to the important relationship between the board and management, which can vary depending on the size and development stage of the company, the international makeup of the board and the current state of the business. In Europe, many boards also are re-examining the board's involvement in areas such as succession planning and strategy planning, considering whether the board should be more involved earlier in the process, for example, to review the competitive assumptions that are shaping management's strategic plan.

5 Directors commit to reviewing the results of the assessment and prepare an action plan for addressing issues that emerged.

Another way assessments can fall short is when boards do not commit the time to review the results and address the issues that are raised. Some boards, for compliance reasons, begin an assessment process, but then spend little or no time on discussing the findings. In addition to leaving issues unresolved, this lack of follow up can generate cynicism about the process and the board leadership's commitment to improving effectiveness in the future.

Boards have to be open to the results of the assessment and be prepared to deal with the findings. This involves having an open discussion among the board members about performance issues that were raised and prioritizing items that should be addressed in the coming year. Follow-up is typically delegated to the governance committee, which develops an action plan based on the board recommendations. The board reviews its progress as part of the following year's assessment.

Conclusion

Done properly, a board assessment is not a report card for the board as a whole or for individual directors. Instead, it should be viewed as a tool for continuous improvement and learning. Successful assessment processes:

- Reflect the culture of the organization and its board
- Are championed by a chairman or other board leader who participates actively in the process
- Have shared support among all directors
- Begin with clearly stated objectives for the board assessment process
- Include adequate time on the board's agenda to discuss the results and establish a clear approach for acting on the findings, including developing an action plan with a timeline and milestones
- Are characterized by confidentiality throughout the process

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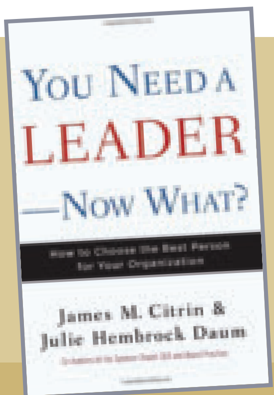
Ideas

You need a leader — Now what?



A new book examines the factors behind choosing the right leader — and the assumptions and myths that can lead you astray

The right leader can take companies, organizations and even communities to new levels of success and prosperity. The wrong leader can sabotage years of progress, slowing or reversing growth and eroding the organization's credibility with important stakeholders. With the potential risks so high, how can companies improve their ability to make leadership decisions?

In fact, there is no shortage of theories, assumptions or conventional wisdom about how to choose a leader, for example: inside candidates are always better than those hired from the outside; a candidate's age, industry expertise or experience in the same role predict his or her likelihood of success; and the most tempting piece of advice of all — just hire a "star."

Drawing on empirical analysis, case studies and the collective observations from the firm's many years of client work, a new book by Spencer Stuart consultants James M. Citrin and Julie Hembrock Daum concludes that selecting the best person for a role is not about choosing a superstar. Instead, it's about matching the right individual to the right situation, and using the right process to get it done.

Contrary to many of the myths and assumptions surrounding the selection of new leaders, *You Need a Leader — Now What?* argues that the process of choosing a leader should begin with a deep understanding of the organization's needs and the kind of person who will both fit into its culture and bring the right experience and skill-set to get the job done — and only then go out to find the person who best matches those needs. This may seem like common sense, yet in practice this represents a different way of thinking for many organizations.

Every group — company, organization or community — has unique characteristics, requirements, cultural attributes and specific needs that must be addressed by its leadership. Efforts to hire a superstar CEO can backfire when the individual is not well-matched based on the organization's specific attributes and requirements. In their book, Citrin and Daum outline how organizations can design a rigorous process for determining their leadership requirements and for identifying the individual best equipped to address them.

We provide an edited excerpt of the first chapter here.

The Curious Case of Bill Perez*

You have a key leadership job to fill. Naturally, you want the very best person. But what does this really mean?

Have you ever come across situations in which the same person, with similar mandates executed more or less the same way, could be a spectacular success in one situation and an outright failure in another? What does this imply about how to choose the very best people for your top leadership positions?

This is precisely what we will explore in the illuminating story of an American executive named William D. "Bill" Perez, who rose through the ranks to become the chief executive officer of consumer products giant S. C. Johnson & Son, and then went on to be recruited from the outside to lead Nike and then Wm. Wrigley Jr. Company.

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Over the years, Nike rode the wave of — some would say drove — the fitness revolution behind high-profile athlete endorsements, a continuous flow of new product

* James M. Citrin, Julie Hembrock Daum, "The Curious Case of Bill Perez," in *You Need a Leader — Now What? How to Choose the Best Person for Your Organization* (New York: Crown Business, 2011), pages 3-15.

introductions, and the company's cult-like devotion to founder Phil Knight, who with his ever-present sunglasses and wavy reddish-blond hair was the embodiment of cool. He led the company's initial public offering in 1980, drove the organization past the $1 billion revenue mark in 1986, and was profiled in an August 1993 *Sports Illustrated* cover story under the headline "How This Man Turned a Tiny Sneaker Company into the Most Powerful Force in Sports." In 2004, 45 years after graduating from the University of Oregon (having become its most famous, wealthy and philanthropic alumnus), and with the company exceeding $12 billion in revenues, Knight, then 66 years old, was ready to turn over the reins.

The process of choosing a leader should begin with a deep understanding of the organization's needs and the kind of person who will both fit into its culture and bring the right experience and skill-set to get the job done.

Both Knight and Nike's board of directors became convinced that the way the company developed products, marketed to consumers and sold to retail was anachronistic compared with the best practices of the most successful consumer products companies. The two logical, potential internal successors had little, if any, experience with the world-class marketing techniques used by consumer products companies. Knight, therefore, felt he had to go outside the company, conducting a highly secretive search for his replacement.

After reviewing 75 résumés, personally interviewing 15 candidates, and hosting a series of meetings with "the final four" candidates from several of the world's most renowned consumer product companies, Knight made his choice. It was Bill Perez, a highly regarded CEO, who had spent 34 years with S. C. Johnson, the private company founded in 1886 and maker of Johnson Wax, Windex and dozens of other household brands. Even though he had had eight years of experience as CEO of a $6.5 billion global consumer products company, the announcement of Perez came as a surprise to Nike employees, investors and the sports industry alike. Perez was a well-respected chief executive, to be sure, but an unknown outsider whose experience with Nike was limited to wearing the company's running shoes as a marathoner. Nonetheless, the choice was seen as evidence that Nike wanted to professionalize its management approach and implement the disciplines of consumer packaged goods marketing, product development and market research.

Perez realized that he had to integrate himself successfully into a distinct culture that had limited success bringing in outsiders at a senior level. He had done his homework and tried to address this. Before Perez accepted the position, Knight and Perez had multiple one-on-one meetings and two dinners over a year-long period. They talked about management philosophies, brand building, their respective corporate cultures, Knight's vision for the company and how they would work together. By the time he accepted the CEO offer, Perez concluded that despite the differences in industry sector and corporate cultures,

Six Common Leadership Selection Traps

As important as it is to have a rigorous process for defining the organization's requirements and cultural attributes before selecting a new leader, it is just as important to know what pitfalls to avoid when hiring or promoting a leader into a key role. Here are several of the most common mistakes organizations make.

1 Mistaking charisma for skill

Personal charm is an attribute, like eye color or left-handedness. It can be a useful tool in navigating interpersonal relationships, but is nowhere near as important as performance in critical parts of the job.

2 Using past failure to reject a candidate

Knowing that someone failed in a past role is important; knowing why someone failed is essential. Sometimes a person fails in one organization because of factors unrelated to his or her skills. Your company may well be the perfect environment for that individual to flourish.

3 Assuming someone thinks like you do

Everyone approaches problems differently, and that mix of styles can sometimes result in a harmonious work environment. However, hiring a leader with dramatically different cultural values will usually lead to discord and dysfunction. Understanding who the candidate is must be a part of any candidate evaluation.

4 Failing to determine what kind of leader you're looking for

Do you need a visionary? A nuts-and-bolts guy? If you can't lock down your sense of the job, a potential leader will know it, and steer clear of a job that will necessitate pleasing opposing factions and bring nothing but headaches.

5 Rushing the process

Urgency can lead a company to speed up the due diligence process. Those skipped steps could be crucial ones, though, like fully vetting the top candidates, or making sure all relevant voices are heard when it comes time to make the final decision.

6 Hiring a "number two" as a potential successor

It sounds logical to pick a CEO-in-waiting, who can learn the ropes on the job. The reality is that someone in this position begins his or her tenure as a subordinate without the ability to exercise personal initiative. They lack the credibility of a true insider or an outsider charged with driving change, and tend to play it safe to hang on to the promised spot as chief executive.

much of what he had learned over the years about marketing, management and brands was indeed applicable to Nike. He also adopted the appropriate mindset for someone moving into a leadership role from outside the organization. "I've got to learn from the Nike people and understand the culture," he said. "The last thing I want to do is disrupt it."

Despite the best of intentions and extensive due diligence on both sides, it did not work. Armed with the personal mandate from Knight to apply the sophisticated practices from packaged goods marketing, one of Perez's early initiatives was to go out with members of the company's sales force to visit Nike's largest retail partners. This is Management 101 to those trained in the blue-chip consumer marketing world and exactly what Knight had hired Perez to do. Perhaps it was his reclusive personality or perhaps he didn't think it was necessary, but whatever the reason, Knight had not communicated his endorsement of Perez's new approach around the Beaverton, Oregon, campus. The new CEO seemed out of step, and the whispering campaign soon began. Executives were further taken aback when Perez sought to establish a consumer insights capability, using market research to understand what customers were looking for in Nike's offerings. Again, for marketers at S. C. Johnson, Procter & Gamble, PepsiCo or hundreds of other marketing-driven companies, forming such a group would have been considered a baby step toward linking product development with customer preferences. But not at Nike. "We don't ask consumers what they want," the way of thinking went. "We design products that they have never thought of and show them that they want them."[1]

Have you ever come across situations in which the same person, with similar mandates executed more or less the same way, could be a spectacular success in one situation and an outright failure in another? What does this imply about how to choose the very best people for your top leadership positions?

Influential company executives started talking about how Perez didn't have an emotional connection to the Nike brand. He was too cold, overly numbers driven and analytical. Long-serving executives started lining up outside Knight's Zen-garden-inspired office, from which he rarely ventured. Behind closed doors Knight was being buffeted by these criticisms from trusted colleagues, many of whom had worked for Knight their entire careers. And while Knight and Perez had weekly meetings to review progress and priorities, the communications were breaking down between the two. Perez says that Knight had not given him feedback about the concerns coming to him from the executive team. Since he thought he was doing precisely what he had been hired to do, he was shocked when at the seemingly routine Monday meeting on January 9, 2006, only 13 months after assuming the CEO position, Knight delivered the fateful news. Perez told

1 Senior Nike executives are unapologetic about this approach, stressing correctly that other innovative companies such as Apple also lead — rather that react to — customer preferences.

us what Knight said verbatim. “This is not working. You can resign amicably or go fight it with the board.”

Perez did in fact appeal to the board, but to no avail. The irony is that Nike’s performance during his short tenure was strong. Net income surged 28 percent to $1.2 billion from a year earlier, while sales rose 12 percent to $13.7 billion. The problem was clearly not one of performance. And contrary to the most common explanation, it was only partially a function of a cultural mismatch. Had the company been in a crisis situation, with a so-called burning platform for change, the initiatives that Perez was attempting to drive would have been more palatable and therefore almost certainly more successful.

After the Nike debacle, Perez’s formerly stellar career was in disarray. He received a number of calls about joining boards. But he turned them all down because he wanted to get back to work and was already on the Kellogg and Hallmark boards. He had “failed as a CEO” and had shown that “he couldn’t adapt to another culture” after a lifetime inside the staid, private S. C. Johnson. Boards of directors, even in his very own consumer products industry, were reticent to consider him for top executive positions. Perez was at a crossroads in his career, similar to many severed executives. Should he attempt to “get back up on the horse” and try to rebuild his reputation? Or should he slip into a comfortable retirement? Surely he had learned the lesson never again to work as an outsider CEO for a powerful chairman in a founder-led or family-controlled company.

Bill Perez and Bill Wrigley Jr., however, came to an altogether different conclusion. What happened next to Perez helps demonstrate perhaps the essential truth when it comes to hiring a person for a top leadership job: It’s not about selecting a great individual to do a job. It’s about matching the right individual to the right situation, and using the right process to get it done.

It’s about matching the right individual to the right situation, and using the right process to get it done.

That is our central message, one contrary to much that passes for conventional thinking about which people to place in senior-level positions. It’s less about going out to find an individual superstar and more about deeply understanding what an organization needs and what kind of person would both fit into the culture and bring the right experience and skill-set to get the job done and then going out to find the best person to match the need. While this may seem like common sense, we’ll help you understand that this is a different way of thinking. Our goal is to provide you with a framework for filling key leadership positions not only at the top but throughout your organization.

William Wrigley Jr. II[2], who stood at the helm of the company his great-grandfather founded in 1891, determined that he needed a seasoned executive to help navigate the company through the difficult absorption of the Altoids and Life Savers businesses acquired for $1.5 billion in 2004. Wrigley suggested Perez as a candidate to the company's board based on his CEO experience at S. C. Johnson, where he had led the acquisition and integration of numerous consumer companies. Wrigley and the board conducted intensive due diligence on Perez's troubles at Nike and his extensive career at S. C. Johnson, speaking with board directors and former direct reports from both companies. Since Wrigley and S. C. Johnson shared many of the same retail customer accounts — including the largest supermarket chains, drugstores and mass retailers — they were able to get an unbiased market point of view on Perez's reputation and management style. This research plus extensive conversations with Perez, during which he dispassionately shared his lessons learned from the Nike saga, helped Wrigley come to the conclusion that Perez's failure wasn't a question of him being "a bad" CEO. Wrigley also recognized that his company had more similarities to S. C. Johnson than to Nike in its management approach, the way it sold into the retail channel and its marketing, advertising and product development processes. So they decided to go with Perez.

Perez's success as an externally recruited CEO at Wrigley defied much conventional wisdom about top management recruitment, such as: Don't select an executive who "failed" or that recruiting executives from the outside is much riskier.

The decision to appoint Perez was quickly validated inside the company, and soon in the marketplace and on Wall Street. Unlike Nike, where Knight had been mum about the changes that Perez was implementing, this time he had the visible and well-communicated support of chairman Bill Wrigley Jr. Perez was therefore able to immediately realign global operations to have all of the regions report directly to him. He had the mandate to get directly involved in product development, engaging freely with the company's food scientists, flavoring experts and manufacturing managers. Based on his past experience working with S. C. Johnson's sales force with grocery and convenience stores, he was able to relate to the Wrigley salespeople about how to win more shelf facings from the competition with the major retail customers. The result? Wrigley saw marked growth in international profits from a more efficient global supply chain. The product development teams revamped the flavors of their Extra and Wrigley's brands and spearheaded the introduction of the Slim Pack, a sleek, 15-stick envelope-style packaging that would be more durable and portable. Most significantly, Perez convinced the company's management team and board that their nine-figure investment in 5 Gum was worth it. The new packaging, marketing and flavoring formulations unleashed unprecedented growth in the core chewing gum business in what was an otherwise mature industry.

2. Bill Jr. is the son of William Wrigley III (1933–1999), the grandson of Philip K. Wrigley (1894–1977) and the great-grandson of William Wrigley Jr. (1861–1932).

In less than two years with Perez as CEO, Wrigley's share price increased by 50 percent, fueled by growth in revenues and net income of 23 percent and 29 percent, respectively. With Perez, the Wrigley Company was flourishing once again under the leadership of a CEO who came from the outside after three generations of family management. Perez's success as an externally recruited CEO at Wrigley defied much conventional wisdom about top management recruitment, such as: Don't select an executive who "failed" or that recruiting executives from the outside is much riskier.

By October of 2008, Wrigley had gone from a solid to star performer under Perez, and it became an irresistible acquisition target. So with the support of the Wrigley family and the company's board, Perez led the sale of Wrigley to Mars. The $23 billion deal represented a 28 percent premium over the share price, and the sale was overwhelmingly approved by shareholders. In a less formal vote, the deal also won the approval of the company's management, who would stay in place as Wrigley became a stand-alone business unit of Mars. After the closing of the sale, Perez was able to leave the company, satisfied that it was in good hands and that his executive reputation was back intact.

The Lesson

It's not that Bill Perez was a "good" leader at Wrigley or a "bad" one at Nike that led to his success or failure. He had substantially the same directive at Nike and Wrigley. And he actually did many of the same things as CEO in both situations.

It turns out that it was really less about Perez the individual and more about Perez as a piece in distinctly different puzzles. At S. C. Johnson and Wrigley, Perez was the right fit. Even though he was the same person, the situational and cultural contexts were completely different at Nike, and that helps explain much of why the outcomes were dramatically different. His experience is an illuminating example of how even an excellent manager will be successful only if properly matched to the environment into which he is placed. If the piece does not fit nicely into the contextual jigsaw, all the talent, skills and experience will be for naught or worse.

About the authors

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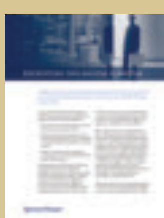

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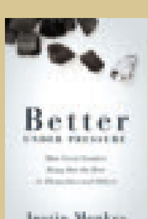

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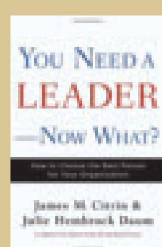

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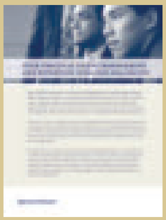

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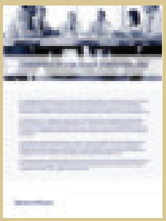

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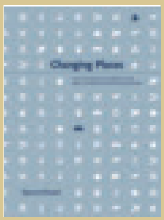

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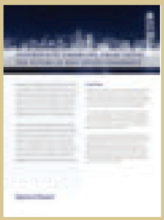

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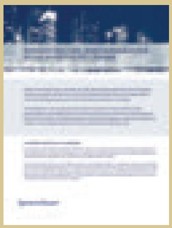

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