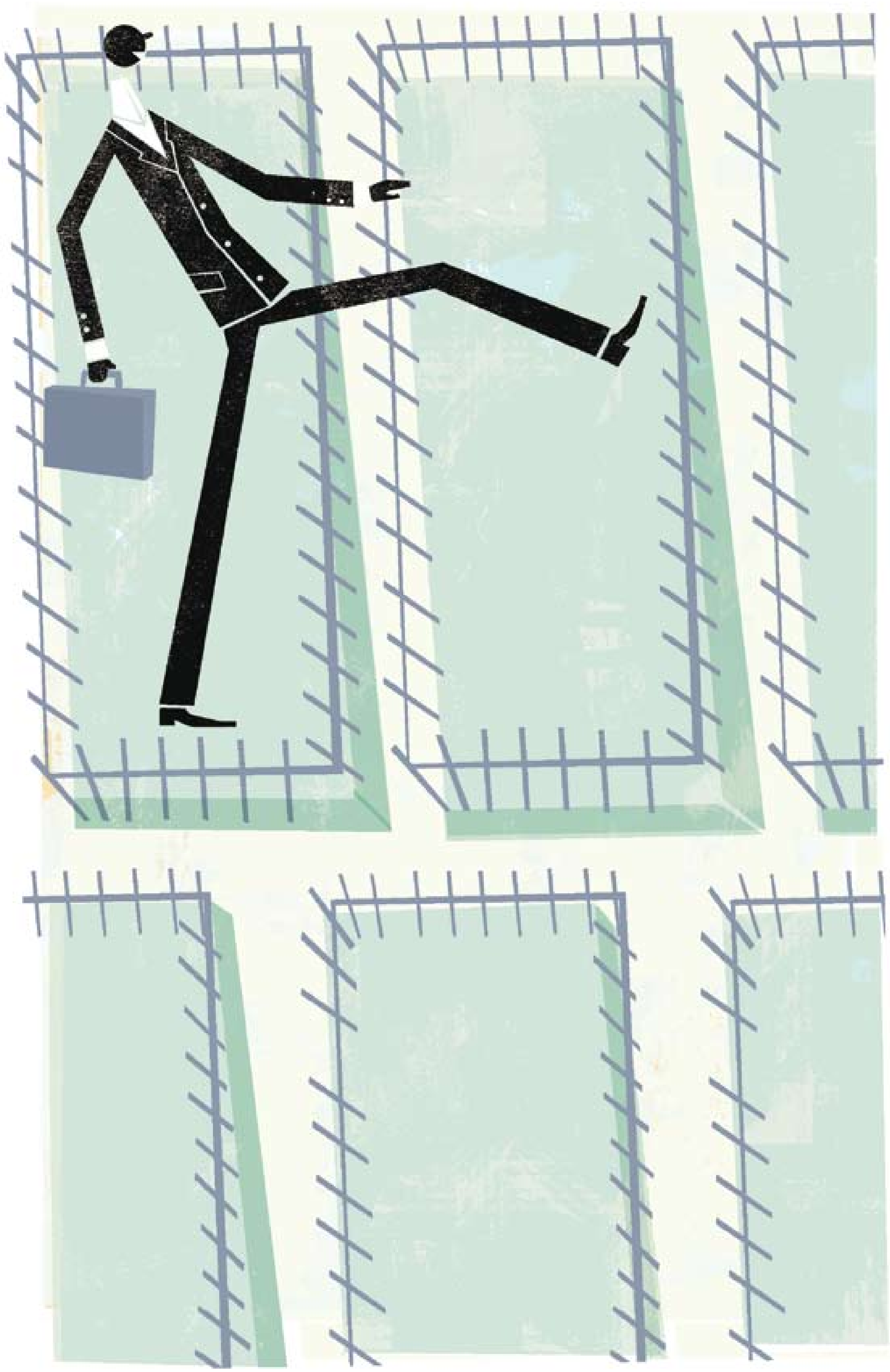






# Grooming CEO talent at the truly global firm of the future

*Herman Vantrappen and Petter Kilefors*

**One of the main effects of globalization is that firms today are sourcing around the world to get the best value for money. Despite this, in many companies top management talent is still sourced from within national borders. We took a close look at the 2008 Fortune 500 list and identified companies and countries where the percentage of foreign CEOs is highest. The key message we found is crystal clear: the talent pool is much bigger than is commonly thought and global companies are losing out on talent if they limit themselves to native CEOs only.**

We are living in a global business world. Between 1998 and 2008, international trade volumes grew at 5.7 % per year, easily outstripping the growth rate of world output, which was around 3 % over the same period. Capital is flowing across geographic boundaries, for example through the investments of sovereign wealth funds, whose assets under management were estimated at US$3.6 trillion at the start of 2008. Global brands, including those from emerging market champions such as Lenovo or Haier, are spreading and attracting consumers worldwide. And companies are extending their worldwide footprint: foreign direct investment inflows and outflows grew by 11 % and 13 % respectively annually between 1998 and 2007. Even if the 2008-2009 economic downturn is sending some of the above indicators negative, most observers would agree that this is a temporary interruption that will not halt the march of globalization in the longer term.

Despite the globalization of business, one resource still appears to be rather local, and that's top management talent. The vast majority of companies have a CEO from the same country as that in which the company is headquartered. There are of course good reasons why small and medium-sized companies (SMEs) have a local CEO. The CEO's local network, language and cultural fit are highly important to SMEs, and the internal talent pool from which they can draw is predominantly local.

But the largest companies with global activities also mostly have CEOs who originate from the countries in which the companies are headquartered. If we consider the 10 largest 2008 Fortune Global 500 companies, only one of them, the US company Chevron, has a CEO from another country (Ireland). The others (Wal-Mart Stores, Exxon Mobil, Royal Dutch Shell, BP, Toyota Motor, ING Group, Total, General Motors and ConocoPhillips) have a "local" CEO despite, in most of these cases, the majority of their workforce being international (e.g., at the end of 2008, 87 % at Chevron, 83 % at BP, 76 % at ING and, at the end of 2007, 63 % at Exxon Mobil).

In other words, global CEO trade still appears to be in its infancy. The truly transnational CEO is still an emerging species. This article will show that large global companies deprive themselves of an opportunity to create value if they do not remove the unintentional bias they may have against non-native senior managers. Our point is not that a CEO from outside the company's home country necessarily performs better than one from within. The point we will make is that truly global companies should initiate policies, programs and practices to attract and develop top management talent from outside their country's borders. The future belongs to companies that succeed in grooming the best global talent.

First we quantify the CEO "import" and "export" levels at the Fortune Global 500 companies by country and by sector. Then we explain why the "origin" of a CEO does matter. Finally we discuss how companies can begin grooming global top management talent.

*Truly global companies should initiate policies, programs and practices to attract and develop top management talent from outside their country's borders. The future belongs to companies that succeed in grooming the best global talent.*

## The global CEO trade phenomenon

Our analysis of companies on the Fortune Global 500 list provides insight into the following topics (see insert for more details about the research):

- "Imports": How many companies have non-native CEOs and which countries are most open to CEOs from another country?
- "Exports": Which countries supply the most CEOs to companies headquartered overseas?
- "Trade": Which countries make the largest contribution to the foreign CEO trade, i.e. have both a high concentration of non-native CEOs and supply CEOs to companies headquartered overseas?
- "By sector": Which industry sectors have the most companies with non-native CEOs?





### About the research

Using the 2008 Fortune Global 500 list of companies (issued July 21, 2008) as the basis, we ranked the companies by the location of their headquarters. Using each company's corporate website, we identified the CEO leading each of these 500 companies at the time of our research (April 2009). We gathered data about the CEO's origin and career path from the company's corporate website or, where insufficiently detailed or lacking, other publicly available sources such as media reports and the Notable Names Database (www.nndb.com).
In this context, the term "origin" means the country where the CEO grew up, received his or her (undergraduate) education and in many cases started his career. The term does not in the first instance refer to the CEO's nationality, as people may change nationality during their lives or may have dual nationality. The term "non-native" in this context refers to those CEOs originating from somewhere other than where their company has its corporate headquarters.
In this article we provide only the most salient research results. More detailed results can be obtained directly from the authors.

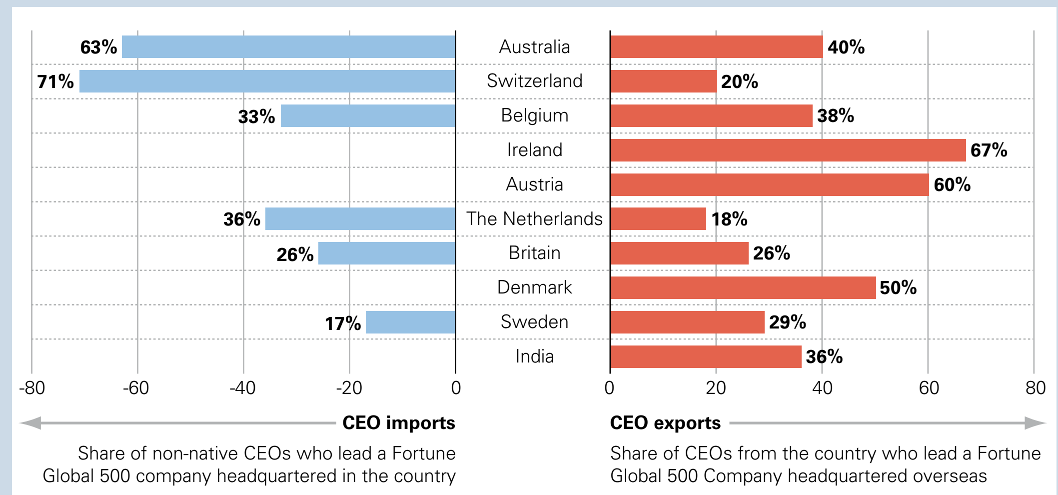
*All but two of the top 10 CEO-trading countries are European, and mostly smaller ones.*

Of the 500 companies on the Fortune Global list, 68 (i.e. 14 %, or just over one in seven) have a non-native CEO. Obviously the US scores highest (19 US companies have a non-native CEO), as almost one in three (31 %) of the Fortune Global 500 companies have their headquarters in the US.

Therefore we looked at relative import and export levels by country. How many companies have non-native CEOs *relative to* the total number of Fortune Global 500 companies with their headquarters in the country; and how many CEOs does a country supply to other countries *relative to* the total number of Fortune Global 500 CEOs originating from that country? As Table 1 shows, all but two of the top 10 CEO-trading countries are European, and mostly smaller ones. Except for India, there are no BRIC countries or other emerging countries on the list, and only one developed non-European country (Australia), even though Japan, South Korea and Canada host quite a few Fortune Global

500 companies. Japan, for example, hosts 64 Fortune Global 500 companies, yet only two of those have a CEO from outside Japan, and no Japanese CEO heads a Fortune Global 500 company outside Japan. Among European countries, Spain, Italy, France and Germany are notably absent from the top 10.

Table 1 **Imports/exports of Fortune Global 500 CEOs by country of destination/origin (top 10)**




Source: Fortune, Arthur D. Little analysis

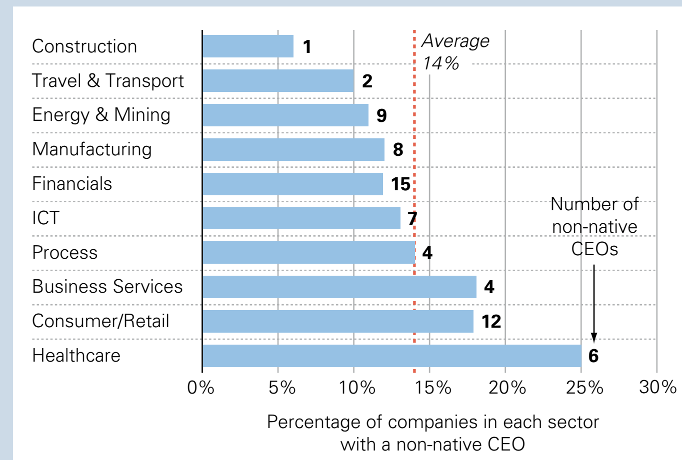
We made a similar analysis of CEO import levels by sector. Some sectors are more open to CEOs from beyond their borders than others (see Table 2). The sectors with the highest relative number of companies with a non-native CEO are healthcare and consumer/retail. Several factors could explain their high level. First, the majority (if not all) of the largest companies in these sectors are based in the US or Europe, and these two regions have a long tradition of growing non-native executive talent. Second, these companies have been truly global for a long time and have always had HR policies that stimulate international management mobility (see, for example, the Nestlé case study below). A third reason may be that home-country networking (especially with public officials and regulators) is less important in these sectors than, say, in energy/utilities, construction and travel & transport. Finally, companies in these sectors tend to steer crucial functions from the center quite strongly (e.g., R&D in healthcare, brand management in





consumer) and hence leaders in these functions (an R&D manager or a brand manager) are quite visible to the headquarters where nomination decisions are made, regardless of the country in which they are based.

Table 2 **Imports of Fortune Global 500 CEOs by sector**




Source: Fortune, Arthur D. Little analysis

## Why CEO "origin" matters for business

One could argue that a leader's "origin" is a non-issue, just like gender, skin color and other personal characteristics. What should count are the individual manager's intrinsic capabilities. Managers should be promoted based on their performance and skills, irrespective of considerations about their origin or nationality. Of course that is very true, but in reality the situation is not that straightforward.

First, origin and cultural background may be one among other elements that do determine a manager's fitness for the CEO's job. After all, CEOs have both an internal and an external role where their personal origin may influence their capability to fulfill these roles well. The CEO's internal role is to rally all employees behind the company's vision and strategy. To the extent that the majority of employees are located within the company's home country, it may be important for the CEO to share a close cultural affinity with that country, including local language proficiency. This seems to be particularly true in countries outside the Anglo-Saxon business culture, such as Japan, China and South Korea.

*Managers who have purposefully pursued a successful international career – moving across countries and cultures – are likely to have developed some desirable CEO skills and traits such as inquisitiveness, ability to connect emotionally, tolerance for ambiguity and ability to balance tensions.*

The CEO's external role is to represent the company to outside stakeholders, including government regulators, core shareholder groups, alliance partners, key customers and the company's board of directors – all of which have an increasingly transnational make-up. However, when these stakeholders are located primarily within a company's home country, the native CEO who is part of the local informal power networks may indeed be better positioned to gain their trust. For instance, the two Japanese companies out of the 64 on the Fortune Global 500 list with non-native CEOs both have a clear global business scope and were in deep crisis when appointing their current leaders: Sony with CEO Howard Stringer (of British/US origin) and Nissan with CEO Carlos Ghosn (of French/Brazilian origin).

There is a second reason why a manager's "origin" is not a neutral characteristic. Managers who have purposefully pursued a successful international career – moving across countries and cultures – are likely to have developed some desirable CEO skills and traits such as inquisitiveness, ability to connect emotionally, tolerance for ambiguity and ability to balance tensions. As a consequence, if a company has an unintentional or systemic bias against selecting its senior management team from other countries, it risks depriving itself of a highly capable talent pool from which to develop future CEOs. With this in mind, global companies should not only make special efforts to eliminate any bias that may exist against recruiting managers of foreign origin, but should also initiate programs to attract and develop such managers. This is particularly critical for those companies with a policy or practice of making chiefly internal promotions.

## Enabling the emergence of transnational leaders

In order to better understand what companies can do to develop and attract managers of foreign origin, we studied in more detail the careers of the 68 non-native Fortune Global 500 CEOs. There are some quite remarkable differences between them in terms of the global career paths each has followed. On that basis, we can classify the CEOs into four types: "settler", "missionary", "explorer" and "nomad." In their purest manifestation, they are defined as follows:

- "Settler": A manager who moves to a new country early in his or her career (e.g. after graduate studies there) and then spends the rest of that career in the new country, often at one or a very small number of companies (see insert for some examples).

- "Missionary": A manager who spends his or her career at one company and works for it in many different countries, often starting at the company's subsidiary in the manager's country of origin.

- "Explorer": A manager who makes frequent career changes between companies (often in different sectors), thereby moving from one country to another.

- "Nomad": A manager who is owner and head of a business that grows across countries (often through acquisitions), and changes country as the company's centre of gravity shifts.

We found that roughly one in two CEOs falls into the "missionary" category, and one in four into the "explorer" category. The average age of both types of CEO is 52. The "settler" and "nomad" type are rarer (16 % and 4 % of the total), with an average age of 62 and 68 respectively.

**Examples of the four types of CEOs working outside their country of origin**

Here are some examples of the four types of non-native CEOs.

**1. Settler**

- Wolfgang Mayrhuber was born and educated in Austria. He began his career at Lufthansa Group in Germany and continued his career there for almost 40 years, becoming CEO in 2003.

- Anthony Nightingale was born and educated in Britain. He joined the Jardine Matheson group in Hong Kong 40 years ago, becoming its CEO in 2006.

- Vikram Pandit was born and raised in India, and moved to the US to pursue university qualifications (B.S., M.S., Ph.D.). He spent 15 years at Morgan Stanley in the US and became CEO of US-based Citigroup in 2007.

**2. Missionary**

- Paul Bulcke was born and educated in Belgium. He joined Swiss-based Nestlé as a trainee 30 years ago, working his way up through subsidiaries in Switzerland, Spain, Belgium, Peru, Ecuador, Chile, Portugal, the Czech and Slovak Republic and Germany to become responsible for the Americas and then CEO in 2008.

- Muhtar Kent was born and raised in Turkey and educated in Britain. He joined the Coca-Cola Company in the US 31 years ago, assuming increasing responsibilities in its international business or at bottler companies in Turkey, Central & Eastern Europe and North Asia. He finally became CEO in 2008.

- Severin Schwan was born and raised in Austria and educated in Austria, Britain and Belgium. He joined Swiss-based Roche 16 years ago, working in Switzerland, Belgium, Germany and Singapore, and finally became CEO in 2008.

*We found that roughly one in two CEOs falls into the "missionary" category, and one in four into the "explorer" category. The average age of both types of CEO is 52.*

**3. Explorer**

- Peter Löscher was born and educated in Austria. His career path has taken him to seven companies (Kienbaum, Hoechst, Aventis, Amersham, GE, Merck and Siemens) with an average stay of two to three years, in a wide variety of countries (Spain, the US, Germany, Britain and Japan). He finally became CEO of German-based Siemens in 2007.

- Ben Verwaayen was born and educated in the Netherlands. His career path has taken him through ITT in Europe, KPN in the Netherlands, Lucent Technologies in the US, BT in Britain and finally Alcatel-Lucent in France, where he has been CEO since 2008.

- Solomon Trujillo was born and educated in the US. After spending the first part of his career at US-based telecommunications companies, he became CEO of British-based Orange and finally CEO of Australian-based Telstra four years ago.

**4. Nomad**

- Rupert Murdoch was born in Australia and educated in Britain. He founded News Corporation in Australia and expanded it to Europe, the Americas and Asia. He later acquired American citizenship and the company is now headquartered in the US.

- Lakshmi Mittal was born and educated in India. He founded Mittal Steel in India, starting a string of acquisitions across the world. The company finally merged with Arcelor to form Luxembourg-based ArcelorMittal.

- Stefano Pessina was born and raised in Italy, where he expanded the family drug wholesaling business across Europe, including through acquisitions, finally leading to the formation of Swiss-based Alliance Boots in 2006.

While any classification fails to capture all the nuances of a CEO's career progression (e.g. some leaders were "missionaries" throughout the main part of their careers and "explorers" in the final part), the pure global CEO "types" are sufficiently robust to provide insight that can guide companies' strategic investment in a global talent pool for senior leadership.

Against this backdrop, where should we look for best practices in attracting and developing non-native leaders? We can immediately disregard companies led by a CEO of the "nomad" type: these are very rare, as it is not common to grow a business single-handedly into a Fortune Global 500 company. Additionally, by definition a "nomad" does not transplant into another company. We can also ignore the "settler" as they have integrated into their new home country and lost much of their "foreignness." The "explorer" should not be too much of a focus either: they regularly change company, most often after being headhunted, and are therefore harder to coach along a career path. Thus, companies led by a CEO of the "missionary" type can teach us most about developing transnational leaders.

A "missionary" has some particularly desirable CEO traits such as inquisitiveness, the ability to connect emotionally, tolerance for ambiguity and the ability to balance tensions and, equally importantly, they demonstrate loyalty to the company. Therefore it is in the company's interest to ensure that managers originating from another country are not (unintentionally) disadvantaged when it comes to matters of development and promotion. Every CEO of a global company should take a step back for a moment and ask themselves whether foreign managers of the company's overseas subsidiaries would genuinely believe they could ever become CEO. If the answer is "probably not," you risk forsaking an enormous opportunity to boost the company's long-term value-creation potential.

*Every CEO of a global company should take a step back for a moment and ask themselves whether foreign managers of the company's overseas subsidiaries would genuinely believe they could ever become CEO.*

In order to eliminate any unintentional disadvantage, companies can introduce various policies, programs and practices that, over time, will change the nationally biased approach some companies still take to managing executive talent.

First, companies should not look narrowly at the CEO alone, but also at the levels just below (board of management) and above (board of directors, and its nomination committee in particular). The composition of these two boards will send a strong signal to the entire organization. If they are populated by people from diverse origins, the claim that "country of origin" does not matter in making it to the top suddenly gains credibility. Take Royal Philips Electronics of the Netherlands, for example. Its board of management comprises six members, each of different origin: from the Netherlands (CEO), Germany, the US, Italy, Belgium and France. Its board of directors comprises nine members, of which three are from the Netherlands, two from the US, one from Canada, and one each from Britain, Belgium and Germany. The three members of its nomination and selection committee are from the Netherlands, the US and Canada.





Establishing divisional headquarters in other countries is another structural approach companies can take to boost opportunities for foreign managers to gain exposure to "life at headquarters." Of course, there are many factors that determine the location of a divisional headquarters, but stimulating the growth of international talent should be among them. For example, of the three businesses of Royal Philips Electronics, Lighting and Consumer Lifestyle are headquartered in its home country (the Netherlands), while Healthcare has dual headquarters in the Netherlands and the US.

Generally, remarkably few Fortune Global 500 companies have divisional headquarters located in countries outside of their corporate headquarters. Take GE, for example. Leaving aside GE Capital and NBC Universal, the global headquarters of nine of its ten businesses are spread across the US, where GE's corporate headquarters are located. The only division with headquarters outside the US is GE's Oil & Gas business, which is located in Italy.

*Establishing divisional headquarters in other countries is another structural approach companies can take to boost opportunities for foreign managers to gain exposure to "life at headquarters."*

There are a variety of other less structural actions that global companies can take to provide exposure and equal chances to non-native managers. To give a few examples:

- If company policy is to use English as the company language, ensure it is applied in practice.
- Rotate country managers between countries (as opposed to only exporting managers from company headquarters).
- Allow managers from other countries to spend time at headquarters.
- Celebrate the success of managers from other countries when they move up the ranks.
- Use a 'Corporate University' scheme to bring leaders together.
- When making acquisitions, make sure that the quality of the target company's international talent pool is a key assessment criteria.

The insert provides an illustration of how the global food company Nestlé goes about grooming transnational leaders.

**Grooming transnational leaders at Nestlé**

Nestlé is the world's leading nutrition, health and wellness company, ranked 57th on the 2008 Fortune Global 500 list, with sales of €72 billion, around 283,000 employees and factories or operations in almost every country in the world. Its corporate headquarters are in Switzerland yet around 90 % of its sales are generated outside of the Swiss market.

Only one of the 13 executive board members is of Swiss origin. The others are from Spain (three), the US (two), Canada, France, Germany, Guyana, the Netherlands and South Africa. The CEO himself is from Belgium, and clearly can be described as a "missionary" type of non-native leader, as described previously.

The situation is less diverse at the level of the board of directors. Six of the 12 directors are from Switzerland, as are half of the four members of the nomination committee. Of the divisional headquarters, all but one are based in Switzerland (Nestlé Waters is headquartered in France).

That said, Nestlé has long been recognized for its skill in developing international leaders. As Ed Marsh, the company's Head of Talent and Organization Development, says: "Having international managers is so normal that everyone within the company takes it as a given. We are a multi-local company with international managers." For example, a Swiss national learned Russian in order to become market head in that region, and subsequently learned Spanish to become market head in Spain. The corporate headquarters hosts around 2,500 employees, comprising around 80 different nationalities and some 30 different mother tongues. According to Ed Marsh, if international employees were asked whether they believed that, given the right capabilities, they had the same chance of becoming CEO as a Swiss national, they would definitely answer "yes."

Nestlé has adopted various policies, programs and practices to groom transnational leaders. It starts at recruitment: while recruiting for its management trainee program, Nestlé favours applicants with double nationality, international parentage or those who have lived in multiple countries.

Having experience of working outside one's home country is a prerequisite for promotion to a senior management position. Nestlé believes that international experience makes its employees both better human beings and better managers. It challenges their assumptions, makes them more open, more international and exposes them to a wider variety of business situations. In order to enable managers to obtain international work experience, the company has a program of active international job rotation and makes extensive use of expatriation contracts, in spite of their relatively high cost. This is similar to Royal Philips Electronics' "2x2x2 Leadership Approach" for experienced MBAs: as future leaders within the organization, they are required to work in two different businesses, in two different functions and in two different regions. Its aim is to take people out of their comfort zone by stretching their capabilities further.

The career development path at Nestlé typically includes two stays at corporate headquarters, one in the early stages of an individual's career and the other when employees reach mid-management. The motivation for this is dual. Firstly, employees gain a global perspective, and are exposed to different business models and the full range of Nestlé's businesses. Secondly, the exposure to corporate headquarters gives future leaders an opportunity to build a network of contacts.

Generally, the most important enabler of the development of transnational managers is having a corporate strategy that aligns with that objective. Ed Marsh concludes: "When the corporate strategy clearly states the ambition to be an international company, not only in terms of sales but also in terms of working culture, existing HR processes must align with that objective to foster international leaders."

## Insights for the executive

Large global companies, like most of those on the Fortune Global 500 list, have demonstrated through their success an impressive range of capabilities: the ability to see new opportunities and threats across the globe, especially from emerging and unknown markets; the ability to mobilize and engage stakeholders globally, such as customers, suppliers, regulators and investors; and a footprint (manufacturing, R&D and other resources) that is spread carefully across continents and national borders, stretching far beyond the home country.

However, their globalization efforts appear to be lagging in one important domain, i.e. top executive talent. While these very largest companies have otherwise already become very global, only a small minority of them (14 %) have a non-native CEO. While in specific cases there may be valid reasons for preferring a "local" CEO, in most cases the low figure reveals a deep-seated, albeit wholly unintentional, bias against senior managers of foreign origin. Truly global companies will have to work on eliminating this bias. Otherwise they risk depriving themselves of a source of highly capable CEO-ready management talent.

If, say, three quarters of revenues, manufacturing capacity or middle managers are from outside the home country, then purely statistically speaking it would be normal to also have more CEOs from outside the home country. More fundamentally, senior managers of foreign origin who have purposefully pursued a successful international career and have been able to rise close to the top despite being foreign can be assumed to have some highly desirable CEO skills and traits such as inquisitiveness, the ability to connect emotionally, tolerance for ambiguity, and the ability to balance tensions. If a company does not exploit this strength, it is depriving itself of an opportunity to get even better top talent – and destroying potential value.

Large companies from emerging countries with global ambitions will have to start paying particular attention to grooming truly global top executive talent. Our analysis shows that they are lagging behind the US and Europe in this regard, as their share of foreign CEOs is lower than their share of the Fortune 500 Global list.

As a consequence, global companies should not only make special efforts to eliminate any bias that may exist against managers of foreign origin but should also initiate policies, programs and practices to attract and develop such managers. While none of these will yield immediate results, they will boost the company's long-term value-creation potential.

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