



PDA Newsletter September 2016
Taking Your Company Across Global Borders
The Advantage of Global Expertise on the Board

Upcoming Events

Breakfast Roundtable:
It's a Crisis! Is Your Board Ready?

September 14, 2016

Starts 8:00 AM
 Levenfeld Pearlstein LLC
 2 N LaSalle Street, Suite 1300

The Difference Between Private and Public Company Boards

September 21, 2016

Starts 5:30 PM
 Perkins Coie
 131 S. Dearborn Street
 Chicago, IL 60603

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Contributing Editor: *Mona Pearl is Founder & Chief Operating Officer: Beyond a Strategy, a global business development firm that works with Fortune 1000, middle-market, and emerging markets companies; and a Founding Member of the Private Directors Association™*
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Consider a technology company from the West Coast with annual sales of \$10 billion looking to expand into Asia. This high-tech company identified a deficit of board-level talent to direct the expansion. The organization lacked board members with both native and proven global experience. When the search was initiated, the defined requirements were for a person from Singapore with Chinese market experience and high-tech industry experience. But this combination of skills was not found in any one person.

Upon further analysis, the search committee agreed that the most important criteria was someone who “lived and breathed” the target market’s business environment. The revised criteria led them to a CEO from one of the largest travel industry companies who brought tremendous leadership experience. What he lacked in specific industry experience, he compensated for with the knowledge of Asian markets, an ability to develop and implement corporate strategy, and lead a business into new markets. By redefining the necessary experience and casting a larger net, this organization was rewarded with tremendous success as it entered the Asian marketplace.

In a world dependent on technology, and where trade borders are seamless, boards need to acquire new tools and skills to become effective and relevant in the global market. Tapping into diverse talent, cross-industry expertise, and cross-cultural mind-sets can only strengthen the board.

Cross-Border Strategic Decisions

When considering global expansion, whether it is first time, or add-on markets, the role of the board is to oversee and challenge management – make sure they:

- Take all aspects into consideration
- Think about it the right way
- Make informed decisions while being aware of risk/reward and cost-control execution.

This is where outside directors can add considerable value, assuming they have had international ‘hands-on’ experience and at times, more than the management team, and can offer actionable insights, while using their network for making valuable introductions.

At the end of the day there isn’t a one-size-fits-all way to grow globally. It is really about how the board creates value and how to execute the plan successfully. For example, some of the global strategic growth options may be familiar to all of us, however, when attempting to grow globally, these require a different type of skills and familiarity:

- **Acquisitions.** Definitely gives a company a head-start in the market by having a “ready” business operation. This is where a board familiar with cross-border M&A can challenge value-creation possibilities, test merger-integration plans, and help managers to create a corporate competitive advantage. How would a company define a good acquisition target in a global market? What are some of the pitfalls? How will the integration work, or will it?
- **Another strategy is Greenfield, i.e. building from scratch and doing it the way you want it.** Having gone through this experience multiple times, it is harder to do in certain global regions and markets. One needs reliable contacts in the government as well as the business community.
- **Partnering is another choice.** Always something that you want to consider is getting a local partner, someone who really knows, has experience in, the local business market, knows the customers, knows the suppliers, knows how to operate, can be very valuable. The challenge is that you spend more time negotiating the terms of your partnership and who controls whom, than you do actually getting into operations. And, the most important thing is, can you control your destiny or are you just creating sales without necessarily creating enterprise value?

CONTINUED on Page 2

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After debate and analysis, which way should the company go? How to make the decision?

The Difference Between the Role of the Board vs. Management

A company's board assesses, validates and oversees strategy. Its fiduciary duty is to provide oversight, governance and a platform to build a successful global presence that stands up to change and be on target, on budget and time.

This raises some important questions. Boards need to know how to successfully plan for and assess opportunities to thrive in an increasingly complex and constantly changing global economy. If you don't have the right experience on board to cover all bases, how can you take responsibility to make a decision that will shape the company's future? Without expertise in international business, how can boards respond to differences between internal corporate culture and target culture?

One thing that's very difficult for management to do is to have the objectivity that directors do, because management is engaged in the nuts and bolts of putting something together. At the end of the process, you're probably less objective than somebody who comes in from time and time and talks with you about it. I believe management really has to be the one to put the strategy together, but they ought to be in close contact with directors as part of that process; and both sides ought to explicitly agree on the process.

An Analogy

Let's look at the Titanic as an analogy: Going global is like embarking on a new adventure. But dangers lurk beneath the surface. That gets back to the idea of not knowing what you don't know. The tragedy that occurred with the Titanic wasn't because the captain wasn't smart, knowledgeable and experienced.

Indeed, damage to the ship wasn't caused by the iceberg's tip, which rose visibly above the water's surface. Rather, the fatal damage was caused by a massive section of iceberg hidden beneath the ocean surface.

Businesses may elaborately prepare for perceptible issues, but few take the initiative to develop awareness and sensitivity to what runs silent and runs deep under the iceberg of global markets with the differences in culture, ethics, running a business, the issues of loyalty and many more. This is where the board has a crucial role to challenge the strategic assumptions, share experience and guide.

Cultural Disconnect

The board needs to be professionally skeptical and be asking: What questions haven't we considered? What is going to change about the world around us? It needs to keep an eye on the overall picture and challenge whether the fundamentals on which the plan is based are still the same.

One of those lurking issues involves culture, which can be very complex. Culture is not something where you can say A plus B equals C. You need to know what happens in each country. Take China, for instance. The way business is done in one city can be quite different than how business is conducted in another city. Also, look at South America. A lot of people say, 'great, everyone speaks Spanish.' Not quite true, since Portuguese and French are also in the mix, as well as different cultures, idioms and dialects.

On the Wish List

Some companies looking toward international theaters feel overwhelmed. They look at places like China, India, or Latin America, where it appears that people are making millions or billions, and they want to go there. But a lot of CEOs become completely lost, which leads to a paralysis enhanced by the current global economy. They're confronted with something new, something never tried before, which can be frightening. This is an area the board can assist.

To attain a global perspective, boards need to adapt their current operating principles to a more encompassing, more cosmopolitan viewpoint of business. The very success of the company tomorrow depends on the ability of today's leadership to change thinking patterns by developing a global mind-set and strategies that bridge the widening gap of opportunities abroad.