

First in a Series: Findings from Industry Leaders

A World of Experience— The Globalization of Canadian Corporate Leadership

1987-2007 Study



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Introduction

Over the past 20 years, Canada's largest companies have become significantly more global. This globalization presents Canadian CEOs with a new set of opportunities in the form of foreign markets, and new challenges in the form of foreign competition, particularly since the size of the domestic market requires Canadian companies to look to the United States and abroad if they wish to grow beyond a certain level. Even a firm that serves only domestic customers is affected by globalization if its supply chain includes other countries or if there is the possibility that a foreign competitor could pursue the same customers.

As a result, the ability to successfully navigate a global marketplace is a CEO competency that has significantly increased in importance. Research has suggested that the ability of a CEO to operate at a global level—to manage international diversification and market entry strategy, to integrate knowledge across multinational subsidiaries, and to lead the decision-making process that comes with this greater complexity and diversity—is greatly enhanced by having prior global work experience.¹ Given this, there is reason to examine how globalization has affected the professional development of the CEOs of Canadian companies and to see to what extent their career trajectories include international work experience.

Russell Reynolds Associates, in conjunction with researchers at King's University College and the University of Western Ontario's Richard Ivey School of Business, has set out to systematically study how the globalization of the Canadian economy is affecting the competencies sought in CEOs, succession planning and the professional development of the country's senior executives. We believe this to be the first effort of its kind devoted exclusively to Canadian companies and executives. As a first in a series, this inaugural paper examines trends in the international work experience of the CEOs of Canada's largest companies between 1987 and 2007 and identifies implications for Canadian boards and senior leadership teams.



¹ For example, see Carpenter, M., Sanders, W. G., and H. B. Gregersen (2001). Building human capital with organizational context: The impact of international assignment experience on multinational firm performance and pay. *Academy of Management Journal*. 44(3): 493-511; Herrmann, P. (2002). The influence of CEO characteristics on the international diversification of manufacturing firms: An empirical study in the United States. *International Journal of Management*. 19(2): 279-289; and Roth, K. (1995). Managing international interdependence: CEO characteristics in a resource-based framework. *Academy of Management Journal*. 38(1): 200-231.

Methodology

This study examined the international experience of the CEOs of Canada's 100 largest for-profit corporations, whose combined revenues of more than \$718 billion in 2007 are equal to approximately 55 percent of the country's GDP. The study sample was restricted to companies headquartered in Canada; subsidiaries of foreign corporations were excluded. In order to identify trends over time, the study examined CEO international experience at three points in time—1987, 1997 and 2007.

In measuring “international experience,” the study considered only assignments of one year or more—in other words, business assignments which required substantial immersion in another country. Three variables were examined: the regions of the world in which the experience took place, the average cumulative amount of time which CEOs had spent outside of Canada over the course of their careers, and the roles they held during their international postings.

The final sample included 283 CEOs from the three periods: 85 from 1987, 97 from 1997 and 101 from 2007.² When firms had the same CEO for two or three periods, each occurrence of that CEO was counted as a separate data point. Data were collected from a combination of archival and self-reported sources. The firms in the sample were divided into five broad sectors: Financial Services (banking, insurance, etc.), Industrial and Natural Resources (mining and metals, energy, heavy manufacturing, etc.), Technology (telecommunications, computer hardware and software, etc.), Consumer (retail, packaged goods, etc.) and Other (conglomerates, transportation, etc.).

The Globalization of the Canadian Economy

Twenty years ago, the international presence of Canadian business was limited and tended to be focused in certain sectors such as Industrial and Natural Resources, and Financial Services. The ratification of the Canada-United States Free Trade Agreement (FTA) in 1988, however, signalled a dramatic change in Canada's business environment that continued with the passage of the North American Free Trade Agreement (NAFTA) and the establishment of the World Trade Organization (WTO). The expansion of the Canadian and global economies, coupled with the growth of emerging markets, resulted in a strong drive by players in Canada and abroad to take advantage of these lowered trade and investment barriers. Canadian firms began selling their products to other countries and created webs of global supply chains and contracts, providing access to lower-cost raw materials and labour. Simultaneously, foreign firms responded to these agreements by entering Canada's markets, increasing the competition faced by domestic firms. By 2007, Canada's foreign imports and exports equalled 62 percent of its GDP, compared with only 43 percent in 1987.

² 2007 sample size equals 101 due to one case of Co-CEOs.

Table 1: Changes in Value of Canadian Imports and Exports as a Percentage of GDP, by Year³

In Billions (\$CDN)	1987		1997			2007		
	Amount	% of GDP	Amount	Change vs. 1987	% of GDP	Amount	Change vs. 1997	% of GDP
Imports	93	21%	201	117%	28%	390	94%	30%
Exports	98	22%	214	118%	29%	418	95%	32%
Total	191	43%	415	118%	57%	808	95%	62%

The globalization of markets and supply chains has dramatically altered the job description of Canadian CEOs, who must now fend off global competitors, tend to global customers, and manage suppliers of labour, materials and capital from around the world—and do so while navigating the regulations, expectations and political environment of each country involved. Canadian firms find themselves on a larger and more complicated playing field.

The International Work Experience of Canadian CEOs

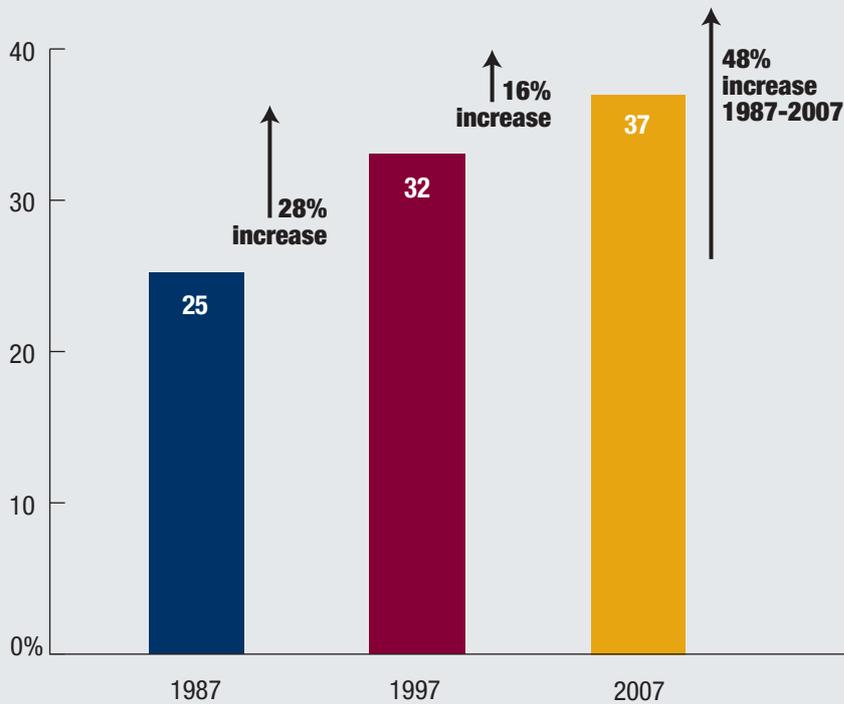
As Canadian businesses have globalized, so have the CEOs of Canada’s largest firms. Today, 37 percent of the CEOs surveyed have international work experience, compared with 25 percent in 1987—a nearly 50 percent increase. At the same time, however, the rate of increase has slowed. Between 1987 and 1997, there was a 28 percent increase in the percentage of CEOs with international work experience, whereas the increase between 1997 and 2007 slowed to just 16 percent.

These data may reflect changing responses of Canadian firms to globalization. It could be that as global markets opened, Canadian companies felt a sense of urgency around their ability to respond to increased global competition and sought to appoint CEOs with direct experience with international markets.

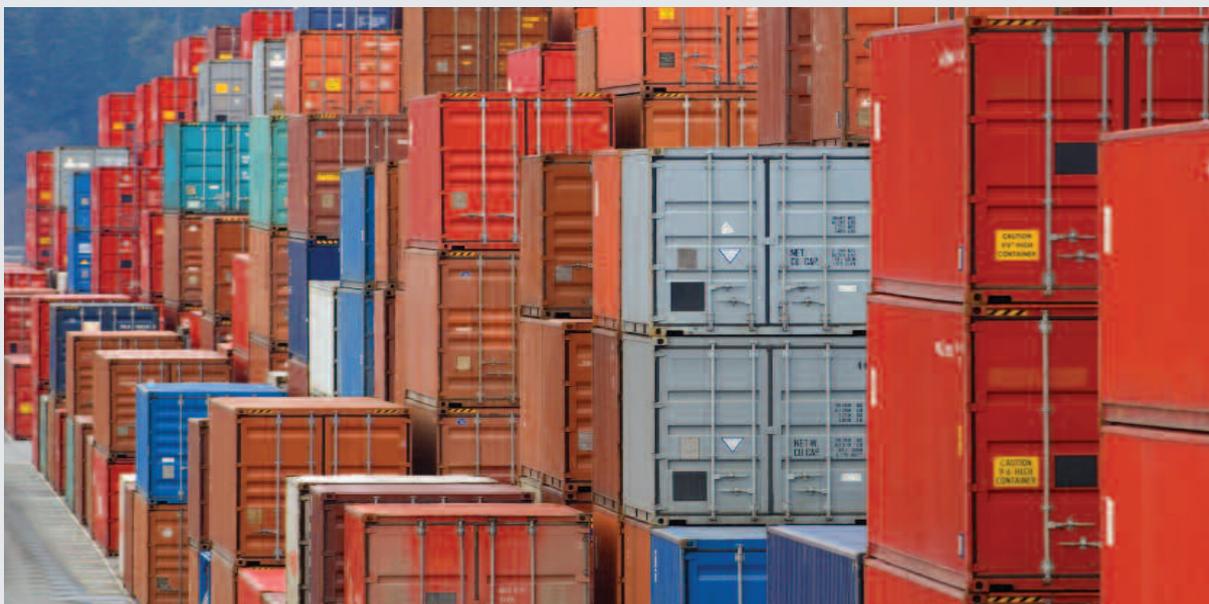
The slowing of this trend suggests that it is worth examining whether boards are viewing globalization with less urgency and if international experience is, deliberately or not, being given less weight when considering CEO candidates.

³ Sources: WTO: <http://stat.wto.org/StatisticalProgram/WSDBViewData.aspx?Language=E> and World Bank: <http://ddp-ext.worldbank.org.proxy1.lib.uwo.ca:2048/ext/DDPQQ/report.do?method=showReport>

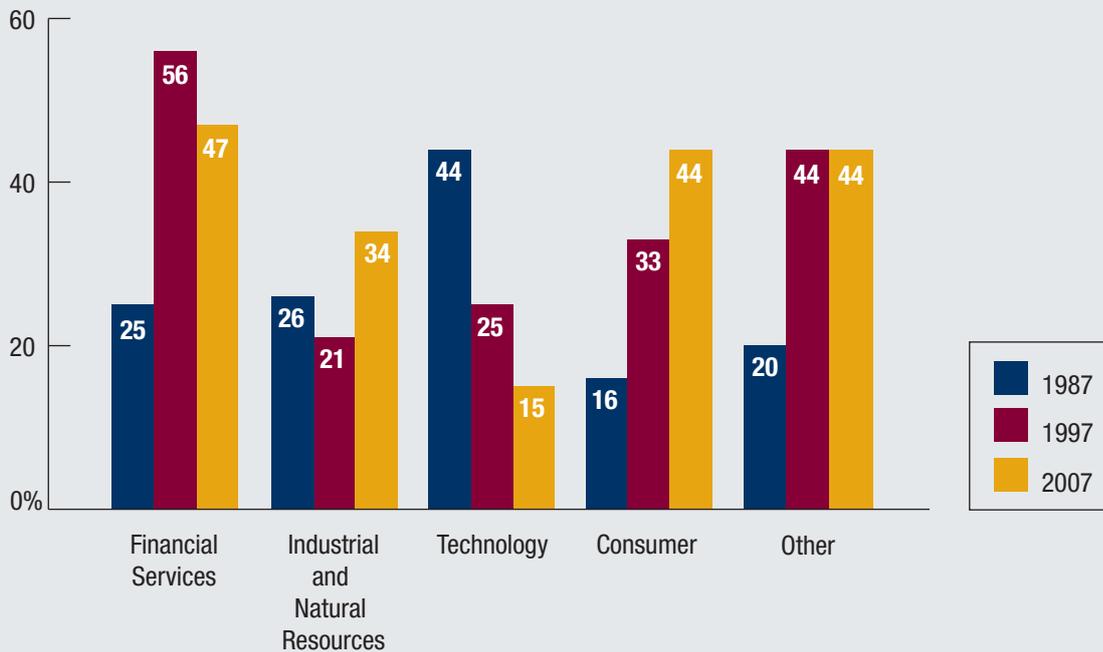
Graph 1: Percentage of CEOs with International Work Experience, by Year



Examining the data by sector provides additional insight. Companies in the Consumer and Financial Services sectors—many of which had been shielded from foreign competition or restricted from actively pursuing opportunities outside of Canada by various regulations—embraced the possibilities of globalization unleashed by the passage of the FTA, NAFTA the establishment of the WTO and the opening of emerging markets. Over the past 20 years, the number of CEOs with global experience rose significantly. Today, a Financial Services CEO is nearly twice as likely to have international work experience as 20 years ago, and a Consumer CEO is more than two and a half times more likely.



Graph 2: Percentage of CEOs with International Work Experience, by Year and Sector



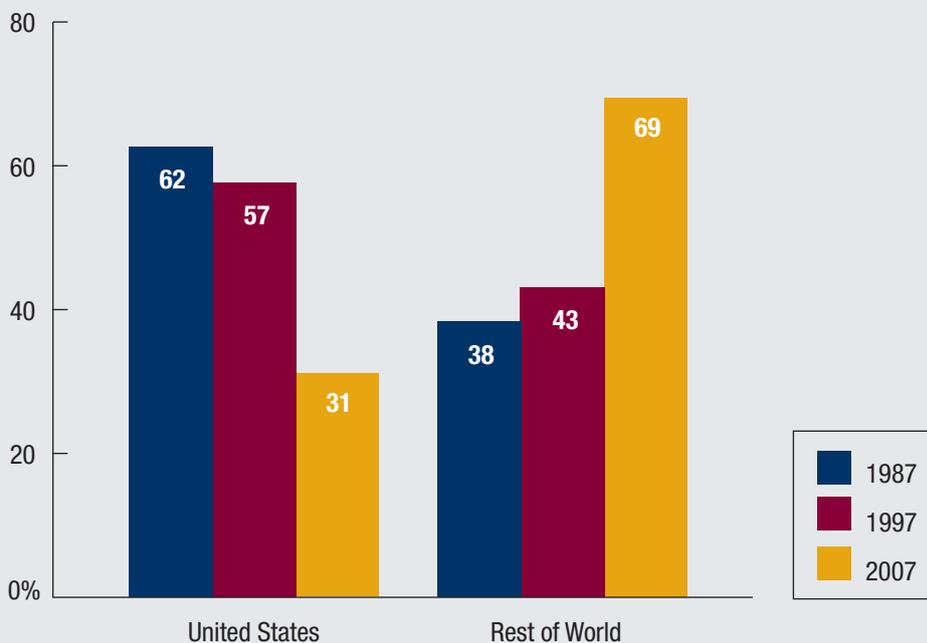
The international work experience of CEOs in the Industrial and Natural Resources sector, on the other hand, has not changed as dramatically—and actually declined somewhat between 1987 and 1997. This is likely because the sector—in which Canada enjoys a significant competitive advantage—had already been operating on more of a global scale due to the commodity-based nature of much of its output. The trade agreements may have had a less dramatic effect on this sector and provided less of an impetus to examine the role international work experience plays in choosing a CEO. Even so, in the last 10 years the proportion of CEOs in this sector with international work experience has increased by more than 60 percent. The relatively small Technology sector, accounting for 13 percent of the CEOs surveyed in 2007, is the notable exception to the trend.

Location: Where are CEOs Getting Their International Work Experience?

The United States is by far Canada's largest trading partner. Trade statistics show that of the roughly \$450 billion worth of goods exported from Canada in 2007, \$356 billion went to the United States.⁴ By comparison, Canada's second-largest export market, the United Kingdom, accounted for less than \$14 billion. Examining trade data over time, however, shows that changes are underway. Exports to the United States have declined from 86 percent of total exports in 2002 to 79 percent in 2007, while exports to Mexico have grown from 0.5 percent to 1.1 percent of total exports and exports to China have grown from 1.3 percent to 2.0 percent.⁵ Although the United States may still be Canada's dominant trading partner, Canadian businesses are becoming less dependent upon the mature U.S. market and are looking elsewhere for growth.

Just as Canadian businesses are looking to markets beyond the United States, CEOs of Canadian companies have been looking beyond the United States for their international experience. In 1987, postings in the United States accounted for 62 percent of foreign postings of at least one year in duration. By 2007, that figure had decreased by half to 31 percent—while postings to the rest of the world had risen to 69 percent.

Graph 3: Percentage of CEO International Experience in United States vs. Rest of World, by Year



⁴ All trade data from Industry Canada Trade Data (<http://www.ic.gc.ca>) accessed July 2008.

⁵ Normalized to 2000 \$CDN.

Table 2 illustrates this shift in greater detail. The total number of foreign postings logged by the CEOs of Canada's 100 largest companies increased from 29 in 1987, to 75 in 2007 (some CEOs had more than one international assignment).

Table 2: Breakdown of International Work Experience, by Posting Location and Year

Location	1987	1997	2007	Total
United States	18	27	23	68
Western Europe	2	6	11	19
United Kingdom	2	6	8	16
Mexico, Latin America	2	2	7	11
China*	3	0	5	8
Russia, Eastern Europe	1	0	5	6
Japan	0	1	4	5
Caribbean	1	1	2	4
Australia/New Zealand	0	2	2	4
Middle East, Africa	0	1	3	4
Asia (other)	0	0	3	3
South Africa	0	1	2	3
Total	29	47	75	151

* Includes Hong Kong

Furthermore, over time, the locations of international work assignments have become more broadly distributed to include the developing markets in Russia, Asia, the Middle East and Africa, and not just countries that are geographically close (the United States, Mexico and Latin America) or culturally similar to Canada (Western Europe and the United Kingdom). It should be noted that these developing markets represent both the opportunity for new customers and new competition from countries that are rapidly developing strategies to leverage their resources on the global stage. Leaders with firsthand experience with those countries are thus all the more valuable.

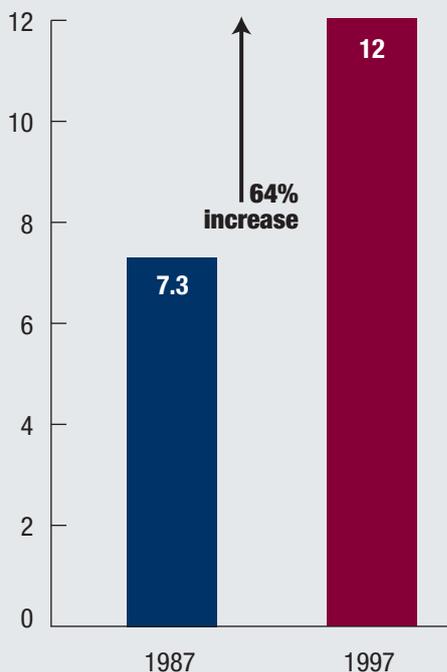
At the same time, the number of postings to Western Europe has increased dramatically, as the countries of the European Union have become more fully integrated, making them a more attractive and significant foreign market. In sum, the data show that the global experience of the CEOs with such experience is on its way to becoming *truly* global, developing a new level of richness and depth.

Duration: How Much Time Have CEOs Spent in Foreign Postings?

This study considers international work postings of a year or more, focusing on deep, contextual experience in other countries that materially adds to the CEO's capabilities. Although the study did not differentiate between international experience gained by a CEO within his or her current firm and that acquired elsewhere, there are differences. Research has shown that longer postings in either condition generate several benefits, including insight into different business cultures, value systems and languages, and the ability to manage with greater cognitive complexity. They also provide concrete knowledge of customers, suppliers, competitors and government regulators of the market where the posting took place. When international experience occurs within one's current firm, the benefits expand to include a first-person understanding of the company's global operations and the opportunity to create trust with its managers, customers and suppliers, as well as the relevant government regulators.⁶

Between 1987 and 1997, the average cumulative number of years CEOs spent in foreign postings of a year or more rose from 7.3 years to 12 years, an increase of 64 percent (data were not yet available for 2007). Not only do more CEOs have international work experience, but that experience is deeper.

Graph 4: Average Cumulative Years Spent in Foreign Postings, by Year

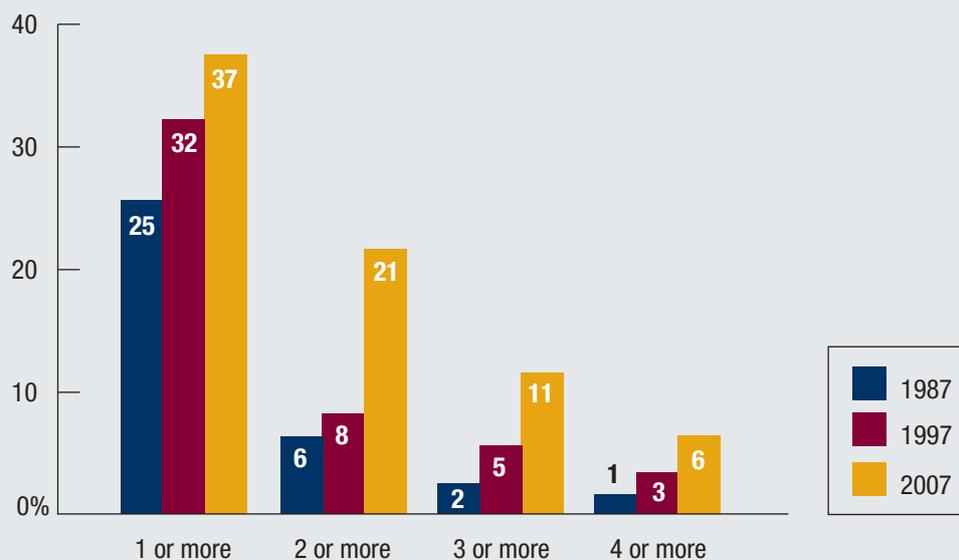


⁶ Carpenter, M., Sanders, W. G., and H. B. Gregersen (2001). Building human capital with organizational context: The impact of international assignment experience on multinational firm performance and pay. *Academy of Management Journal*. 44(3): 493-511.

If one assumes the CEOs surveyed have been in the workforce for 30 to 35 years, then this statistic suggests that the CEOs who have had international assignments have spent between 34 and 40 percent of their careers working outside of Canada. This increase is consistent with the more global orientation of the Canadian economy during this time. As business with foreign markets accounts for a larger and larger proportion of a company's total revenue and as involvement in those markets becomes more complex, overseas postings to manage those relationships constitute a larger percentage of an executive's career.

The study also shows that more CEOs have had the experience of *multiple* foreign work assignments. From 1987 to 2007, the percentage of CEOs who have had two or more foreign postings more than tripled, to 21 percent, and the percentage who had four or more such postings increased from a negligible 1 percent to 6 percent. The average number of postings for CEOs who had at least one foreign posting increased from 1.4 in 1987 to 2.0 in 2007.

Graph 5: Percentage of CEOs with Multiple Foreign Postings, by Year

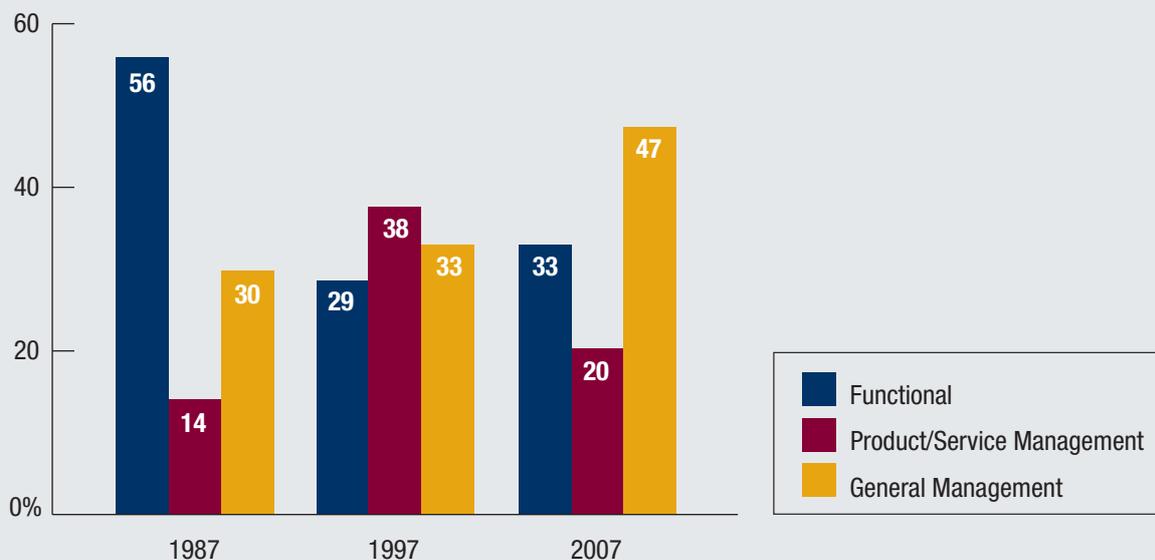


Role: What Types of International Work Experiences Have CEOs Had?

In examining the nature of the international work experience of Canadian CEOs, it is important to consider the sort of work those assignments entailed. In analyzing these data, international work experience was placed into three categories of increasing responsibility. “Functional” jobs were lower-level positions with less responsibility, such as accountant or engineer. “Product/Service Management” positions are those such as marketing manager or operations manager that typically carry department-level responsibility. Finally, “General Management” refers to positions with responsibility at the subsidiary or country level, such as country manager or regional president.

Graph 6 illustrates how the roles played by the CEOs during their international postings have changed with time. In 1987, the most common job a CEO had during an international posting earlier in his or her career was a lower-ranking, functional role. A decade later, the most common international job was in mid-level product or service management. By 2007, most Canadian CEOs who had worked abroad had done so in a senior, general management capacity.

Graph 6: Percentage of CEOs in Specific Roles During International Postings, by Year



As the length of cumulative time spent in foreign roles has increased, so has the responsibility of those positions. While earlier overseas postings largely consisted of lower-level assignments, today’s CEOs are more likely to have spent the international portion of their careers in substantive decision-making roles that broaden their executive-level perspectives and competencies. This may reflect a recognition by boards that the professional development of CEO candidates should include international experience.

The International Work Experience Profile of Today's CEO

The international work experience of the CEOs of Canadian firms has changed significantly in the last two decades. While the percentage of CEOs with international experience has increased nearly 50 percent since 1987, the rate of increase has slowed in the last decade. The cumulative international experience of the surveyed CEOs has lengthened considerably and is more likely to include multiple foreign postings. Those foreign work assignments are more likely to be at a higher level of responsibility, making a more direct contribution to the CEO's executive perspective and competencies.

Implications

This study carries implications for the boards and senior management of Canadian companies. First, boards and CEOs should look at the extent to which globalization is affecting the various elements of their business landscape. Firms whose customers, suppliers, competitors, investors and creditors are spread across foreign markets would benefit from a CEO and/or a broader senior management team that can draw upon firsthand knowledge of those markets and a network of global relationships. Executives with international experience will also have the breadth of perspective necessary to manage strategy and execution across multiple environments, and to respond fluidly to changing external political and cultural conditions. Therefore, consideration should be given to the impact of globalization on the following:

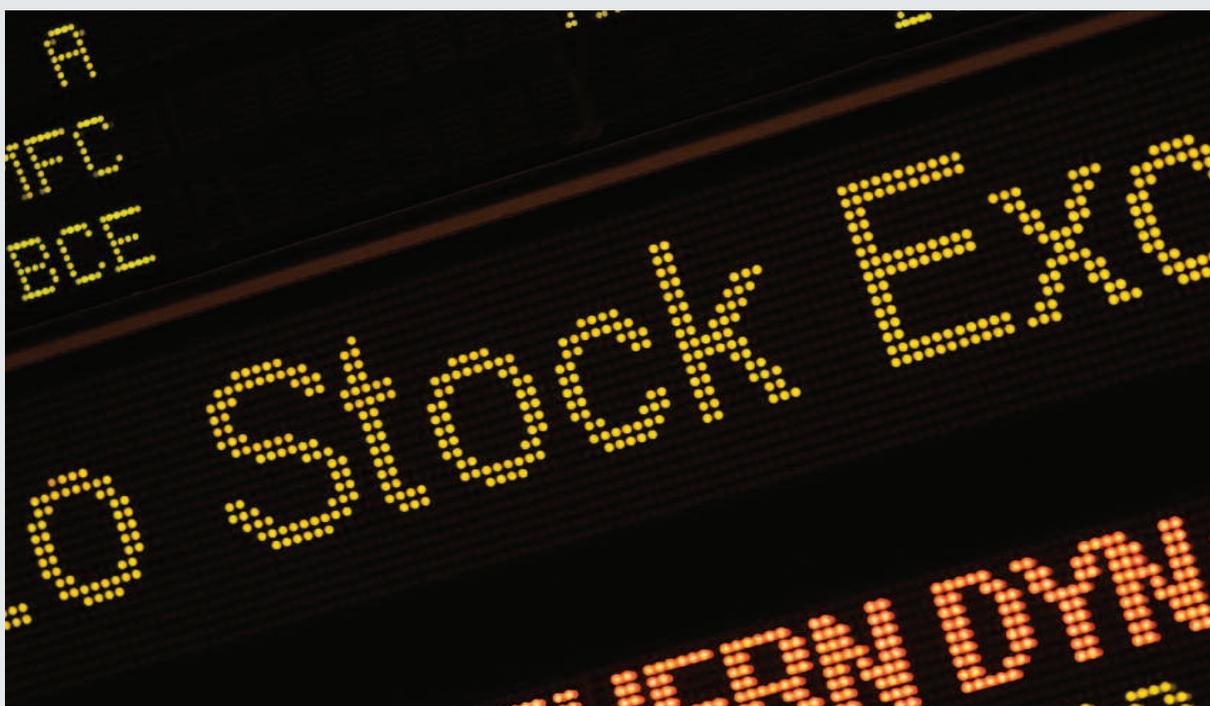
- **Customers:** How is the geographic distribution of the firm's customer base changing? Are new markets presenting the opportunity for new customers, and if so, does the firm have the capacity and expertise to serve them on their terms?



- **Suppliers:** Has the firm taken advantage of foreign markets in optimizing its supply chain? How much risk is that chain exposed to, in terms of supplier performance, coordination costs, logistics and political stability?
- **Competitors:** How are the firm's competitors responding to the possibilities presented by globalization? What is the state of competition in each of the firm's foreign markets? Are foreign competitors entering the firm's domestic or traditional markets?
- **Investors and Creditors:** What is the global profile of the firm's ownership? Which financial markets does the firm rely on? How might this change in the future?

Second, firms should assess whether the required global mindset is fully integrated into their senior management succession planning, development and recruitment strategies, and their broader organizational structure. It is important to consider:

- **Succession Planning:** Is the changing global footprint of the business reflected in the company's succession plan? Is that plan under regular review by the board of directors to ensure that it is current?
- **Recruiting and Professional Development:** Has the company developed adequate recruiting and professional development strategies to ensure that they are developing senior executives with experience in foreign markets that matches their current and future plans? If possible, has the company developed programs to cycle selected executives through foreign postings in a structured way?
- **Organizational and Cultural Alignment:** Has the company embraced the full possibilities of globalization as an integral part of its organizational culture? Does senior management send a clear message throughout the organization championing the importance of acquiring global experience and perspective?



Conclusion

The need to globalize is only accelerating, as Canadian firms confront the limits of the maturing domestic market, face new competitors from other countries and capitalize on emerging external opportunities. Without a strong, continuous trend toward globalization in their leadership ranks, Canadian firms risk having an inadequate pipeline of executives with the necessary experience and breadth of perspective to successfully compete. Our study suggests that while progress is being made, it is not as rapid as many would have expected. A decade from now we fully expect that international experience at the executive level will simply be the price of entry for firms to remain competitive. How prepared Canadian firms will be when this time comes depends in large measure on the actions they take today.

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