Competencies of Directors in Global Firms: Requirements for Recruitment and Evaluation

Article *in* Corporate Governance An International Review · February 2000

DOI: 10.1111/1467-8683.00199 · Source: RePEc

Soo Hoon Lee
Old Dominion University

Phillip H. Phan
Johns Hopkins University

Competencies of Directors in Global Firms: requirements for recruitment and evaluation

Soo-Hoon Lee and Phillip H. Phan[1]*

Using the competency profiling methodology (Boyatzis, 1982; Spencer & Spencer, 1993) in a resource-based theoretical framework (Wernerfelt, 1984; Barney, 1991), we provide a model for the recruitment and selection of board members to lead in global firms. Competency requirements for board members are described in terms of generic as well as specific competencies for their roles and responsibilities in a global firm. In addition, the selection process using assessment centre exercises are provided. Finally, we propose structures and processes for the evaluation of board members to ensure that they continually enhance their competencies in order to manage in a changing, global economy. Such activities include performance measurements of board effectiveness in terms of competency attainment as well as pay-for-competency structures to ensure that boards continually have the necessary competencies to lead in complex global firms.

Introduction

Business responsiveness, product innovation and the ability to successfully penetrate new markets will increasingly be important because of intensifying global competition. The job of a director in the 21st century will become more difficult as boards must deal with a wider variety of complex issues and have less time to study issues in detail. Directors in a global firm will be forced to make decisions that involve a greater degree of uncertainty and risk (Boudreaux, 1997). As the pressure to increase world-wide market share continues, directors accountable for maximising company performance and stockholder value have to also address corporate governance issues at the global and local levels (Rhodes, 1999).

Faced with rapid changes and new and increasingly complex challenges, it becomes insufficient and limiting for global firms to simply list the roles and responsibilities of their boards in terms of developing corporate strategy, monitoring, and controlling top management when governance issues are expanding and evolving. Thus, this paper articulates the requirements of a director in a global firm in terms of competencies rather than simply discussing the relevant roles and responsibilities of directors. Competencies are more important because directors who have skills, knowledge as well as personality traits for handling the complexities of a global firm are better able to get their jobs done more effectively. Therefore, it is important for firms to look for such competencies when recruiting for new directors as well as to evaluate directors on competencies that are related to effective governance of a global firm.

Challenges faced by global firms and the impact on boards

Maximising shareholder wealth by promulgating the vision, mission and values of the firm, the hiring and firing of the firm's CEO, evaluating managerial performance and setting top management pay are the board's key

*Address for correspondence: Dr. Soo-Hoon Lee, Assistant Professor, Department of Organisational Behaviour, Faculty of Business Administration, National University of Singapore, 10 Kent Ridge Crescent, Singapore 119260. Tel: 65-874-6435; Fax: 65-775-5571; fbaleesh@nus.edu.sg

roles and responsibilities. Boards remain ultimately responsible to shareholders for the fiduciary obligations of management (Goodstein & Boeker, 1991; Zajac, 1990). However, in a global firm, directors have to do more. They also have to identify expanding global opportunities (Rhodes, 1999). As they explore and open new markets around the globe, directors have to consider the appropriate strategic alliance and joint venture arrangements with current and potential competitors. This is because in an increasingly dynamic and competitive global economy, it becomes difficult for a single firm to entirely develop its organisation from within and to have all the skills and knowledge necessary to compete effectively. It is only through collaborative inter-organisational relationships that a firm can hope to gain the necessary knowledge and skills (Thomas, Pollock & Gorman, 1999).

The relationship between the board and the firm changes as the firm enters the global arena. Lei and Slocum (1992) argue that such a relationship transitions from an administrative and legalistic view of the role of the board to an entrepreneurial, customer-driven and strategic one. Having an entrepreneurial view involves being flexible in meeting the needs of customers, responding quickly and strategically to the future needs and expectations of customers, and reviewing openly and frequently on the potential threats and opportunities in the competitive environment. Since industries that emerge in the future will be less structured and the rules of competition less difficult to predict, directors must be willing and able to deal with nebulous global market conditions by continually redefining the boundaries of their industries.

To do this successfully, directors need a global mindset, which represents a certain curiosity about the world and a willingness to deal with broad, global and foreign issues in an integrated way (Rhinesmith, 1992). It means that boards need to scan the world from a broad perspective and be always looking for unexpected trends and opportunities to achieve the organisation's objectives. Global scanning is an important skill for a director in a global firm. When a firm operates in a global environment, its directors need to learn to live with conflict management rather than resolution, look for opportunities from adversity, and generate creativity from diversity. Directors with global mindsets flow with change and are comfortable dealing with surprises and ambiguity by continually rethinking market boundaries, finding new meanings and opportunities in trends and challenges, changing directions and behaviour, and working in teams to augment each others' skill sets (Rhinesmith, 1992).

Entry into new markets expands a company's governance responsibilities, such as compliance with local laws and regulations as well as social responsibilities. To meet the challenges of a global economy, boards have to be sensitive to short-term, local issues as well as broader international trends. Excellent global leaders should therefore be able to understand complex issues from different strategic perspectives and act out a cognitively complex strategy by playing multiple roles in a highly integrated and complementary way (Petrick et al., 1999).

Competencies of directors in global firms

Resource-based view of the firm as a theoretical foundation

To effectively manage alliance mechanisms and to create competitive advantage from a partner's technologies, boards need to first define the firm's core competencies, skills and capabilities (Lei & Slocum, 1992). The resource-based view of the firm is a conceptual framework for understanding how firms view resources as the basic building block for the firm (Wernerfelt, 1984; Barney, 1991). Resources may be financial, human, intangible, physical, organisational, or technological. In this framework, the firm is seen as a bundle of tangible and intangible resources and tacit know-how and competencies.

Prahalad and Hamel (1990) argue that every firm has a narrow set of core or distinctive technological competencies and skills in which it should focus on. A core competence is a knowledge base or set of skills that is general enough to be applied in a variety of settings but results in a clearly defined benefit to the consumer, and is difficult for other firms to replicate. Core competencies are the collective learning in the organisation, and are things in which the firm does very well. It provides possible access to new markets, satisfies customer needs and is difficult to imitate. For example, Canon Corporation sees itself as a repository of expertise or competencies in precision mechanics, fine optics and microelectronics. Out of these streams of expertise flow a wide array of world-class products including cameras, video cameras, copiers, laser printers, fax machines and calculators. Firms that focus on their core competencies make more efficient use of their resources. Firms that can successfully identify and cultivate their core competencies can use them to obtain a sustainable competitive advantage against their rivals.

To build on and develop key organisational expertise, directors need to first define the firm's core competencies. Defining core competencies begins with a clear explication of the company's business strategy, followed by an identification of the competencies the company already possesses and the ones it will acquire in the future to carry out its strategy (McNerney, 1995). Such skills are the result of cumulative know-how and experience, and directors with the foresight to combine and co-ordinate them can create unique and inimitable organisational competencies (Dussauge, Hart & Ramanantsoa, 1992) and organisational capabilities (Stalk, Evans & Shulman, 1992).

In the long run, a firm needs to focus its energies on a few key competencies to best exploit them. A detailed analysis of the firm's resources, capabilities and competencies will result in a better understanding of the sources of competitive advantage. Such in-depth understanding can lead to a better match between external opportunities and internal strengths. Once directors can articulate the corporation's strengths, the firm can scan the external environment to identify possible ways of better exploiting those strengths. A firm has a sustained competitive advantage if it can effectively exploit its resources where competitors are unable to imitate.

The board's tasks will be to guide management in effectively accumulating, categorising, developing and utilising the firm's resources and skills over time (Moingeon, Ramanantsoa, Metais & Orton, 1998). As the sustainability of a firm's competitive advantage depends on the ease with which resources can be imitated, directors should seek to foster distinctive capabilities such as leadership skills and reputational assets (Petrick et al., 1999), that are difficult for competitors to substitute or imitate (Peteraf, 1993). Reputational capital is the perception that the firm is a responsible domestic and global corporate citizen. Directors with superior leadership skills or competencies for handling the complexities of a global firm can better implement sustainable policies to enhance the firm's reputation with its multiple stakeholders.

To ensure a firm's survival, directors need to analyse the firm's core competencies in relation to the environmental trends and risks that the firm faces. In addition, directors need to formulate the firm's business plans, marshal needed resources and consider the organisation's culture around the firm's core competencies and corporate strategies. As product and service quality, speed to market and speed in responding to customers become an increasingly visible basis of competition in a global economy, directors have to respond much more quickly to environmental changes. Therefore, a director's level of knowledge and skills become critical to the ability of the organisation to perform and compete. Since directors set the strategic direction of the firm, they affect the organisation's adaptability and ability to learn (Senge, 1990). Therefore, directors operating in a global firm need to continuously develop competencies for new and more complex situations.

Competency profiling methodology to identify competencies

For recruitment purposes, there are two methods of identifying directors to govern a global firm. In the job-based approach, candidates are selected to fit a certain job scope. Although this is still the most commonly used approach to director recruitment, this approach is more appropriate for a more stable, mass production economy where work activities and job specifications do not change much (Lawler, 1994). However, with rapid changes and challenges faced by firms in a global economy, this approach is insufficient in providing directors with a stable description of their job scope. Success in previous job activities may not be able to predict future success because the kinds of activity change rapidly and may not be comparable to the previous ones.

In the global arena, competition is more intense and therefore, firms need to react to new challenges in the marketplace constantly. With such rapid and radical changes, the competency-based approach is more suitable for identifying effective directors for global firms. The competency profiling model is a more robust methodology because it identifies the competencies, which are generally more stable and timeless, that directors need to have in order to be effective in a global environment. In this approach, individuals are the primary focus, and therefore, person descriptions, rather than rapidly out-of-date job descriptions, are developed.

A competency is a cluster of related knowledge, attitudes and skills that affects a major part of one's job and correlates with performance on the job. It is 'an underlying personal characteristic involving a trait, skill or a body of knowledge of a person which results in effective and superior performance on the job' (Boyatzis, 1982). The competency profiling methodology is used to identify the skills of key individuals within a firm by comparing competencies between superior performers with those who are average (Boyatzis, 1982; Spencer & Spencer, 1993). There are several steps in the process. First, an appropriate measure of effective job performance is determined. Next, a list of competencies that are important in distinguishing superior from average performers are identified using a form of critical incident interviewing (Flanagan, 1954) called Behavioural Event Interviewing (BEI) (McClelland, 1975). To identify these competencies, the individual describes incidents in which he/she felt effective on the job. Responses by both average and superior performers are compared. Through a compare-and-contrast thematic analysis, competencies that differentiate the high performers from the average performers indicate characteristics important to be effective on the job. The argument is that superior performers demonstrate more of such characteristics than average performers. Through this approach, both generic and firm-specific competencies can be identified.

Generic director competencies

Directors have an oversight role in the management of a firm. They are responsible for planning the future of the business, setting policies, and evaluating the performance of the top management team. As fiduciaries, directors are legally expected to have a minimum level of knowledge and skills necessary to oversee the affairs of the corporation. They are required to have functional area knowledge and skills, and firm-specific knowledge and skills (Forbes & Milliken, 1999). Functional area knowledge and skills span the traditional domains of business as well as knowledge of external networks to aid in information gathering and problem solving (Ancona & Caldwell, 1988). Firm-specific knowledge and skills refer to detailed information about the firm and an intimate understanding of its operations and internal management issues. Boards often need this kind of 'tacit' knowledge to deal effectively with strategic issues (Nonaka, 1994). If boards are to perform their control task effectively, they must be able to combine their knowledge of various functional areas and apply that knowledge appropriately to firm-specific issues.

As competencies are underlying traits, attitudes or skills that lead to superior job performance, some personal qualities of an effective director are generic. They include strength of character, integrity, intellect, business sense, and sound judgement (Hohn, 1996). In a recent study, Dulewicz and Herbert (1999) factor analysed 40 'primary' competencies into 12 independent factors, which they called 'supra-competencies'. The description of the 12 generic competencies of directors by Dulewicz and Herbert (1999) are found in Table 1.

The core competencies of a director that are listed in Table 1 can be summarised as 'knowing why' and 'knowing how' (Claman, 1998). 'Knowing why' refers to the understanding of why a firm needs to adopt a specific set of strategies. These refer to

Table 1: Generic Competencies

- **Strategic perspective.** Directors are expected to have the ability to see the macro perspective of an organisation based on patterns, trends and cause/effect relations so as to determine the raison d'être of the organisation. A director has to portray an understanding of a wide range of issues and their applications in different contexts that confront the firm. This requires sensitivity to, awareness for, and an understanding of the business and market environment, and a practical grasp of the firm's core competencies. To formulate and agree on a corporate vision requires an understanding of the company as a whole in the context of customer requirements, and stakeholder perspectives. The ability to think in terms of a systems perspective, i.e., the ability to see connections and establish relationships, is of significant value. A director with a strategic perspective can give meaning, direction and focus to the organisation by understanding the interdependence and interaction of external opportunities and threats with the internal competencies of the firm.
- **Business sense.** Directors must be willing to take risks, be able to put oneself on the line to get something done. Directors need a sense of proportion, combined with the discipline to identify and prioritise what stakeholders, particularly shareholders, really care for. A sense of accountability to stakeholders and a willingness to put the responsibility of the company above self-interest is important.

Table 1 (contd)

- **Planning and organising.** A director needs to be conversant in the planning process so as to identify the long-term goals that must be achieved, and to keep the board focused on those goals.
- **Analysis and judgement.** A director needs to have conceptual flexibility to identify feasible alternatives or multiple options in planning and decision-making. When establishing strategy, a director needs to be able to focus on different options and to evaluate their pros and cons simultaneously.
- **Managing staff.** A director needs to make considered judgements of people, their capabilities, aspirations, motivation and limits when appointing the management team. Thus, directors must understand how best to harness managerial talent through direct involvement, empowerment and excitement.
- **Persuasiveness.** As someone responsible for setting direction and obtaining support, a director needs to know how to use a variety of methods, such as persuasive arguments, modelling behaviour, forming alliances and appealing to the interest of others, to gain support for his/her ideas, strategies and values.
- **Assertiveness and decisiveness.** Directors need to constantly focus on what needs to be achieved and to use an appropriate style to drive the attainment of goals. They need to try to build alliances that strengthen the firm. They must also understand the imperatives of the organisation in order to structure the task for the management team. This means that directors must be prepared to speak up on important issues and become recognised as advocates for a particular point of view.
- **Interpersonal sensitivity.** Being able to involve others to build co-operative teams in which group members feel valued and empowered is a key competency that a director needs to have. Directors with this competency consistently seek to understand the viewpoints of others, as they try to foster teamwork in spite of the differences of opinion. Thus, directors need to know how to conduct open discourse, be responsive and attentive to feedback, and supportive of their stakeholders. This will allow them to understand the ideas, concepts and feelings of the stakeholders and to comprehend events, issues, problems, and opportunities from the viewpoint of the other party. The quality of interpersonal sensitivity is required inside and outside of the boardroom. Thus, working with a team of fellow directors also requires tact, sensitivity, the ability to engender trust and respect, and the awareness of different perspectives, interests and values of others.
- **Communication.** A director has to be able to present ideas clearly and with ease so that the other person senses the vision, inspiration, commitment and enthusiasm towards the firm. Thus, the ability to motivate and share the vision, goals, values, and objectives of the firm are important.
- **Resilience and adaptability.** Balancing the interests of the company's various stakeholders requires directors to have empathy for their issues, a willingness to make tough choices, and considerable diplomacy in the face of hostility. A director must be able to respond flexibly but in a disciplined manner so that he/she can push ahead with the strategic changes that different circumstances dictate. This competency requires a style of interaction and decision-making that is based on a 'win-win' mindset.
- **Energy and initiative.** Directors must be action oriented. They must be able to take a stand on the issues and unhesitatingly make decisions when required to do so. While it is typical for the board to make decisions as a whole, individual directors must be willing to commit themselves and express confidence for the success of the actions to be taken.
- **Achievement-motivation.** A director must possess high internal work standards and set ambitious yet attainable goals to continuously improve. Directors must have the perseverance to follow through on a decision to make it succeed in spite of the initial obstacles. It means being willing to make unpopular decisions and sticking to them because they are right for the organisation.

competencies related to having a strategic perspective and business sense. Competent directors with intelligence, experience and intuition can make sound decisions on the management of risk and change, and on the structure and timing of corporate strategy. The other ten competencies are related to 'knowing how'. 'Knowing how' refers to how the director can help the firm achieve its strategies and targeted firm performance. Directors need to possess a propensity to pursue goals with energy and persistence because the strong drive to achieve, optimism even in the face of failure, and organisational commitment, are needed for success in an environment subject to rapid changes in technology and markets. Here, directors must continually add to their skills in such areas as research, strategic thinking and personal leadership. To do so, board members must possess high levels of emotional intelligence, recognise and embrace their stewardship responsibilities, establish mentoring systems throughout their organisations and manage their organisation's intellectual capital.

Also important are competencies related to 'knowing whom'. 'Knowing whom' refers to a relationship-building competency that operates in a network of relationships to which a person contributes and from which they learn. In short, effective directors need networking skills. This competency requires the person to have abilities in personal network-building, persuasion, communication, external-relation building, and exploiting personal networks. They need to build strong relationships with government officials and financial elites and use their network ties to undertake mergers and acquisitions. Directors need a proficiency in managing relationships and building networks, and the ability in finding common ground and building rapport to lead change, develop expertise, and create competent teams. Together they elicit each other's expertise, build upon each other's contributions, and seek to combine their insights in creative and synergistic ways.

Specific director competencies for global firms

Although it is important for all directors to have the generic competencies that are listed in Table 1, such competencies are necessary but insufficient in governing a global firm in a dynamic, global environment. A vital organisational skill required of directors in global firms is their capacity to visualise continual reconfigurations and transformations of the firm's asset structure through alliances (Post, 1997). Directors who can create new configurations of capabilities and who can find new ways of co-ordinating the deployment of organisational capabilities through alliance mechanisms will position the firm to respond more favourably to changing competitive pressures. In using the competency profiling methodology to examine strategic leadership practices currently in use by visionary organisations, firms can identify and understand the competencies needed to compete in a global economy for the new millennium. The firm needs to have strategic leadership competencies that are difficult for competitors to identify and imitate. Such competencies include the ability to anticipate, envision, maintain flexibility, think strategically, and work with others to initiate strategic alliance arrangements to create a unique, viable future for a global firm.

In addition, the ability to build, share and leverage knowledge in a global firm will replace the ownership and control of assets as a primary source of competitive advantage. As knowledge work becomes the primary source of economic growth for firms and for nations in the global economy, directors need to ensure that they have the competencies to identify and develop talent (Roberts, Kossek & Ozeki, 1998). The role of the board is also to leverage the dissemination of knowledge on a worldwide basis, and to foster an environment in which inter-country learning can occur (Moore & Birkinshaw, 1998). Boards have to advise management on the kinds of knowledge centres to build and the specific knowledge areas that these centres are expected to have by setting priorities on knowledge areas that should be developed. Organisations in which directors adopt a competitive mindset involving mental agility, flexibility, speed, innovation and systems thinking will be able to identify and exploit opportunities that emerge in the new global landscape. Table 2 lists the specific competencies important for a global mindset (Rhinesmith, 1992).

Transnationally competent board members therefore require a broader range of competencies above the generic ones (Adler & Bartholomew, 1992). The ability to frame major decisions and to evaluate options in the light of worldwide business dynamics rather than on a localised case-by-case basis is necessary for directors to possess in order to take advantage of alliance opportunities. Directors in global firms also need competencies to analyse and assess their business environment from a global perspective, be knowledgeable about foreign perspectives, tastes, trends, technologies and approaches to conducting business, and be skilful at communicating cross-culturally.

Table 2: Specific Competencies for Global Firms

- **Managing competitiveness.** This involves constantly scanning the global environment for changes in market, competitive and supplier conditions and socio-economic and political trends that may affect the organisation and its strategic intent. In addition to understanding the particular business of the company, a wider appreciation of the business in a turbulent and changing global market environment is required. Common sense and business acumen or commercial instincts are desirable qualities although these are not enough. The ability to articulate a tangible vision, values and strategy for the firm is a more important competency for global leaders.
- **Managing complexity.** This requires that directors have skills for managing tradeoffs and competing interests and contradictions inherent in a global organisation and to constantly drive for the bigger, broader picture to expand one's knowledge. It requires highly developed conceptual capacities to deal with the complexities of the global organisation. The individual director needs to understand business vision, mission and strategy in the organisation and grasp their implications for a global structure, culture and its stakeholders.
- **Managing adaptability.** This competency requires directors to create a global corporate culture with the values, beliefs, systems and norms of behaviour to be responsive to constant change and to deal with ambiguity. Directors need to constantly adjust to global and local demands through co-ordination and allocation of the firm's resources.
- **Managing teams.** Directors in global firms need skills in cultural sensitivity. They also need to have skills to lead, understand, manage and supervise management from a wide range of cultures and in a broad range of economic contexts. They need to have a predisposition to hearing other views and a willingness to question assumptions, values, and beliefs about the world and the way it operates.
- **Managing uncertainty.** Directors need to have a skill for dealing with increasing chaos in a global environment in a way that provides for continuous improvement, while taking advantage of opportunities that arise from a lack of structure. Directors need to see change as an opportunity rather than a threat. They need to be able to intuit decisions with inadequate information, make decisions based on that experience rather than on empirical data, and understand firm operations under many different organisational and international circumstances.
- **Managing learning.** Directors of global firms need to learn about themselves, facilitate constant organisational learning, and learn to learn on a continuing basis. In a global economy, directors who are capable of continuous learning to shape a firm's operations in competitively relevant ways will themselves become a valued source of competitive advantage.

To be effective, transnational boards need culture-specific knowledge, adaptation skills, and a global perspective that can integrate diversity. As a consequence, one of the transnational manager's primary skills is to know when to be locally responsive and when to emphasise global integration. For example, Merck looks for people who have a broad perspective and can intelligently apply practical leadership skills to guide changes in the organisation. Baxter International looks for 'patience, flexibility, communication skills, and intellectual curiosity about the rest of the world'. GM looks for a skill set that includes 'communication skills, the ability to value diversity, and the ability to be objective'. If these organisations require such capabilities from its employees, directors need to have similar capabilities as well.

In summary, boards of directors in global firms need competencies that allow for behavioural complexity beyond the generic competencies. They need such competencies to enable them to understand complex issues from different stakeholders' perspectives and to act out a cognitively complex strategy by playing multiple roles in a highly integrated and complementary way (Petrick et al., 1999). Behavioural complexity implies that directors in global firms need to have competencies that allow them to have high tolerance for ambiguity and receptivity to learning unrelated and tacit knowledge. The ability to think beyond the obvious in non-linear ways is important to developing strategic plans in a global firm.

Recruitment of directors in global firms

The recruitment process

Firms need to hire global directors who have aspatial or borderless careers, shown by their having worked in multiple countries over the course of their work lives. Such individuals are able to think about their organisation in ways that are spatially neutral, which is important for global firms. Therefore, firms need to search for candidates who have accumulated rich contextual or tacit knowledge, and have developed an in-depth understanding of the intricacies of operating a global organisation. To find such individuals, firms need to develop extensive global networks to identify them.

In the first step of the recruitment process, boards need to identify the core capabilities of the business (Metz, 1998). Successful global firms link their staffing decisions for directors with their business goals. In recruiting new directors, the board needs to review the composition of the board and the qualities of its current members in terms of the generic and specific global competencies described in previous sections.

Once the strategic business competencies are identified, the competency-profiling model described in an earlier section can be used. This methodology is used to identify the competencies currently found among the board members as well as the required competencies for board leadership in the immediate future and in the next few years. The nomination committee, together with the chair of the board, needs to specify the required generic and specific global board competencies to govern a successful global firm. If firms do not know what specific skills and talents are required, they will not be able to recognise the right candidate. Together with the information on existing competencies, the competency gaps in the board are determined. The board's intended role, prescribed by the corporate strategy, determines what the board should look like, who should chair it, how directors should be selected and evaluated, and how the board's performance should be evaluated.

The next step is to determine how broad and exhaustive the selection process should be. More importantly, firms should look for individuals who have functional competencies as well as the sensitivity to diverse cultures and the ability to understand global complexities. Candidates need to have experience in developing global business strategies for particular niches and communities locally, and have a systems perspective and understanding of the benefits of global product lines.

Nomination committees can designate executive recruiters, who will in turn use matrix charts, to list the required competencies and skills needed for new board members. These recruiters should be encouraged to use competency assessments through assessment centre exercises. Selection should be based on the individual's knowledge and experience, and the capabilities needed to support long-term global corporate strategies.

Boards can also identify candidates through incumbent directors' networks. However, for effective recruiting decisions, the transnational scope of the global firm requires that boards consider their business needs and the worldwide availability of candidates (Adler & Bartholomew, 1992). The selection process should be based on the competencies required of individuals and their compatibility with existing board members. Thus, worldwide integration requires that recruiting be guided by world-class standards in selecting the most competent people from anywhere in the world for the board position, meaning that different nationalities will de facto be represented on the board. Directors who are highly educated about their global environment or directors from a variety of backgrounds, multinational experiences, cultures and races should be appointed. Finally, the committee needs to ensure that the terms and remuneration match with the competency requirements of the successful candidates.

The above discussion implies a number of conditions for successful search. Firstly, boards must learn how to recognise, value and use globally competent boards. Next, the transnational process in recruiting requires that firms use search and selection procedures that are equally attractive to candidates from each target nationality. Thirdly, performance review must be based on competencies to accommodate a broad range of nationalities.

Selection through assessment centre exercises & competency testing

Many standard assessment centre exercises can be observed and coded for competencies (Spencer & Spencer, 1993). These are found in Table 3. A basic rule for assessment centre

Table 3: Assessment Centre Exercises to Identify Competencies

- **In-basket exercises.** These exercises present test takers with management problems, such as opportunities for a merger or opportunities for alliance relationships. Subjects' response can be coded for competencies related to strategic perspective, business sense, analysis and judgement, managing complexity, adaptability and uncertainty.
- **Stress exercises and interviews**. Subjects can be put in very stressful situations where the urgency of the problem that has global impact on the firm assesses the individuals for competencies related to a strategic perspective, analysis and judgement, decisiveness, managing uncertainty and adaptability and persuasiveness under stress.
- **Presentation vision/strategy speeches.** Subjects can be told they have an hour to prepare a presentation for the media or to a group of stakeholders. Relating to the organisation's mission, vision, and strategy, the individuals have to prepare a speech on a topic. Individuals are evaluated on their oral presentation skills, impact and influence and leadership skills.
- **Leaderless group exercises.** Subjects are put in a group where they are given one or more problems to solve that require input from all group members. Subjects' responses are coded for competencies such as strategic perspective, planning and organising, analysis and judgement, persuasiveness, communication skills, interpersonal sensitivity, resilience and adaptability, and team leadership.
- **Role plays.** Subjects can be asked to role-play a situation dealing with an irate stakeholder or a difficult board member. Role plays are designed to measure competencies such as interpersonal sensitivity, customer service orientation, impact and influence, teamwork and co-operation, and developing 'win-win' solutions to conflicts.

design is that exercises should be as close as possible to the actual critical situations that a director will face on his/her job. Behavioural event interviewing using critical incidents are an excellent source for realistic exercises because they focus on the most difficult situations an organisation's best performers have to deal with. Assessment centres are the best competency testing tool as they are able to closely predict the future behaviour of individuals.

Evaluation of directors in global firms

Measuring competency attainment

For purposes of assessment, the chairman of a board should be concerned, both with the individual competencies of each member of the board, as well as the collective competencies of the board (Coulson-Thomas, 1993). The competencies of directors need to be tied to the corporate vision and the outcomes achieved by the board. Forbes and Milliken (1999) listed two criteria of board effectiveness. They include competencies related to the board's task performance, such as the board's ability to perform its control and service tasks effectively, and the board's ability to work together, as evidenced by the cohesiveness of the board during times of crises.

Specific board activities that are critical to the fulfilment of the control task include decisions regarding the hiring, compensation, and replacement of the firm's most senior managers, as well as the approval of major strategic initiatives proposed by management. Generic competencies supporting these activities include analysis and judgement, planning and organising as well as assertiveness and decisiveness. Specific activities that correspond to the fulfilment of the service task include providing expert and detailed insights during major events, such as an acquisition or restructuring, as well as generating and analysing strategic alternatives during board meetings. To govern a global firm effectively, board members need generic competencies such as a strategic perspective, business sense, as well as globally specific competencies for managing competitiveness, complexity and adaptability.

Firms then need to provide more communication to directors about what competencies are desired and to foster and support the development of more competencies to successfully govern a global firm. The evaluation process needs to be more open, help directors understand the expectations of the competency requirements, and demystify the basis on which candidate selections and director evaluations are made. Published competencies and a more feedback-rich evaluation environment through 360-degree multi-rater assessments can help directors clearly understand the critical and desired behaviours that they must demonstrate (Metz, 1998).

Conclusion

As the globalisation of business occurs at an increasing speed in the new millennium, firms need to ensure that their boards are making decisions to capitalise on global market opportunities. Faced with rapid changes and complex challenges, simply listing the roles and responsibilities for board members is insufficient to manage in a global arena. Instead, the selection and evaluation of directors should be made in terms of competencies that are both generic for board activities as well as specific to global firms. Figure 1 shows a model that encapsulates the above discussion. In addition, rather than compensating directors on a fixed fee system or with stock options that is linked to the firm's performance, firms should consider paying directors differentially for their competencies and for continuing to develop their competencies. Only then will the sustainability of relevant director competencies and the development of new ones be made.

Note

1. We thank Louis Heracleous for helpful comments and acknowledge the National University of Singapore for use of a research grant, RP3981030, in the preparation of this article. We are also grateful for comments from the participants at the *2nd International Conference on Corporate Governance and Direction* at the Centre for Board Effectiveness at Henley Management College on October, 1999.

References

Adler, N.J. & Bartholomew, S. (1992) Managing globally competent people, *Academy of Management Executive*, 6, 3, 52–65.
Ancona, D. & Caldwell, D. (1988) Beyond task and maintenance: Defining external functions in groups, *Group and Organisation Studies*, 13, 468–494.
Barney, J.B. (1991) Firm resources and sustained competitive advantage, *Journal of Management*, 17, 99–120.
Boudreaux, G. (1997) Director competencies for the 21st century: A guide for new members of the board, *Management Quarterly*, 37, 4, 32–40.
Boyatzis, R.E. (1982) *The Competent Manager: A Model for Effective Performance*, John Wiley & Sons, New York.
Claman, P.H. (1998) Work has changed, but our compensation programs have not, *Compensation & Benefits Management*, 14, 1, 1–6.

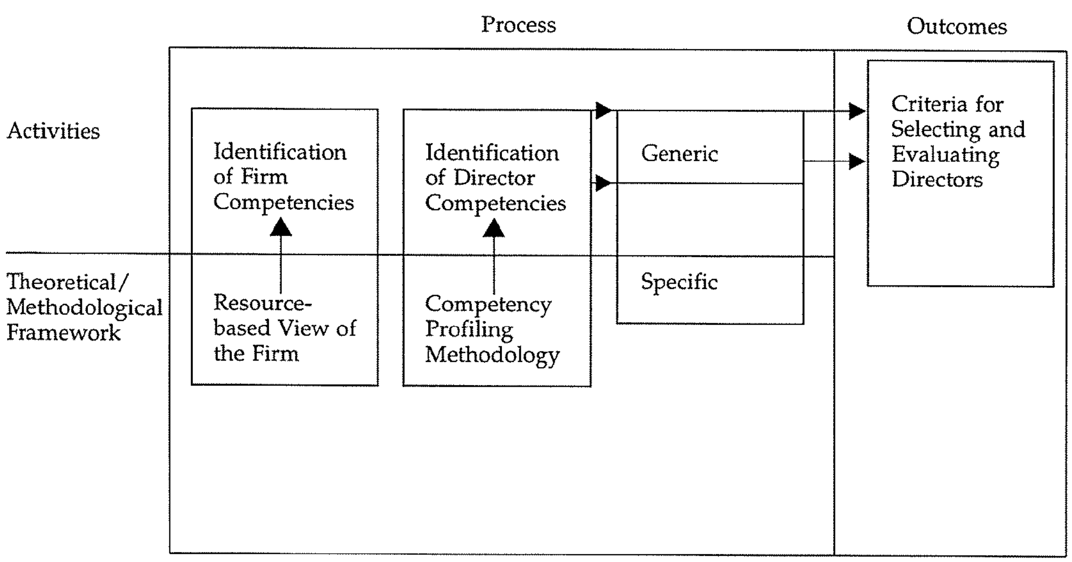

Figure 1: Process to Identify Competencies of Directors of Global Firms

Coulson-Thomas, C. (1993) *Creating Excellence in the Boardroom: A Guide to Shaping Directorial Competence and Board Effectiveness*, McGraw-Hill, London.

Dulewicz, V. & Herbert, P. (1999) Predicting advancement to senior management from competencies and personality data: A seven-year follow-up study, *British Journal of Management*, 10, 13–22.

Dussauge, P., Hart, S. & Ramanantsoa, B. (1992) *Strategic Technology Management*, John Wiley & Sons, London.

Flanagan, J.C. (1954) The critical incident technique, *Psychological Bulletin*, 51, 327–358.

Forbes, D.P. & Milliken, F.J. (1999) Cognition and corporate governance: Understanding boards of directors as strategic decision-making groups, *Academy of Management Review*, 24, 3, 489–505.

Goodstein, J. & Boeker, W. (1991) Turbulence at the top: A new perspective on governance structure changes and strategic change, *Academy of Management Journal*, 34, 2, 306–331.

Hohn, H.G. (1996) Solving the board puzzle: How to select the 'right' directors, *Chief Executive*, June, 58–59.

Lawler, E.E. (1994) From job-based to competency-based organisations, *Journal of Organisational Behaviour*, 15, 3–15.

Lei, D. & Slocum, J.W. (1992) Global strategy, competence-building and strategic alliances, *California Management Review*, 35, 1, 81–97.

McClelland, D.C. (1975) *A Competency Model for Human Resource Management Specialists to be Used in the Delivery of the Human Resource Management Cycle*, McBer & Co., Boston.

McNerney, D.J. (1995) "Designer" downsizing: Accent on core competencies, *HR Focus*, 72, 2, 1–3.

Metz, E.J. (1998) Designing succession systems for new competitive realities, *Human Resource Planning*, 21, 3, 31–37.

Moingeon, B., Ramanantsoa, B., Metais, E. & Orton, J.D. (1998) Another look at strategy-structure relationships: The resource-based view, *European Management Journal*, 16, 3, 297–305.

Moore, K. & Birkinshaw, J. (1998) Managing knowledge in global service firms: Centres of excellence, *Academy of Management Executive*, 12, 4, 81–92.

Nonaka, I. (1994) A dynamic theory of organisational knowledge creation, *Organisation Science*, 5, 14–37.

Peteraf, M.A. (1993) The cornerstones of competitive advantage: A resource-based view, *Strategic Management Journal*, 14, 179–191.

Petrick, J.A., Scherer, R.F., Brodzinski, J.D., Quinn, J.F. & Ainina, M.F. (1999) Global leadership skills and reputational capital: Intangible resources for sustainable competitive advantage, *Academy of Management Executive*, 13, 1, 58–69.

Post, H.A. (1997) Building a strategy on competences, *Long Range Planning*, 30, 5, 733–740.

Prahalad, C.K. & Hamel, G. (1990) The core competencies of the corporation, *Harvard Business Review*, 68, 79–91.

Rhinesmith, S.H. (1992) Global mindsets for global managers, *Training and Development*, October, 63–68.

Rhodes, J.D. (1999) The challenges of governance in the global marketplace: Satisfying shareholders, *Pharmaceutical Executive*, 19, 7, 86–91.

Roberts, K., Kossek, E.E. & Ozeki, C. (1998) Managing the global workforce: Challenges and strategies, *Academy of Management Executive*, 12, 4, 93–106.

Senge, P. (1990) *The Fifth Discipline: The Art and Practice of the Learning Organisation*, Doubleday, New York.

Spencer, L.M. & Spencer, S.M. (1993) *Competence at Work: Models for Superior Performance*, John Wiley & Sons, New York.

Stalk, G., Evans, P. & Shulman, E. (1992) Competing on capabilities: The new rules of corporate strategy, *Harvard Business Review*, 70, 57–69.

Thomas, H., Pollock, T. & Gorman, P. (1999) Global strategic analyses: Frameworks and approaches, *Academy of Management Executive*, 13, 1, 70–81.

Wernerfelt, B. (1984) A resource-based view of the firm, *Strategic Management Journal*, 5, 171–180.

Zajac, E.J. (1990) CEO selection, succession, compensation and firm performance: A theoretical integration and empirical analysis, *Strategic Management Journal*, 11, 3, 217–231.

Soo-Hoon Lee is an Assistant Professor with the National University of Singapore
Philllip H. Phan is with the Rensselaer Polytechnic Institute