Natives versus Non-natives on Top

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There are many different ways in which the globalization of companies can be—and frequently has been—looked at: in terms of the internationalization of sales or assets, cross-border supply chains or shared services, organizational structures, functional policies (e.g., marketing standardization versus customization), and so on. In this article, we look at much less-studied individual measures of globalization: the extent to which the managers who head the world’s largest corporations—at the CEO level and at the level of the managers listed as reporting directly to him/her (henceforth, the top management team or TMT)—are native or not to the country where the corporation is headquartered.

Section 1 discusses the evidence on whether nativity versus non-nativity actually matters. Section 2 presents new evidence on the non-nativity of the CEOs/TMTs of the world’s largest corporations and analyzes their correlates. Section 3 discusses levers that can be pulled if nativism at the top is a concern, and Section 4 concludes.

1. The Stakes

Are the national origins of those who run the world’s largest corporations even worth considering? Despite all the research on “upper echelons theory,” at least some people think not. Some rely on Thomas Friedman’s memorable characterization of the world as flat to aver that everybody everywhere is straitjacketed by the same forces of globalization, irrespective of nationality. However, the data suggest that most international interactions are semiglobalized, and closer, in fact, to the “zero-integration” extreme than to the “complete-integration” extreme—usually by a wide margin. And in terms of changes, the globalization index that one of us (Ghemawat) compiles annually indicates that levels of globalization are still below those reached before the global financial crisis. So progress toward more complete integration hasn’t, of late, been swift or even sustained.
A second, related argument about the irrelevance of nationality focuses on giant corporations that “float above the flat world” (another Friedmanism), detached from all national contexts. To be more specific, consider the one example Friedman cites: Lenovo, the Chinese company that bought IBM’s PC business. Lenovo *does* have roots in the United States—especially on the technology side—as well as in China, but having roots in two countries is very different from rootless cosmopolitanism. And its Chinese roots run deeper than its US ones: guess which of the two governments publically scrutinized Lenovo’s acquisition of IBM’s low-end server business. Even more importantly, Lenovo is exceptional rather than representative in regard to the seven nationalities represented on its TMT. If other companies headed by native CEOs exhibited similar levels of non-nativity at the TMT level, we would be less concerned. But as we shall see, they don’t come close.

Having dealt with these “impossibility” arguments based on exaggerated conceptions of globalization, we can turn to the evidence on the consequences of nativism versus non-nativism at the top. It is useful to begin by noting a general proposition about diversity: given the difficulties of working across divides, diverse groups *can* perform worse than homogenous groups.4 Probably for this reason, one recent study concludes that TMT national diversity becomes advantageous only in firms with high degree of internationalization.5 Other studies, however, are less equivocal. Thus, one well-published study concludes that “TMT nationality diversity is among the few diversity attributes that help increase firm performance” and “the effects of international experience and functional diversity diminish over time, whereas the impact of nationality diversity becomes stronger.”6 And another study of gender and national diversity on senior teams finds that “for companies ranking in the top quartile of executive-board diversity, ROEs were 53 percent higher, on average, than they were for those in the bottom
quartile. At the same time, EBIT margins at the most diverse companies were 14 percent higher, on average, than those of the least diverse companies.”

In terms of mechanisms that might underlie a positive direct effect of national diversity at the top on organizational performance, there is particular interest among practitioners right now in the big shift that is taking place from advanced economies to emerging economies. In a context where many companies from advanced countries are looking for growth far from home, employing nationals from the target countries may help forestall some of the “liabilities of foreignness.” The consulting firms McKinsey and Bain, for example, have both counselled “Think global, hire local” in this context. CEOs themselves routinely cite the lack of qualified managers as the key constraint on their ability to implement their emerging market strategies. And visits by CEOs or other upper echelon managers, even when feasible (e.g., for a large market like China), are no panacea and can, if pushed past a certain point, turn into a problem.

Another explanation of the positive effect of diversity on performance has to do with group creativity. In the words of Scott Page,

People from different backgrounds have varying ways of looking at problems, what I call “tools.” The sum of these tools is far more powerful in organizations with diversity than in ones where everyone has gone to the same schools, been trained in the same mold and thinks in almost identical ways.

Other research on this topic reminds us that cognitive diversity must be supported by appropriate structures and processes for it to have positive effects. Thus, there are suggestions, particularly relevant to contexts that are dominated by one group, that a “lone ranger”—in the present context, a single non-native on a TMT—may have trouble influencing group deliberations.

In addition to such direct effects of national diversity on performance, there is also another indirect but presumably powerful effect due to signaling. If a large share of a global company’s assets, sales, and employees are located outside its home country, yet it consistently
chooses native leaders, it signals limited long-term career prospects for foreign middle managers already in the company as well as potential hires, making it hard to hire/retain the right people. Conversely, selecting a non-native can serve as a very powerful signal as well. Thus, when Satya Nadella, born in India, was appointed Microsoft’s CEO, the move was significant partly because of the assurance it provided about the absence of glass ceilings at the company—presumably particularly valuable to the 30% of Microsoft’s workforce that is estimated to be Indian.11

Evidence suggestive of the broader importance of signaling effects is provided by the difficulties Western companies have started to face in recruiting high-potential candidates in emerging markets. Two decades ago they had the field to themselves. Today they have to compete with fast-growing local companies and constantly confront the question, “Why should I work for a company that is run by people who look like you when I could work for one which is run by people who look like me?” For example, according to a Corporate Executive Board survey, highly skilled Chinese professionals’ preference for working in multinational over domestic companies in 2010 was only half as strong as it was in 2007.12 Anecdotal evidence indicates that the expectation of greater upward mobility in local companies is an important contributor to their rising attraction.

2. Some Statistics

Section 1 suggested that levels of nativity versus non-nativity at the top of large companies might be of concern. This section uses a new data collection effort to shed some light on the magnitude of the possible problem. It is subject to two main caveats. First, the analyses presented are simple—mostly descriptive. We justify this on the grounds that we are simply addressing the lack of stylized facts that might help anchor discussions of this topic in reality. Second, we focus on just one measure of globalization at the personal level: being born “abroad,”
i.e., in a country other than the one in which the corporation one leads is headquartered (although we also examine whether non-natives are from within the home region or not, and the number of countries represented on TMTs). Obviously, one could look at many other measures of personal globalization: experience living, studying, or working “abroad,” having foreign-born parents, speaking multiple languages, et cetera. Since classifying the members of TMTs of the Fortune Global 500 by where they were born stretched available resources, we did not extend our analysis to these other dimensions.

The basic pattern emerging from our research, both at the CEO and the TMT level is unmistakable: even at the world’s largest companies, natives rule the roost! Let’s start at the CEO level, for which we have data on the Fortune Global 500 for the years 2013 and 2008.

In 2013, 67 of the 500 companies (i.e. 13%, or about one in eight) had a foreign CEO. The share has barely budged since 2008, when it stood at 14%. The small decline can be attributed to the growing proportion of Fortune Global 500 companies from emerging economies in general and from China in particular—the number of Chinese companies tripled from 29 in 2008 to 89 in 2013—where the prevalence of foreign CEOs tends to be well below the global average. So the percentage of CEOs that is non-native has stagnated at less than one-half the foreign share of total sales, which averages 30%-plus for the Fortune Global 500.

This stagnation occurred despite significant CEO turnover over the five years studied. Of the companies in the Fortune Global 500 in 2008, 386 (77%) were still on it in 2013, and 207 (54%) of these changed CEOs. In other words, one in two survivors had the opportunity to switch CEOs. But there were few switches from a native CEO to a non-native: of the 173 companies with a native CEO in 2008 who changed CEOs, 157 (91%) had another native CEO in 2013.

Also striking is the opposite effect at the 34 companies that had a non-native CEO in 2008 and had switched CEOs by 2013: more than half of them (18) had another non-native CEO in
2013. In other words, there appears to be an acculturation effect—once a company gets used to having a non-native CEO, it is much more likely to accept non-natives in the future as well.

Broadening the 2013 analysis from the CEO level to the full TMT, we find that on average 15% of their members, excluding the CEO, are non-natives. Note that this percentage is only very slightly higher than the percentage of non-native CEOs!

All the figures mentioned above are global averages that mask large variations. We find that four categories of factors are correlated with the likelihood of non-natives in the upper echelon of a company:

- The internationalization levels of a company’s sales, assets, and employees;
- The country where the company is headquartered;
- The sector in which the company is active;
- The incidence of non-natives in the company’s other upper echelons.

2.1. Company internationalization levels

In line with some of the research cited in Section 1, the incidence of non-natives at the top is significantly higher in companies with a significant amount of business outside their home countries. Since the data available on the Fortune Global 500 in this regard are limited, we consider—just for this subsection—UNCTAD’s list of the world’s top 100 non-financial “transnational” companies, which provides data on the share of assets, sales, and employees located outside the company’s home country.14

The UNCTAD top 100 are obviously larger, on average, than the Fortune Global 500 and—based on the data available for the latter as well—more internationalized: they derive more than two-thirds of their sales from outside their home country, versus about one-third for the
Fortune Global 500. As one might therefore expect, the UNCTAD top 100 display a higher incidence of non-natives: based on our analysis, 29% at the CEO level and 32% at the TMT level. And even within the UNCTAD top 100, there is significant, systematic variation in this regard. Thus Exhibit 1 plots the incidence of non-natives in the TMT against these companies’ “Transnationality Index” (TNI)—the average of the shares of assets, sales, and employees that are foreign—and uncovers a significant positive correlation (r=0.60) between the two. So the question isn’t whether non-nativity responds to the incentives for it: it is correlated with other obvious measures of company globalization. The question is whether the response is adequate.

Exhibit 1: TMT Non-nativity versus Company Transnationality (2012)

![Exhibit 1: TMT Non-nativity versus Company Transnationality (2012)](image)

Source: Transnationality Index data from World Investment Report 2013, The world’s top 100 non-financial TNCs, ranked by foreign assets, 2012.
2.2. Country characteristics

The average incidence of non-natives in the upper echelons of the Fortune Global 500 masks very large variations across countries, as summarized in Exhibit 2. European companies, especially those from small Northern European countries, tend to be the most cosmopolitan at the top, the figures for the United States fall close to the global averages. Japan scores the lowest, with only two of the 62 Japanese companies having a foreign CEO in 2013 (the same absolute number as in 2008), and the average percentage for companies from emerging economies is about the same as the Japanese level.

Exhibit 2: Proportion of Non-Native CEOs and TMT Members in the Fortune Global 500 (2013)

<table>
<thead>
<tr>
<th>Country where the company is headquartered</th>
<th>Number of Fortune Global 500 companies</th>
<th>Average Incidence of Non-Native CEOs</th>
<th>Average Incidence of Non-Native TMT Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>132</td>
<td>13%</td>
<td>12%</td>
</tr>
<tr>
<td>China</td>
<td>89</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>Japan</td>
<td>62</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>France</td>
<td>31</td>
<td>6%</td>
<td>18%</td>
</tr>
<tr>
<td>Germany</td>
<td>29</td>
<td>10%</td>
<td>16%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>26</td>
<td>42%</td>
<td>34%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>14</td>
<td>71%</td>
<td>70%</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>14</td>
<td>7%</td>
<td>1%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>12</td>
<td>42%</td>
<td>41%</td>
</tr>
<tr>
<td>Canada</td>
<td>9</td>
<td>11%</td>
<td>24%</td>
</tr>
<tr>
<td>Australia</td>
<td>8</td>
<td>50%</td>
<td>47%</td>
</tr>
<tr>
<td>Brazil</td>
<td>8</td>
<td>13%</td>
<td>9%</td>
</tr>
<tr>
<td>Spain</td>
<td>8</td>
<td>0%</td>
<td>7%</td>
</tr>
<tr>
<td>India</td>
<td>8</td>
<td>13%</td>
<td>2%</td>
</tr>
<tr>
<td>Italy</td>
<td>8</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>7</td>
<td>0%</td>
<td>9%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>6</td>
<td>0%</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>29</td>
<td>18%</td>
<td>26%</td>
</tr>
<tr>
<td>Total</td>
<td>500</td>
<td>13%</td>
<td>15%</td>
</tr>
</tbody>
</table>
Eyeballing the data, it is clear that the proportions of non-native CEOs and TMT members are closely related at the country level. In terms of explaining cross-country variation, non-nativity increases with a country’s level of development and decreases with its size. Linguistic effects also appear to be important: English-speaking countries, in particular, can draw on a wider pool of talent. But the extent to which citizens of a country speak multiple languages also seems to matter: otherwise, it is hard to explain why 42% of Dutch companies in the Fortune Global 500 have non-native CEOs compared to none of the Spanish ones.

This list of influences could be lengthened greatly by considering other country-specific factors. The upper echelons at the largest French companies, for example, are dominated by people who graduated with top grades from one of France’s “grandes écoles” and spent some time in a government cabinet—creating obvious barriers to entry for “outsiders.” Likewise, various explanations have been offered for the sparseness of foreign executives at Japanese companies: language and communication barriers are formidable; Japanese top managers form an impenetrable web of personal relationships established at elite universities; human resources practices are out of tune with global standards; executive pay is uncompetitive; the practice of rewarding seniority and loyalty turns off ambitious outsiders; and a culture of avoiding uncertainty exasperates managers bent on rapid change.

But instead of pursuing further country-by-country explanations, we prefer to report a striking cross-country correlation between a country’s globalization in terms of the non-nativity of the CEOs of its Fortune Global 500 companies and the depth of globalization of its economy in general, as measured by the DHL Global Connectedness Index. The index relates the size of an economy’s international trade, capital, information, and people flows to its domestic economy. Exhibit 3 suggests a link between the two factors (r=0.46). It is interesting to speculate about the direction of causality, if any.
2.3. Sectoral characteristics

The likelihood of having a non-native CEO at a Fortune Global 500 company varies considerably with the sector in which the company is active.\textsuperscript{21} Foreign CEOs are the most prevalent in healthcare, business services, and consumer/retail (see Exhibit 4), with little change over time. These patterns seem related, in part, to the factors already identified. Thus, many of
the leading companies in these sectors have exhibited relatively high internationalization levels for a long time. And the majority of them are headquartered in the United States or Europe where, as noted above, there is more of a tradition of growing foreign executive talent. In addition, home-country networking (especially with public officials and regulators) appears to be less important in these sectors—with the possible exception of healthcare—than in sectors such as construction, transport, banking, or energy.

Exhibit 4: Foreign CEOs by sector (2013)


2.4. Complementarities at the top

Another striking pattern in the data relates to complementarities across different upper-level subechelons. The proportion of non-natives in a company’s TMT is strongly correlated with the presence of a non-native CEO. At the 67 Fortune Global 500 companies with foreign CEOs, on average 45% of the TMT members are foreign as well, compared with only 11% at companies
with native CEOs (the 45% splits into 22% from the same region as that where the company is headquartered, and 23% from a different region).

Of course, such correlations beg the question of causality. When companies tend to promote CEOs from within, the presence of strongly non-native TMTs should raise the likelihood of non-natives being appointed as CEOs. Alternatively, or in addition, a non-native CEO may be more inclined to promote other non-natives to the TMT. The importance of the first mechanism is signaled by the fact that 12 of the 16 companies in our sample that switched from a native to a non-native CEO between 2008 and 2013 did so by promoting from within. Support for the second mechanism comes from our analysis of the boards of directors of the 100 largest non-financial transnational companies. At the 21 companies with a Chairman who is different from the CEO and non-native, 86% have a non-native CEO as well, compared to 9% at the 43 companies with a Chairman who is different from the CEO and native. Also note that if the Chairman is non-native, the proportion of non-natives on the Board of Directors rises to 59%, compared to 18% when the Chairman is native.

It is worth adding that irrespective of which of the two mechanisms dominates in a particular case, the presence of a foreign CEO is relatively easy for outsiders to check, and—given the correlations reported above—seems to serve as a simple and fairly reliable indicator of a company’s openness to foreign managers in general.

3. CHANGE levers

Sections 1 and 2 can be read as providing some evidence that the degree of nativism in the upper echelons of the world’s largest companies may be a matter of concern to them. In cases where excess nativism is a concern, what can be done to address it? The most obvious way to relax some of the constraints that limited executive diversity can impose is to change CEO/TMT
nationalities. But we can actually think of (at least) half-a-dozen different types of levers for enhancing a company’s ability to deal with international differences and distances. As an aide memoire, we organize them in terms of the CHANGE acronym: Changing the mix of nationalities at the top, Hiring and promoting to broaden the pool of employees, Altering locations (and other structures), Networking across borders, Gestures and symbols and, last but not least, Educating employees about globalization.

3.1 Changing the mix of nationalities at the top

Especially in light of the correlations among non-nativity at the CEO, TMT, and Director levels, how might a company that is native along all these dimensions but intent on changing that get started? Bekaert, the global steel wire company headquartered in Belgium, is one interesting example of starting with change at the very top. While mature markets today account for less than 30% of its sales—and its home market for just a few percentage points—its CEO and eight TMT members were all Belgians—until this year. When the incumbent CEO moved to the Chairman position, the brief to the executive search firm explicitly included the need to search for a non-native CEO.

Or to cite another example in the same vein, ABB, headquartered in Switzerland, had a nationally diverse board and TMT but nonetheless inducted Joe Hogan, an American, as CEO because its board was looking for ways to bolster its historically weak position in the United States. (ABB’s last big move there, the acquisition of Combustion Engineering, had turned into a much-studied disaster.) Since Hogan arrived from GE, ABB has spent more than $10 billion on acquisitions in the United States, with much better results.

Of course, both these dramatic changes were probably eased by country characteristics—Exhibit 3 indicates that Belgium and Switzerland both rank very high in terms of non-nativism.
across their largest companies—as well as company-specific factors (ABB had long sought to emulate GE). Yanking the native CEO for a non-native one may strike many other (less internationalized) companies as too risky a move, in which case they might begin by inducting some non-natives onto the TMT or the board—and ideally not just as tokens. Consider Accenture—now a company headquartered in Ireland and headed by a Frenchman but not that long ago a US company headed by an American, William Green. Green, who became CEO in 2004, deliberately built up the non-native component of his TMT and was succeeded by one of them, Pierre Nanterme, as CEO and then Chairman. The importance of promotion from within in transitions from native to non-native CEOs that was discussed above (in subsection 2.4) suggests that this less direct approach may, in fact, be more common.

3.2 Hiring and promoting to broaden the pool of employees

Companies can also enhance the likelihood of non-natives—and more broadly, people with cross-border experience—(eventually) reaching the top by broadening the employee pool at all points in the pipeline, not just in the upper echelons. To start at the beginning, attention might be paid in recruiting to people’s openness, curiosity about the world, and ability to adapt: it is often easier to hire for such attributes than try to foment them later. Thus, when recruiting for its management trainee program, Nestlé favors applicants with double nationality, international parentage, or those who have lived in multiple countries. But that’s a very sophisticated example: many companies could improve if they simply discarded obviously dysfunctional policies. At the top US business schools, for instance, many “global” companies still interview foreign citizens only for postings back home!

With or without changes in recruiting, one could also imagine enormous benefits from career development and promotion policies that boost retention of the right kind of talent—and
investments in one’s own development that also make sense from a company perspective. Local talent—particularly in emerging economies, where most of the increases in employment in most sectors is concentrated—needs to feel that the company offers a viable development path. So do expatriates. Unfortunately, academic studies indicate that expatriates at European and US multinationals take longer to make their way up the managerial ladder. And more than 60% of respondents to a survey during a recent EIU Talent Management Summit agree that a posting in a major emerging or developed market should in principle help one’s career prospects, but only 27% believe this is reflected in their company’s talent development strategy. Such patterns and perceptions will have to change if companies are serious about building up global bandwidth by reversing some of the large cutbacks in cross-border assignments since the late 1990s: according to one study, the proportion of expatriates in senior management roles at multinationals in the biggest emerging markets declined from 56% to 12% between 1998 and 2008.

Of course, progressive expatriation programs at large multinationals seek to move managers from different countries, not just natives of the headquarters country, across borders: otherwise, the programs would further boost native shares of the top managerial ranks—and stoke non-native resentments. These days, there is also considerable interest in inpatriation: having managers from other countries spend time at headquarters. For example, Frank Appel, the CEO of Deutsche Post DHL, actively tracks the number of nationalities working at headquarters in Bonn, Germany. Bertelsmann posts successful local managers to even more bucolic Gütersloh for several years. And the career development path at Nestlé typically includes two stays at corporate headquarters in Vevey, Switzerland: one in the early stages of an individual’s career and the other when reaching mid-management. But such programs should be kept in perspective: according to one careful study of three large German multinationals, inpatriates accounted for
0.05% to 0.5% of all employment, versus a total of 1%–2% of employment for all international assignees (including those on short-run assignments as well as longer-run expatriates).  

### 3.3 Altering locations (and other structures)

Expatriation/inpatriation programs can be thought of as relocating individuals across borders. One can also imagine management teams, structures, etc. being relocated across borders, either permanently or temporarily. Thus, Jean-Pascal Tricoire, the Chairman and CEO of France’s Schneider Electric, has posted himself to Hong Kong to bring sharper focus to growth opportunities in Asia, particularly China. Starwood CEO Frits van Paasschen moved his entire headquarters to Shanghai for a month in 2011, and did so again, to Dubai, in 2013. And while relocations of corporate headquarters are still rare, relocations of business/divisional headquarters are considerably more common. For example, P&G relocated its global skin, cosmetics, and personal-care unit from its Cincinnati headquarters to Singapore. And Royal Philips Electronics, Europe’s biggest maker of consumer electronics, moved the headquarters of its domestic appliances business to Shanghai.

Relocating businesses or functions is just one structural approach to increasing global bandwidth. Others include the appointment of Chief Globalization Officers, many of them based in emerging economies (e.g., at GE and GM), the creation of units specifically focused on emerging markets (e.g., at IBM) and the implantation of regional structures/headquarters. And some of these changes are complements, not just alternatives. Thus, P&G’s relocation of the global headquarters of its detergent business to Geneva gained potential leverage from the fact that employees responsible for regional management of global business units for Europe, the Middle East, and Africa were already based there.
3.4 Networking across borders

Companies can also work on fostering lateral linkages between diverse and/or remote teams and people. Cross-border projects and multinational taskforces are fairly widely used in this respect. At the institutional level, a “Corporate University” can be used to bring leaders together, with spots reserved for foreigners in particular. For example, Daimler Benz recently decreed that half of the participants in its development program for young managers must be from outside Germany. And Bekaert has instituted a one-week training program, bringing together 500 managers from across the company, to focus exclusively on the company’s values, thereby aiming to establish a shared vocabulary and understanding of key concepts (such as “integrity”) in spite of wide cultural differences. Such initiatives are meant to help natives to broaden their outlooks as well as non-natives to familiarize themselves with unwritten as well as written rules—and to help establish connections across the two groups.

Technology infrastructure and employees’ digital facility can also greatly enhance connectivity. Thus, there is great interest in using internal “social” networks to connect employees who are already familiar with and accustomed to Facebook and Twitter. But technology doesn’t entirely substitute for in-person interactions and may, up to a point, even be a complement. As Jean-Pierre Clamadieu, CEO of the Belgian chemical firm, Solvay, puts it: “I am not planning to move to Singapore, but with the benefit of high-quality video and other technology, these days I think we need to spend less time at HQ and longer periods in different regions of the world.”

3.5 Gestures and Symbols

In addition to concrete changes in policies, gestures and symbols matter a great deal as well because the objective, ultimately, is to transform the cultures of companies with heritages of
natives firmly on top into cultures that allow and even promote national diversity. Given the interest in changing behavioral models (not just business models), symbolic actions may turn out to be indispensable, not just of potential interest.

There are many specific ways in which this objective might be pursued. Celebrate the success of managers from other countries when they move up the ranks. Hold meetings in new locations even if you don’t move your top management there for any significant length of time—and if you get huge pushback, that itself is useful information. Don’t require people in other time zones to systematically be up (very) late or early for conference calls at times that are convenient just for people at corporate headquarters. And even elect leaders for certain activities through bottom-up voting: this may be a relatively easy way to give opportunities to foreign high-potentials to gain global visibility. For example, the members of the some 150 global “communities of practice” at Schlumberger elect their community leader through a traditional voting process, from a roster of members that have put themselves forward as candidates, for a renewable annual term.

For other company examples, consider two IT companies, whose key employees (as at Schlumberger) are engineers who are stereotypically regarded as insensitive to such “squishy” factors. Thus, when IBM’s Sam Palmisano decided in 2006 to hold a meeting of his board in Bangalore as well as a series of events around it involving an entourage of employees, investors, analysts, and journalists and approached one of us for help with this, the first question that came to mind was “Why?” Sam thought that there would be substantive benefits in terms of forcing some attention to India—where IBM would soon have more than 100,000 of its employees—on an entourage with generally limited knowledge of that country. But he placed even more emphasis on the benefits of signaling IBM’s commitment to India to its increasingly Indian workforce. IBM had, along with Coke, left India in the 1970s as Prime Minister Indira Gandhi
applied pressure on multinationals; the meeting in Bangalore, right up to the President of India addressing the event, was meant to signal that IBM was back big and for the long haul.

Or consider another, apparently more mundane example from the IT sector, involving Bangalore-based Infosys. Like most other large Indian IT companies, Infosys is highly internationalized on the output side but not on the input side: When asked about symbolic acts key to Infosys’s globalization, Narayana Murthy, Infosys’s cofounder and first chairman, started off by mentioning removal of the restriction that only Indian vegetarian food be served at Infosys gatherings—a clear nod to non-nativism.

3.6 Educating employees about globalization

While direct personal experience of other nations and nationalities is essential to broadening individuals’ mindsets, it is helpful to have a context to plug it into—and that requires some education about globalization—education that goes well beyond diversity training. Individuals, including top managers, have a robust tendency to overestimate how global the world is and to overlook the differences between countries.²⁹ Such globaloney seems a poor basis for cross-cultural sensitivity, not to mention developing and aligning around a sensible global strategy. Familiarization with the basics of globalization is a better bet.

It is not difficult to come up with a list of areas that the managers, at least, in a global/globalizing corporation should have some basic knowledge of. Exhibit 5 presents a partial list drawn from recommendations that one of us (Ghemawat) authored for the AACSB’s Report on the Globalization of Management Education.³⁰ (The list is meant to be supplemented with function-specific knowledge requirements as well as attitudinal/value assessments.³¹) Materials to cover the topics in Exhibit 5 are also available (e.g., on ghemawat.com). What is needed is the
willingness to invest in ensuring that employees’ perceptions of globalization are anchored in reality.

Exhibit 5. Proposed Areas of Required Knowledge about Globalization

1. Levels of cross-border integration of markets of different types: products, capital, people, and information (semiglobalization)
2. Levels of internationalization/globalization of firms (firms as the visible hand of cross-border integration)
3. Changes in cross-border integration over time (the two waves of globalization, the current crisis in historical perspective)
4. Drivers of changes in cross-border integration over time (technological changes, particularly in transport and communications, and policy changes)
5. Net impact of differences of various types on cross-border interactions (estimates from gravity models of the effects of CAGE variables)
6. Differences in national cultures and implications for business (objective indicators and Hofstede’s five—subjective—dimensions of cultural values and implications)
7. Differences in business ownership and governance around the world and implications (“varieties of capitalism”)
8. Distance and other geographic barriers and implications (regionalization—at international and intranational levels)
9. Economic differences and implications (wages and other factor costs; impact on arbitrage/vertical vs. aggregation/horizontal strategies); the big shift to emerging economies
10. Benefits and costs of increased cross-border integration (in the presence of market failures)

Source: Adapted from Ghemawat, “Focus on Curricular Content,” 152–153.32

4. Conclusions

This paper has focused on presenting some exploratory analysis of the extent to which the senior leaders of the world’s largest corporations were born in the country where the corporation is headquartered as well as possible consequences and corrective measures. As noted above, this is just one measure of national diversity that could usefully be broadened as well as extended to somewhat smaller companies. In addition, national diversity itself is just one dimension of diversity and so it would also be useful to undertake such analysis of diversity along other dimensions and links across them. (The recent furor over Microsoft CEO Satya Nadella’s
comments on whether women should ask for pay raises reminds us that sensitivity along one
dimension does not guarantee sensitivity along others.)

But even with those large caveats, our findings do seem to have some implications that
stretch from the top to the bottom of corporate hierarchies. At the top, national diversity should
be a topic of conversation for boards of directors: the issue seems more important than much of
what boards do spend their time on—but often isn’t even raised. Board involvement seems
particularly essential when the CEO is native to the country in which the company is
headquartered—which turns out to be the case for 87% of the Fortune Global 500 and
presumably higher percentages of broader samples of companies. And of course, CEOs (and
other top managers) can and should themselves pull on the CHANGE levers discussed in the
previous section.

Far lower down in the hierarchy, younger managers looking to make international careers
should also pay attention to our results. Not all companies, even among the very largest, are
equally congenial to non-native talent. A non-native considering a particular company as an
employer might do well to look at the percentage of assets/sales/employees outside the home
country, whether the home country is one that is relatively open to non-natives or not (which
turns out to be correlated with general globalization levels), and non-nativity at the
CEO/TMT/Board levels. And if more people do so at the lower echelons, there will be more
pressure on the upper echelons for real reforms along this dimension.

1 T.L. Friedman, “The World Is Flat: A Brief History of the Twenty-First Century” (New York: Farrar
Straus and Giroux, 2005).
2 P. Ghemawat, “World 3.0: Global Prosperity and How to Achieve It” (Boston, Mass.: Harvard Business
3 P. Ghemawat and S.A. Altman, “DHL Global Connectedness Index 2014. Analyzing global flows and
their power to increase prosperity” (2014). http://www.dhl.com/gei
4 See, for instance, K.Y. Williams and C.A. O’Reilly, III, “Demography and Diversity in Organizations: A
Review of 40 Years of Research,” in “Research in Organizational Behavior” B.M. Staw and L.L. Cummings, ed.
(Greenwich, Conn.: JAI Press, 1998), 77–140.


19 The Hofstede Center.

20 P. Ghemawat and S.A. Altman, “DHL Global Connectedness Index 2014. Analyzing global flows and their power to increase prosperity” (November 2014), http://www.dhl.com/cgi

21 Note that the likelihood of having a non-native TMT member does also vary across different sectors. The correlation coefficient between sectors’ ranks on CEO and TMT non-nativity is 0.72 (based on the sectors shown in Exhibit 4).

22 Note that in 36 companies, the same person is Chairman and CEO.


