Board Monitor Brazil 2022

In 2021, B3 companies frequently appointed directors with human resources backgrounds, with a strong mandate to improve succession planning at both board and executive committee team levels.

About the report

This report is part of Heidrick & Struggles' longstanding study of trends in board composition in countries around the world. Produced by our CEO & Board Practice, these reports track and analyze trends in nonexecutive director appointments to the boards of the largest companies in Australia (ASX 200), Belgium (BEL 20), Brazil (BOVESPA), Canada (TSX 60), Denmark (OMX Copenhagen 25), Finland (OMX Helsinki 25), France (CAC 40), Germany (DAX and MDAX), Hong Kong (Hang Seng), Ireland (ISEQ), Italy (FTSE MIB), Kenya (Nairobi Securities Exchange Top 60), Mexico (BMV IPC), the Netherlands (AEX), New Zealand (NZX 10), Norway (OBX), Portugal (PSI 20), Saudi Arabia (Tadawul), Singapore (STI 30), South Africa (JSE Top 40), Spain (IBEX 35), Sweden (OMX 30), Switzerland (SMI Expanded), the United Arab Emirates (ADX and DFM), the United Kingdom (FTSE 350), and the United States (Fortune 500). Information about executives is gathered from publicly available sources, BoardEx, and a Heidrick & Struggles proprietary database.

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Introduction

Over the past few years, people all over the world have experienced an unprecedented series of events that have fundamentally changed both our communities and our organizations, from the COVID-19 pandemic to racial and social justice movements, increased polarization, the sharpened focus on climate change, and recent geopolitical events such as the war in Ukraine. One outcome of these experiences has been a greater focus on purpose, both individual and organizational. It's undeniable that all these events, taken together, have changed the very nature of corporations' license to operate—the fundamental contract between organizations and the communities within which they do business. Today, there is a very clear expectation that companies take a stand on social and political issues.

There are enormous challenges in Brazil, starting with the negative impact of the COVID-19 pandemic on workforces, with many Brazilian companies experiencing higher attrition, high levels of stress and mental health issues, and a decrease in employees' sense of belonging. And those concerns must be set in the context of high volatility in the global markets, a polarized local presidential election focused on extreme narratives, a weak economic outlook, projected investment drought, a limited talent market, and the impact from war in Ukraine that is trickling down into the Brazilian market. All these challenges are increasing uncertainty and creating a riskier business environment.

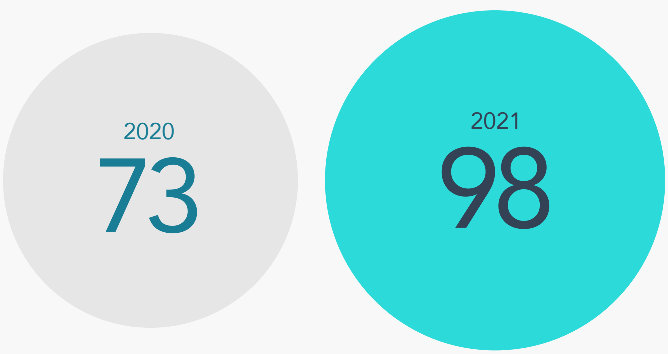
At the board level, we have seen many companies appointing directors with human resources backgrounds or experience setting up people committees, with a strong mandate to improve succession planning at both board and executive committee team levels. This trend addresses the need to realign board competencies with the shift toward people and purpose.

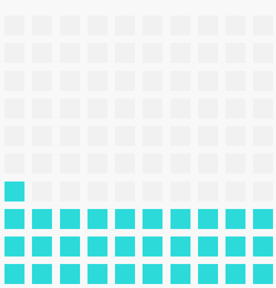
Boards now have a strong mandate to improve succession planning at both board and executive committee team level. This trend addresses the need to realign board competencies with the shift toward people and purpose

So, how did boards of B3 companies (Brazilian Stock Exchange) change their composition in 2021 to tackle these new expectations and mitigate potential risks. In Brazil:

Key findings

There was an uptick in the number of new appointments in 2021: 98, compared to 73 in 2020.





There was an increase the share of seats allocated to women: 31% compared to 22%. However, the share of seats occupied by women on Brazilian boards remains small compared to boards of more mature capital markets.

Companies are starting to add members with more expertise in people, technology, digitization, innovation, cybersecurity, and ESG, and usually they are independent members.

While there has been progress in broadening the spectrum of experience around boardroom tables, each organization needs to make sure it is prepared not only for today's challenges but is anticipating what type of directors it will need to appoint in order to future-proof itself. Companies need to be ready to discuss talent management and CEO succession plans across a spectrum of time horizons and scenarios, including the long-term or emergency succession of their top executives.

Snapshot of 2021 findings

New seats filled

98

Average age

57.9

Current or former CEO experience

39%

Current or former CFO experience

9%

Gender balance (%)

Women 31 | Men 69

Active vs. retired executives (%)

Retired 42 | Active 58

Nationality (%)

National: 78

Non-national: 8

Other: 14

Experience (%)

First-time public board experience: 44

Previous public board experience: 56

C-level previous experience (%)

CEO	39
CFO	9
COO	2
Deputy CEO	2
Other C-level experience (overall combined)	30

Other previous experience (%)

Financial risk/compliance	44
International experience	30
Social media/digital	9
Cybersecurity	6
Sustainability	5
DE&I	4

The terms of engagement between companies and the community at large have changed

Nice-to-haves are becoming mission critical for corporate governance

Globally, there is a new license to operate, and, as a result, a new conception of the corporation is developing. Sustainability, DE&I, wellness, and ethics used to be peripheral issues for companies, and the skills to approach them merely nice-to-haves built to create competitive advantage; today, thanks to increased pressure from a wide spectrum of stakeholders and increasing regulatory demands, they have become into table stakes.

ESG and sustainability in particular are becoming a core business pillar and increasingly instrumental in corporate access to capital. In the case of Brazil's large natural resources sector, these considerations are crucial to retaining companies' license to operate. The entire planet is keeping an eye on the protection of the Amazonian forests; in December 2021, the Brazilian securities and exchange commission (CVM) published a new resolution that requires companies to disclose data related to climate risks starting in 2023.

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These new expectations come with new risks and higher stakes…

There has been a shift in the nature of risks stemming from the new stakeholders' expectations outlined above in areas including the approach to talent, adoption of new technologies, direct and indirect sustainability impact, and the emergence of increasing accountabilities for leaders.

New ways of working have become a tension between leadership teams and workforces. There are increasingly large and obvious discrepancies between what leaders want and what many employees are looking for: policies such as remote working, increased flexibility, or more equitable parental leave. There has been a definite change in the dynamics of the relationship between leaders and employees, with employees gaining a stronger voice. We see a tougher competition for talent, particularly in some businesses and functions such as technology, ESG, and investor relations. Companies are struggling to find the talent they need and are looking for different strategies to attract and retain them, moving from traditional work engagements to making their companies more attractive to a more diverse talent pool, accessing on-demand talent, and overall taking a more fluid approach to their workforce.

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There is more pressure on corporate leadership to walk the talk. DE&I especially is a continuous work in progress, and fairness and equity are becoming central to its narrative: In Brazil, B3 has introduced a proposal that asks that, as of 2025, publicly traded companies have on their boards at least one woman and one other director from an underrepresented community—either of an ethnicity other than white (Black or multiracial), LGBTQIA+, or a person with a disability.

More companies are making big bets on data analytics, AI, the metaverse, and tools to enhance productivity and process optimization, while cyberattacks are becoming increasingly sophisticated and difficult to deal with.

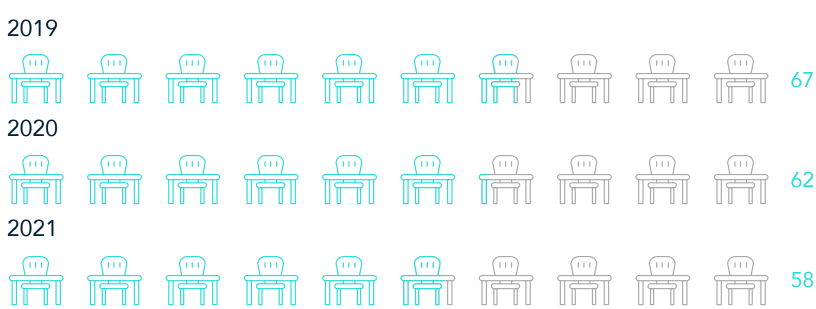
How are boards stepping up to meet the moment and prepare for an uncertain, and more demanding, future?

They are infusing some new perspectives

2021 was the year with the second highest number of IPOs on the B3 since 2007, with 45. In this context of change, B3 companies saw an uptick in director appointments in 2021: 98, compared to 73 in 2020—but still not matching the record 108 in 2019. The share of seats that went to directors who were active rather than retired continued to decline from the previous two years; at 58%, this is the lowest share of active directors since 2019. This could perhaps be an effort to bolster boards' pool of executives who have managed multiple economic cycles.

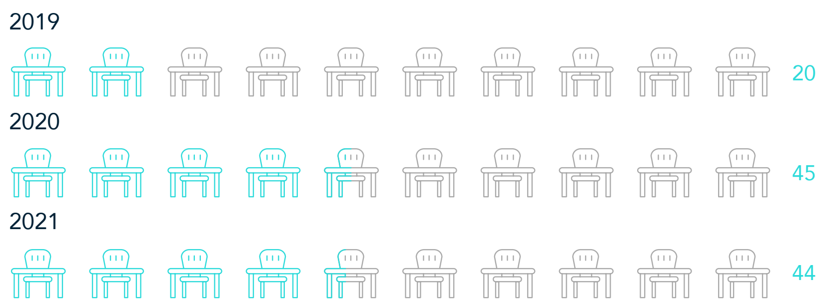
Number of appointments, 2019–2021

Active vs. retired executives, 2019–2021 (%)

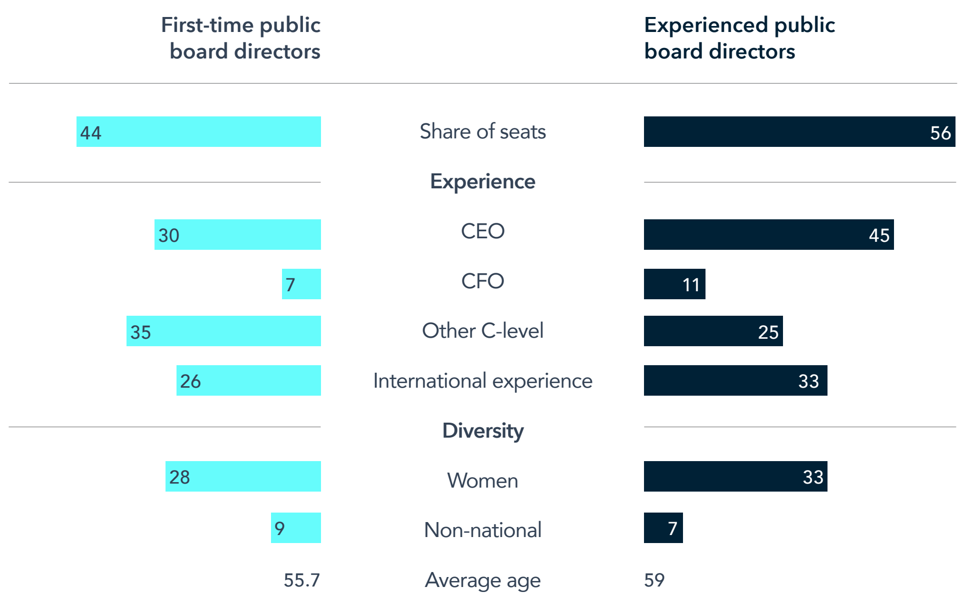


The share of seats going to directors without previous public board experience held steady at 44%, after having more than doubled in 2020. First-time directors comprised a lower share of women: 28%, compared to 33% of their more experienced peers. First-time directors are less likely to have CEO or CFO backgrounds or international experience but bring more C-suite experience in other functions.

First-time public board experience, 2019–2021 (%)



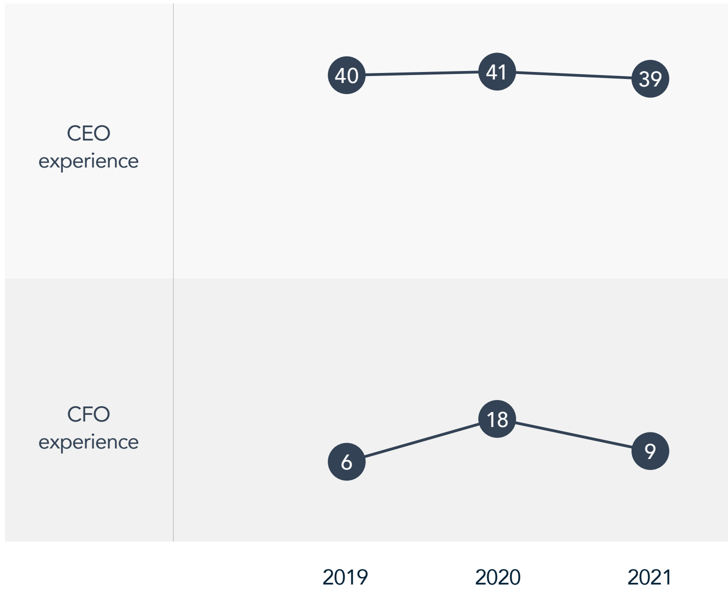
What's different between first-time directors and their more experienced peers (%)



Professional experience

There was a slight drop in the share of seats allocated to directors with CEO experience, 39% in 2021 compared with 41% in 2020, and a significant drop in the share of directors with CFO experience, from 18% to 9%.

CEO and CFO experience of new directors, 2019–2021 (%)

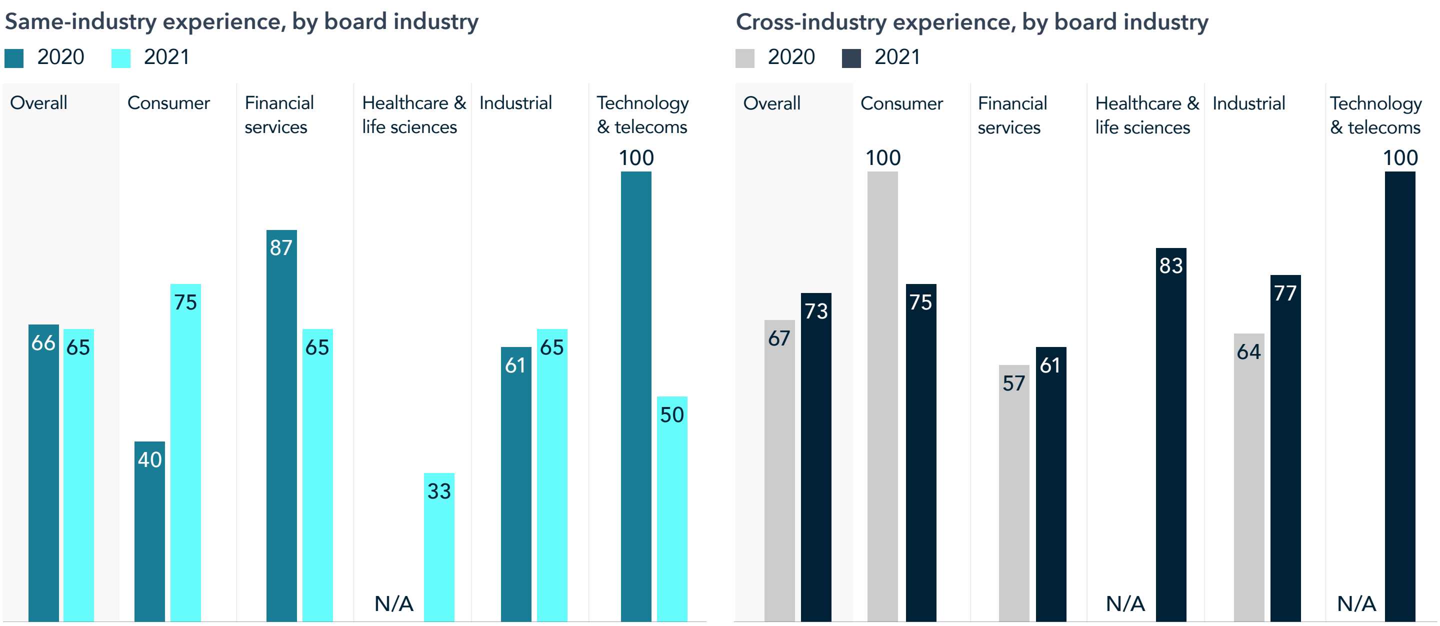


Looking at other professional experience, we saw a steep increase in seats going to directors with financial risk and compliance experience, and significantly fewer seats going to those with sustainability, social media or digital, or cybersecurity expertise. This latter point suggests that many boards may be overlooking a couple of significant risks: with remote and hybrid working being the new normal and significant increases in cyberattacks, most companies realize how vulnerable they are. It is the responsibility of the board is to make sure that the executive team has a plan to deal with these risks and vulnerabilities, as well as to implement a wider risk-management framework. Similarly, with sustainability climbing on corporate agendas, boards are still quite slow in bolstering their sustainability acumen.

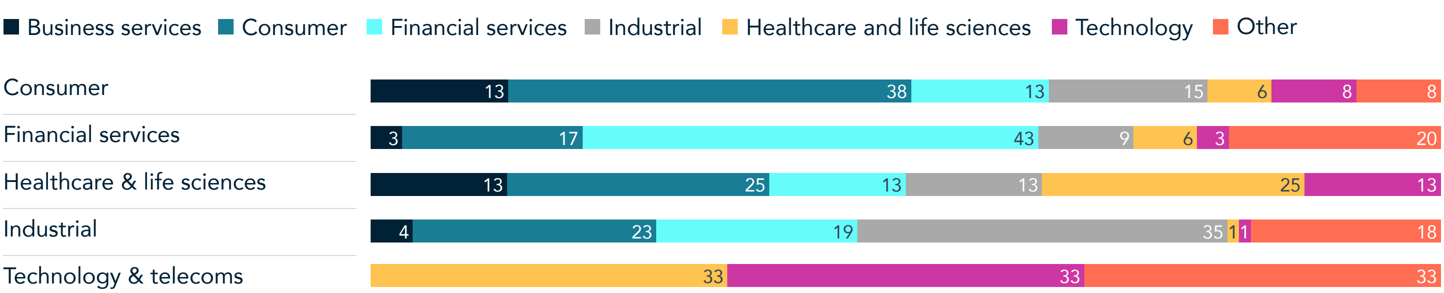
Other areas of expertise, 2020–2021 (%)

The share of seats going to directors with same-sector experience held steady compared to 2020, while the share of seats going to directors with cross-sector experience increased. Most companies have brought on directors from a mix of sectors.

Same-industry and cross-industry experience, 2021 vs. 2020 (%)



Distribution of industry experience, by board industry (%)



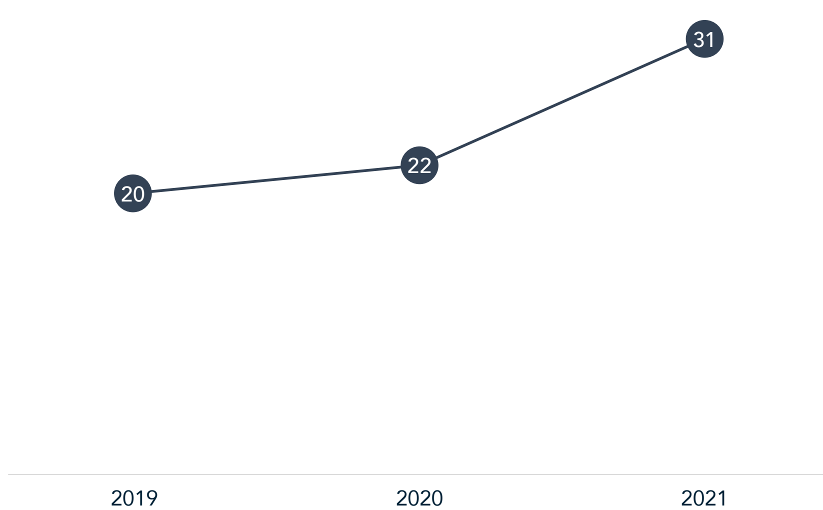
Note: Numbers may not sum to 100%, because of rounding.

Progress in gender balance

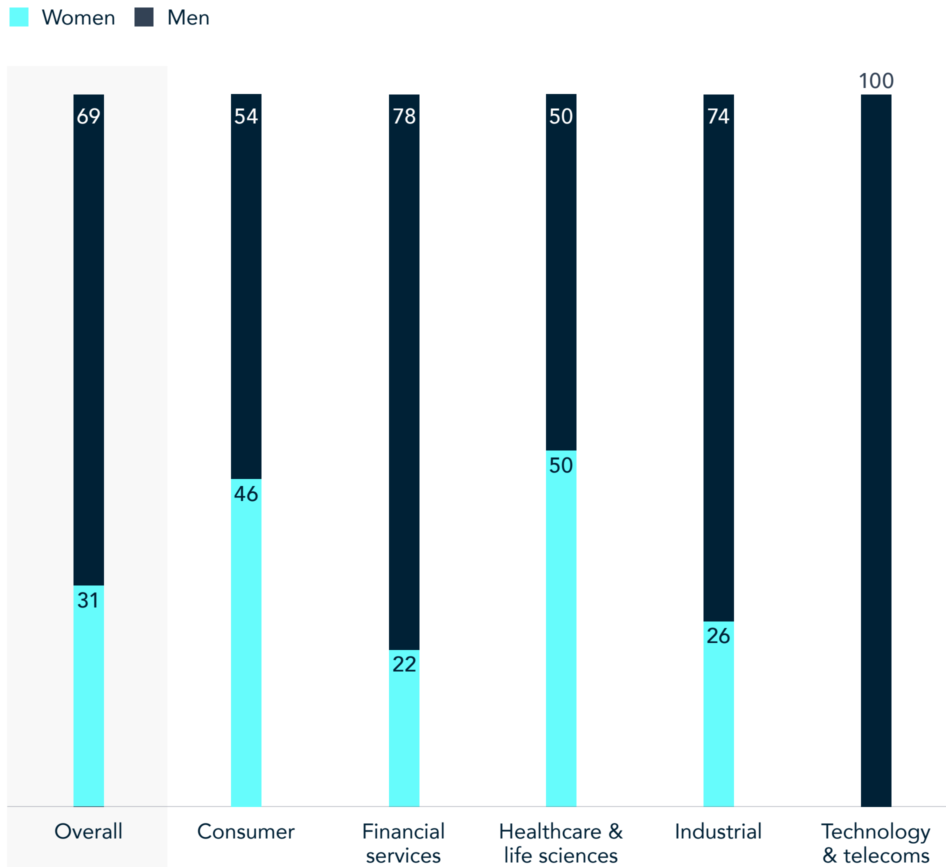
Gender trends

2021 saw an improvement in the share of seats going to women, jumping from 22% to 31%. However, there are big disparities among sectors, with healthcare and life sciences and the consumer industry leading with 50% and 46%, respectively, while financial services saw only 22% of seats allocated to women.

Gender trends, 2019–2021 (%)

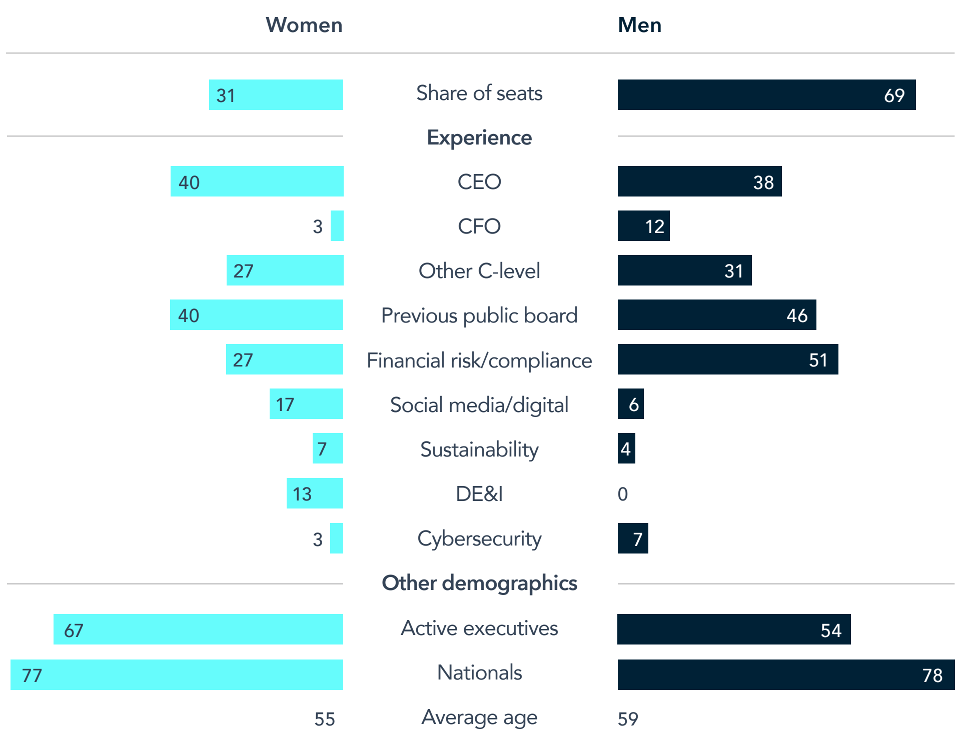


Gender, by industry, 2021 (%)



On average, women appointed to boards in 2021 were much younger than the men and more often in an active executive role rather than retired. It is quite remarkable, in that context, that the women appointed directors in 2021 more often have had a CEO role, and it makes B3 companies an exception to the pattern established in the other countries we track, wherein CEO experience is much more present in the profiles of the board members that are men. Women bring more social media or digital, sustainability, and DE&I experience, while men bring significantly more financial risk and compliance and cybersecurity experience.

How the profiles of men and women compare (%)

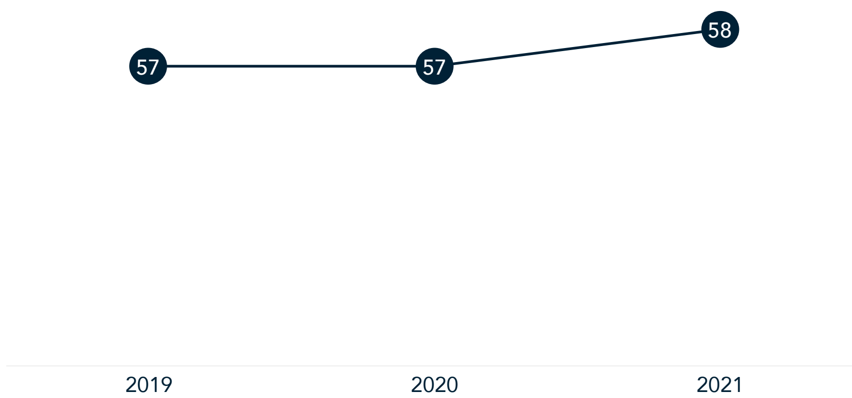


Age diversity

The average age of newly appointed directors in B3 companies in 2021 was 58, a one-year increase compared to the previous year. In 2021, 57% of seats went to directors over 55, and only 8% went to those under 45.

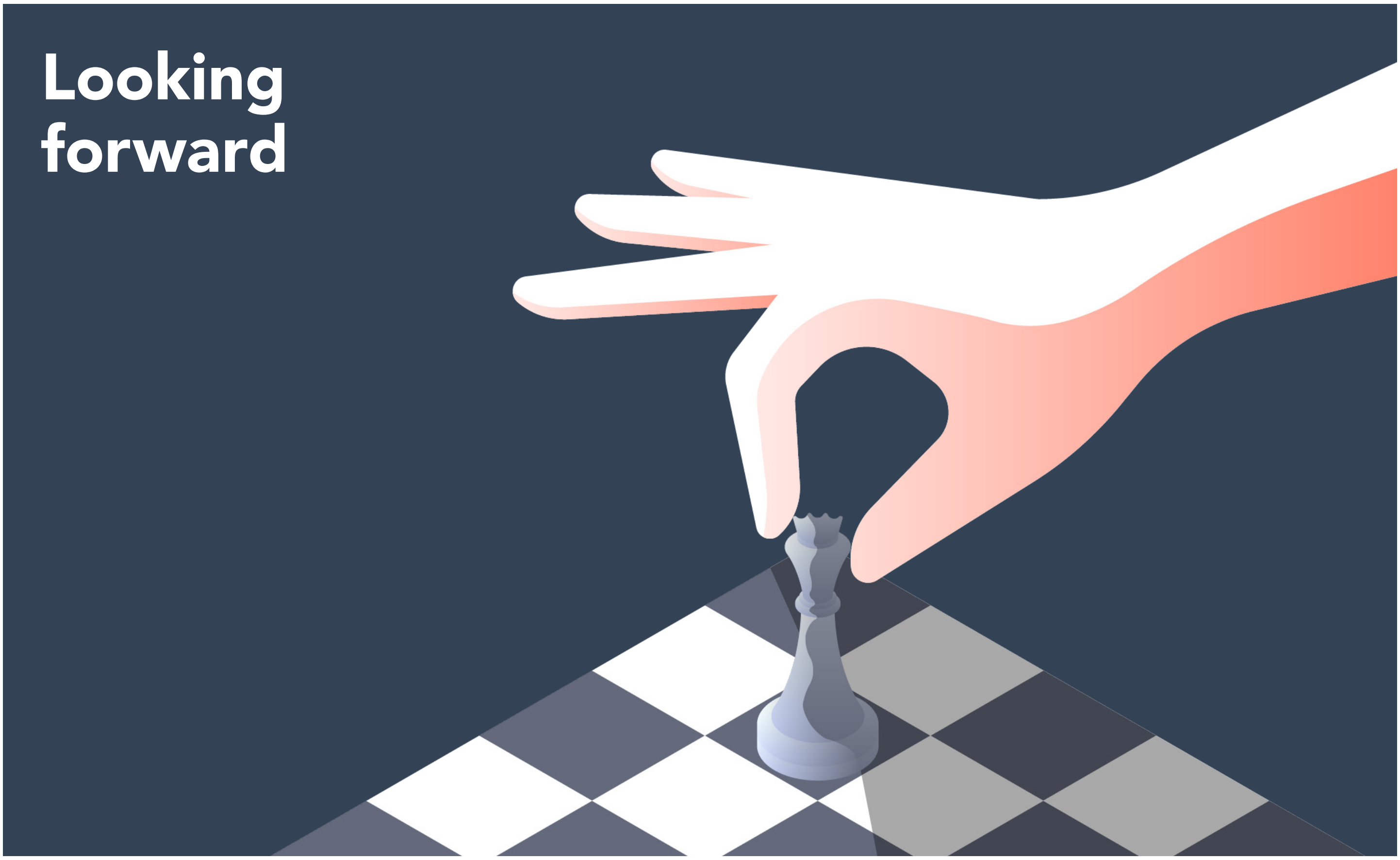
Snapshot: Age trends (%)

Average age of new directors, 2019-2021



Age distribution of new directors (%)

Looking forward

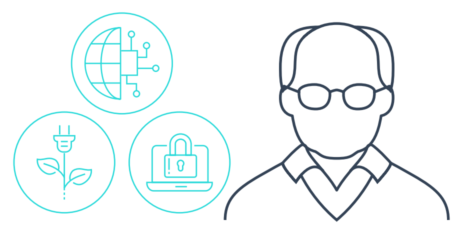


As the contract between companies and society is changing, it is necessary for boards to be fit for purpose today and be able to manage future unexpected—yet inevitable—crises. Companies require a new, bolder type of leadership that is focused on organizational purpose, factors in the new demands from their workforce, and has "doing good while doing well" as a mantra.

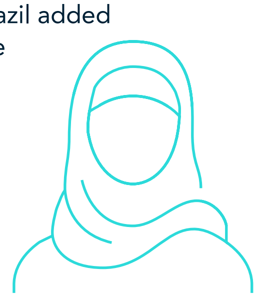
Boards need to build agility to both deal with unexpected events and achieve a certain level of foresight, and to integrate fresh perspectives into their leadership that will complement the experience of more seasoned business leaders who have seen different economic cycles and crises unfolding. In addition, leadership capabilities such as engaging on a purpose, empathy, and inclusion are taking equal importance to any areas of hard expertise.

So, what are best-in-class boards doing? They are:

Actively seeking new directors whose backgrounds combine a mix of traditional expertise, (such as CEO or CFO) with knowledge that is newer on boards' skills matrix, such as digital, sustainability, or cybersecurity, or experience in different industries.



Staying tightly focused on diversity beyond gender. Best-in-class boards are building their networks and improving their outreach to potential directors from diverse sets of experience, ages, genders, and ethnic backgrounds. The new rules that set goals for gender and ethnic diversity in Brazil added urgency to the companies that are in B3 or planning to join the index.



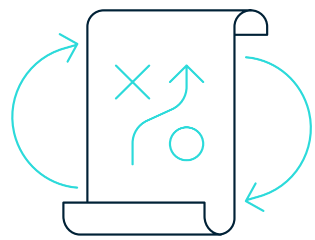
Building cybersecurity expertise at board level. The increase of remote and hybrid working makes companies more vulnerable to cyberattacks. As these events carry major reputational risks, boards need to be able to support their company's ability to anticipate and respond to such attacks.

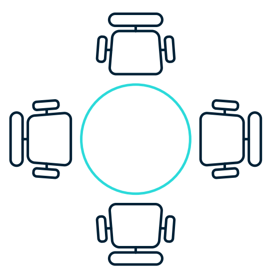
Bolstering their sustainability acumen. The lack of progress in bringing more sustainability experience to boards is particularly concerning in a context where there is an increasing sense of urgency in addressing sustainability in general and climate change in particular, and where there is a clear need to increase the level of fluency boards have on the topic: a survey Heidrick & Struggles conducted in collaboration with INSEAD found that that 85% of board members we surveyed believe that the level of overall climate knowledge on their board needs to increase.[1] Yet current board succession processes don't call for progress on this front, the survey shows: 69% of board members said that climate change knowledge is not included in their board's competency matrix.

Bringing younger directors onto boards. The median age of directors appointed over the past few years has been remarkably stable, and the average age of directors overall has increased slightly. Best-in-class boards understand the advantages of perspectives brought in by executives who are in earlier stages of their careers and are, in many cases, closer to the intricacies and consequences of some of the newer issues boards need to address, such as climate change.

Seeking new members who have the ability to take on a leadership role, either that of a chair, senior independent director, or committee leader. The chair is central to determining what skills, backgrounds, and expertise are needed on a board, as well as to shaping a board culture that ensures all directors, old and new, can contribute effectively. And, for all board leadership roles, nontraditional leadership capabilities come to the fore: boards should seek people who are good listeners and relationship builders, who can lead through influence, and who can connect with the organizational purpose.[2] This matters more than ever because it's crucial, especially now, for chairs and directors to be able to collaborate across cultural and political differences as well as differences in expertise and background—not by ignoring those differences but by using them as assets to solve problems.

Thinking of succession planning as an ongoing exercise rather than an exercise undertaken in reaction to an annual deadline. A significant part of this process is proactively cultivating potential board members who can meet anticipated needs across different time horizons and strategic scenarios. This reduces risk and builds confidence that the organization will be led well whatever happens. Another important element is regularly assessing the performance of boards and board members to make sure that the company has the most effective team around the table—which has been a growing concern among public companies, particularly those targeting the "Novo Mercado" listing.





Creating a space for temporary seats at the table or bringing in voices from outside as a sounding board when voices beyond those in the boardroom need to be heard. These range from ad hoc committees to observers, advisors, or shadow boards.

That said, there is no single prescription for board composition. Each company is in a different stage of maturity, in different industries and locations, and pursuing unique strategies, and while some have weathered the past couple of years successfully, others have more to rebuild. Each board should ensure its refreshment strategy reflects the organizational purpose and goals for the long term and prioritize efforts to add fresh perspectives where they will make the most difference.

1 *Changing the Climate in the Boardroom*, Heidrick & Struggles and the INSEAD Corporate Governance Centre, heidrick.com.
2 Alice Breeden and Bonnie W. Gwin, "The chair imperative: A new mandate for leading in a new world," Heidrick & Struggles, heidrick.com.

CEO & Board Practice

Heidrick & Struggles' CEO & Board Practice has been built on our ability to execute top-level assignments and counsel CEOs and board members on the complex issues directly affecting their businesses.

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