# Board Monitor Canada 2021

A look at new directors on TSX 60 boards suggests that boards would benefit from seeking a new balance between directors who meet traditional expectations and those who meet fast-changing stakeholder demands.

## About Board Monitor

This report is part of Heidrick & Struggles' long-standing study of trends in board composition in countries around the world. Produced by our CEO & Board Practice, these reports track and analyze trends in non-executive director appointments to the boards of the largest companies in Australia, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Mexico, the Netherlands, New Zealand, Norway, Portugal, Singapore, South Africa, Spain, Sweden, Switzerland, the United Arab Emirates, the United Kingdom, and the United States. Information about executives is gathered from publicly available sources, BoardEx, and a Heidrick & Struggles proprietary database.


**Thanks to the following Heidrick & Struggles colleague for her contributions to this report:**

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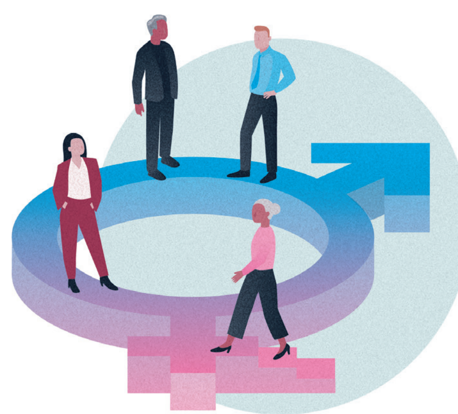
# Welcome to Board Monitor Canada 2021









# Boards seek fresh perspectives in 2020, but still have some way to go

Board fundamentals—financial oversight and good governance—were crucial in 2020 as companies navigated through a global pandemic, geopolitical uncertainties, and economic recovery. Many directors found themselves working more closely than ever with executive teams to keep their companies afloat, and working at a faster pace than ever before. And boards were increasingly expected to not only address topics as wide-ranging as community responsibility, sustainability, and diversity in their own composition, but to do so publicly. Furthermore, remote working and crisis management forced boards to operate differently—often outside their traditional schedule and agenda.

All of this, of course, affected how boards thought about the new members they added in 2020. In Canada, boards of the TSX 60 filled 68 seats, a notable rise from the 50 seats filled the prior year and slightly higher than the 63 seats filled in 2018. Fifty-three percent of those seats were filled by people with experience as a CEO or CFO, just about the same as the United States' 51%.

The share of seats going to people with CEO experience swings fairly widely each year. However, the share going to people with CFO experience has dropped steadily over the past three years, from 27% to 24% to 19%. The share of seats going to people with prior board experience has dropped, too, from 90% two years ago to 71% in 2020. (In the United States, the share was 62%, a five-year low.)

Forty-one percent of seats on TSX 60 boards went to active, rather than retired, executives, notably lower than the 57% in the United States, and steady across the three years of our study. Finding the right balance of active and retired directors can be difficult for many boards. The benefits of current executive experience are increasingly important in an ever-faster-moving environment, yet active executives also create uncertainty for boards in that they may face more conflicts of interest than retired board members, may change jobs, and may have less time to devote to board work.

Canadian boards often seek to avoid conflicts of interest by adding new directors with experience in the board's industry, but from other countries. Just over a third of TSX 60 seats in 2020 were filled by people from other countries—80% of those from the United States. In addition, 53% of seats went to people with international experience, much higher than Europe's 41%.

There was a marked drop in the share of seats filled by women on TSX 60 boards in 2020: 38% compared with 52% the prior year, after 32% in 2018. We saw a drop in share of seats going to women in the United States last year as well, though it was less stark—44% in 2019 to 41% in 2020.

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# Snapshot of 2020 findings

**New director seats filled** 68

**Average age** 60

**Current and former CEOs** 41%

**Current and former CFOs** 19%

**Active/retired executives (%)**

Active: 41 Retired: 59

**Experience (%)**

71 Previous board
53 Financial risk/compliance
53 International
13 Digital or social media
6 Cybersecurity
3 Sustainability
3 Diversity and inclusion

**Distribution of previous industry experience, by industry (%)**

| | Business services | Consumer | Financial services | Industrial | Life sciences | Technology | Other |
|---|---|---|---|---|---|---|---|
| Consumer | 17 | 28 | 28 | 6 | | 11 | 11 |
| Financial services | 15 | 19 | 56 | | | 4 | 7 |
| Industrial | 20 | 3 | 20 | 40 | | 6 | 11 |
| Technology | 13 | 9 | 39 | 4 | | 26 | 9 |

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

**Gender (%)**

Male 62 | Female 38

**Nationality (%)**

Non-national 37 | National 63

# Looking ahead

Canadian boards' commitment to their own effectiveness is lasting. We expect boards to intensify their focus on their role in supporting their organization's purpose and culture, including a continued commitment to having the right people on the board. We see boards innovating their refreshment processes, now including fundamentals such as assessing the purpose, size, and refreshment rate, as well as the composition of backgrounds and expertise that will be most effective.[1]

In Canada, conversations with several directors and our own experience highlight three areas most boards would benefit from focusing on: increasing diversity of all kinds; finding a new balance between traditional and newer areas of expertise; and ensuring first-time directors are effective.

## Increasing diversity of all kinds

The annual variability of the share of seats going to women in Canada and the lack of real progress in adding BIPOC directors highlight the importance of Canadian boards broadening the pool of potential directors significantly and looking beyond traditional requirements for CEO or CFO experience or prior public board service. Boards will also benefit from seeking out other types of diversity, including other racial or ethnic minorities, differently abled people, and LGBTQI+ people. Overall, the data show that these trends are heading in the right direction, but directors underscore that making lasting progress will require that diversity remain an ongoing topic for the board and the executive team, not just a "one and done" effort. Boards will also need to shift their mindset from one of checking a box—X number of women, X number of people from different provinces, X number of people with digital expertise, for example—to a mindset of building the right mosaic to most effectively support the company. Indeed, we believe it's crucial that boards do not make tradeoffs in diversity to meet individual goals, but instead focus on the whole.[2]

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1 For more on new approaches to board refreshment, see Alice Breeden, Theodore Dysatt, and David Hui, "Building the foundation for better board refreshment," Heidrick & Struggles, on heidrick.com.

2 For our discussion of this point in the US context, see *Board Monitor US 2021*, Heidrick & Struggles, on heidrick.com.

## Finding a new balance

Building the right mosaic of perspectives and skills most effectively starts with leadership champions, often the board chair or the chair of the nominating and governance committee, along with a review of the current board's effectiveness. Such reviews typically start with the board's purpose—something many revisited over the past 18 months—their composition, their dynamics, and their processes.[3]

All boards need a mix of traditional expertise—a strong chair, a knowledgeable audit chair, and an effective compensation committee chair—along with a mix of other skillsets and backgrounds that is determined by the company's particular situation. In addition to gender and racial or ethnic diversity, directors with nontraditional industry, functional, or regional experience can all bring in new perspectives that are increasingly important to help companies maintain agility in continuously uncertain conditions. Adding more active executives—a category where Canada's boards lag most other countries'—is an important way of adding operational expertise in a company's own industry or others. Finally, most boards still find that including a current or recently retired CEO, particularly to serve as a sounding board to the sitting CEO, is helpful. However, more and more boards are finding that senior executive experience beyond other CEOs or CFOs can be equally valuable.

As boards seek to shift their balance, directors stress the importance of open conversations, particularly about individual director performance and expectations of length of service, given the current strategy and stakeholder expectations. On some boards, directors still expect to serve as long as possible, whether there are term limits or not. Other boards are benefiting from setting an expectation that every director's performance will be reviewed either annually or at the end of their term and that renomination is not a given.

Chairs have the crucial role to play here, both through formal board and director effectiveness reviews and through conversations with individual directors about their contributions and those of the rest of the board. When all directors believe that such conversations are held transparently and in good faith, it reduces surprises and bitterness should one or more directors be asked to leave earlier than they might have expected. Another option, of course, is to increase board size to include fresh perspectives; but boards can easily get too big to function effectively and so making a decision to add seats is one boards don't take lightly.

## Ensuring first-time directors are effective

As boards shift their balance and continue effective succession planning, they will certainly add more first-time directors. Some current directors note that it's important for their new peers to have enough broad business expertise that they can contribute on all topics, not only one specific area such as cybersecurity risk or digital marketing. In the long run, they say, nonexecutive directors should all have the ability to chair a committee (whether they do or not) to help bolster the board's independence.

The processes and dynamics related to first-time directors are also crucial. Part of that responsibility sits with chairs to ensure those first-time directors are onboarded effectively, that those without deep knowledge of the company or its industry receive it, and that the meeting dynamics are inclusive so that everyone is able to speak up. When adding new directors that contribute to a board's diversity, chairs must also assess how ready the board is adapt to the fresh perspectives those individuals will bring, and should put in place a plan to evolve the board culture to include them. First-time directors themselves will also do well to take a few specific steps to find their voice, including building relationships and finding a mentor on the board.[4]

We expect the directors added this year, all in all, to be part of boards that are more diverse, more effective, and more agile than ever.

3 Alice Breeden and David Hui, "A board review that accelerates competitiveness," Heidrick & Struggles, on heidrick.com.

4 Alice Breeden and Richard Jolly, "Three steps to finding a voice in the boardroom," Heidrick & Struggles, on 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.**

We pride ourselves on being our clients' most trusted advisor and offer an integrated suite of services to help manage these challenges and their leadership assets. This ranges from the acquisition of talent through executive search to providing counsel in areas that include succession planning, executive and board assessment, and board effectiveness reviews.

Our CEO & Board Practice leverages our most accomplished search and leadership consulting professionals globally who understand the ever-transforming nature of leadership. This expertise, combined with in-depth industry, sector, and regional knowledge; differentiated research capabilities; and intellectual capital, enables us to provide sound global coverage for our clients.

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