Board Monitor Canada 2022

In 2021, boards of TSX 60 companies once again appointed a record number of directors and made progress increasing the representation of BIPOC.

About the report

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 nonexecutive director appointments to the boards of the largest publicly listed companies in Australia (ASX 200), Belgium (BEL 20), Brazil (B3), 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), 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.

Thanks to the following Heidrick & Struggles colleagues for their contributions to this report:

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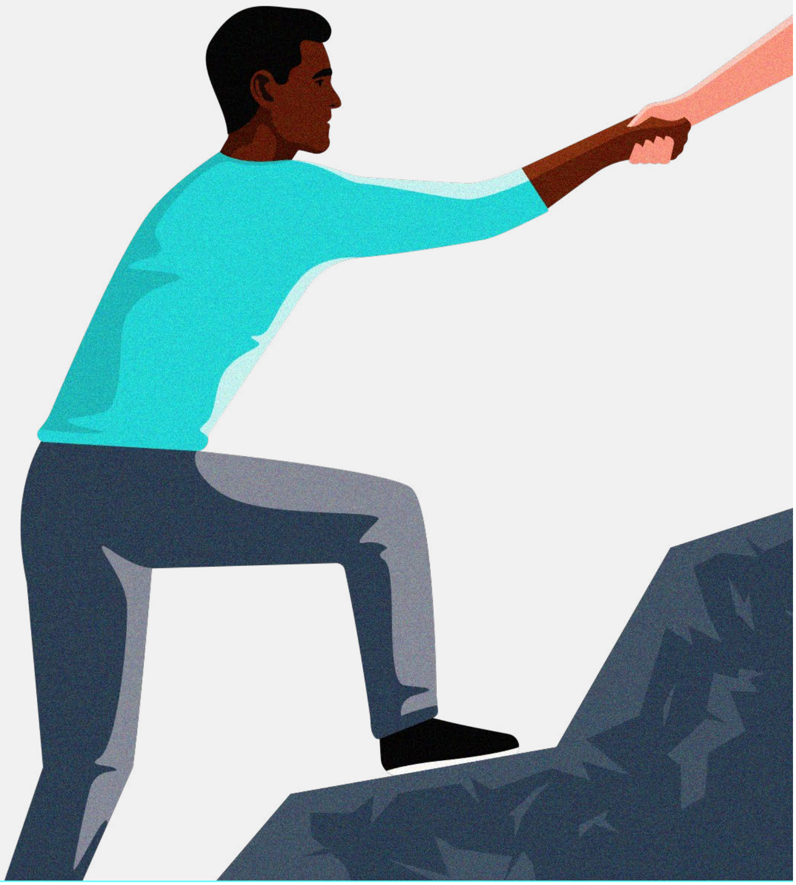
Welcome to Board Monitor Canada 2022

Introduction



As society and business are reconciling the events of the past two years and a new license to operate is taking shape for corporations, there is a marked need for boards to understand what changes they need to make in both the near term and long term to lead their organizations successfully and ensure they can continue to operate effectively.

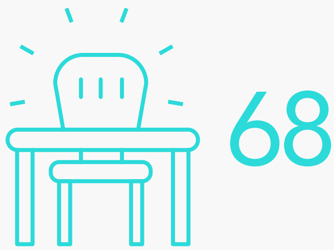
In many countries around the world, there is also a very clear expectation that companies will take a stand on social and political issues.[1] A clear example of this has been organizations' responses to the ongoing war in Ukraine: many companies made the decision to leave the Russian market and sacrifice their profit and operations for the greater good. Perhaps even more pronounced are the expectations from a wide range of stakeholders who, more and more, are demanding that companies act in a sustainable manner.

But have boards moved the dial when it comes to changing their composition to tackle these new expectations and mitigate the risk of losing their license to operate? Our analysis of the board appointments made in 2021 in TSX 60 companies suggests that, in Canada, they have—somewhat.

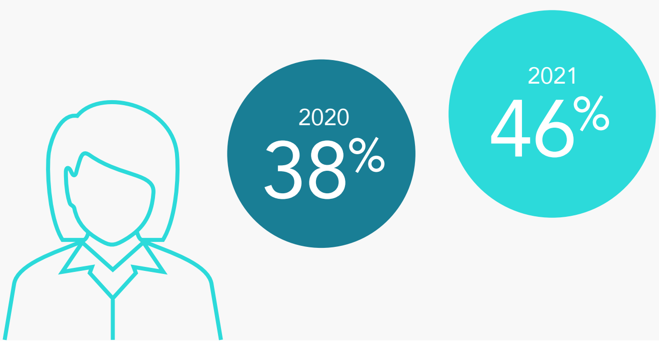
1 *Edelman Trust Barometer 2022*, Edelman, January 2022, edelman.com.

Key findings

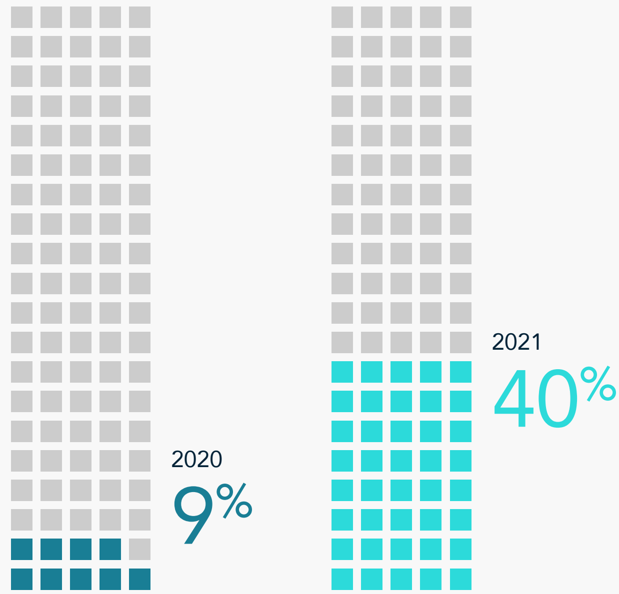
In 2021, boards once again appointed 68 directors—the current record.



The share of seats going to women in 2021 increased to 46%, up from a rather significant dip to 38% in 2020.



The share of seats allocated to Black people, Indigenous people, or people of color (BIPOC) increased from 9% in 2020 to 40% in 2021. (The highest shares of seats went to people of Asian descent, followed by people of Black or African descent.)



Although there has been progress in broadening the spectrum of experience around boardroom tables in TSX 60 companies, organizations need to ensure they are not only prepared for today's challenges but can anticipate what type of directors they need to appoint in order to future-proof their organizations.

To learn more about how Canada's leading companies are doing this, we spoke with 25 board members of those leading companies across industries to understand what they view as today's most pressing challenges, how board composition is changing, and how it should change going forward.

Snapshot of 2021 findings

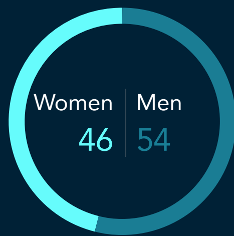
New seats filled

68

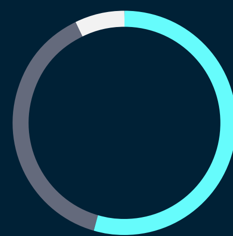
Average age

60

Gender balance (%)



Nationality (%)



National: 54
Non-national: 38
N/A: 7

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

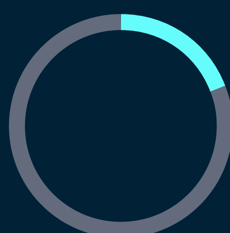
Ethnicity (%)

White	60
Asian or Asian descent	18
Black or African descent	12
Indigenous	4
Hispanic/Latino	4
Middle Eastern	1

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

Active vs. retired executives (%)

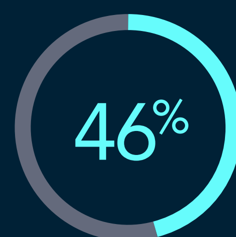
Experience (%)



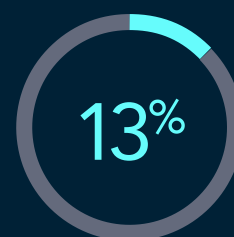
First-time public board experience: 19

Previous public board experience: 81

Current or former CEO experience



Current or former CFO experience



C-level previous experience (%)

CEO	46
CFO	13
COO	18
Deputy CEO	0
Other C-level	31

Other previous experience (%)

International	24
Social media/digital	21
Financial risk/compliance	18
Sustainability	13
DE&I	3
Cybersecurity	0

Distribution of industry experience, by board industry (%)

	Business services	Consumer	Financial services	Healthcare & life sciences	Industrial	Technology & telecoms	Other
Consumer		48	19	7	4	11	11
Financial services	16	8	26		29	5	16
Healthcare & life sciences	17	17	33	17		17	
Industrial	6	13	13	2	43	9	15
Technology & telecoms	6		22	6	39	11	17

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

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

Nice-to-haves are becoming mission critical for corporate governance (and leadership)

As the new license to operate for businesses is evolving to include consideration of sustainable growth, ensuring companies protect the communities within which they operate while still making profits, what does it mean for Canadian companies and boards? The directors we spoke with emphasized the need, especially in uncertain times, for this mix of sustainability, growth, and profitability as well as the need for finding the right talent and navigating diversity, equity, and inclusion imperatives. Yet, in a time when companies are expected to step up on these types of issues, some directors expressed regret at the lack of Canadian business representation as a strong influencing voice on the global stage.

Globally, environmental, social, and governance (ESG) is becoming a strategic driver for businesses and increasingly instrumental in corporate access to capital. Sustainability, particularly in terms of mitigating the dangers of climate change, is becoming increasingly regulated around the globe. In Canada, boards see ESG as a major focus and a significant risk, and see the lack of guidance and standardization of key metrics as a critical hurdle that makes it difficult to understand their progress and communicate it to stakeholders.

And there are other risks derived from the new expectations from stakeholders: the increasing role of the corporation in solving societal issues needs to be reflected in the way leaders manage their own companies, in areas such as the approach to talent, adoption of new technologies, direct and indirect sustainability impact, and the emergence of increasing accountability for leaders. Not walking the talk in their own organizations can alienate employees, customers, investors, community members, and other stakeholders. It also adds to other, more established disadvantages some Canadian companies deal with when competing for talent. The board members we spoke to most often focused on talent—on the difficulty of making competitive offers for top talent in Canada (compared to US companies, for instance, that can offer higher packages in a lower tax regime) as well as the difficulty of dealing with the impact the events of the last two and a half years have had on the mental health and engagement of entire workforces.

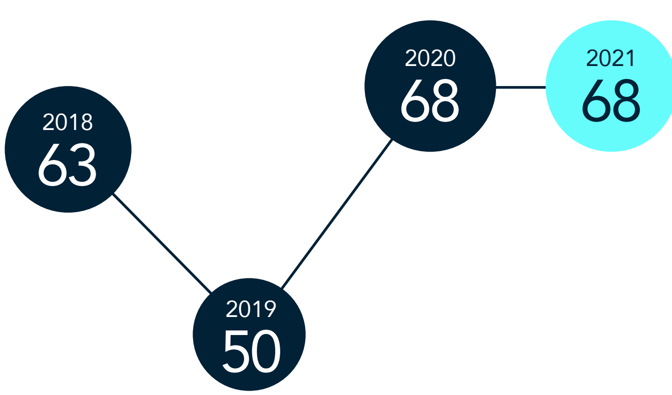
And diversity, equity, and inclusion (DE&I) is a continuous work in progress, fairness and equity are becoming central to its narrative. In Canada, there is strong pressure for boards to show leadership diversity when it comes to visible minorities—women and ethnic minorities, particularly Indigenous people—and on a wider spectrum of age, one that includes younger directors. Here, too, board members indicate that more guidance is necessary to overcome a general sense of confusion about what boards are expected to do when it comes to DE&I.

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

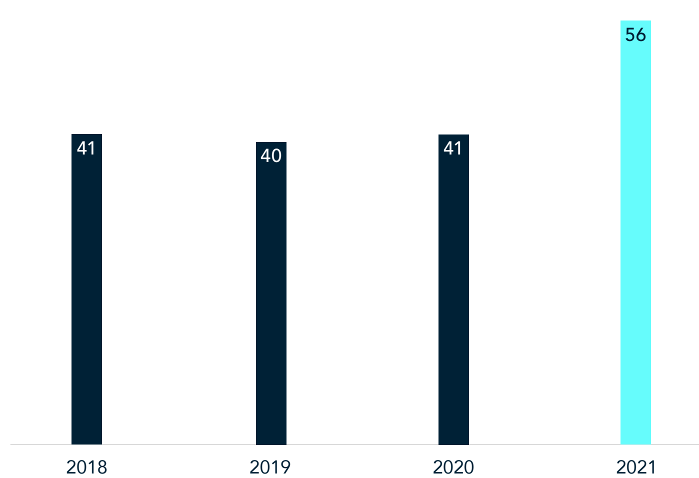
They are infusing new perspectives

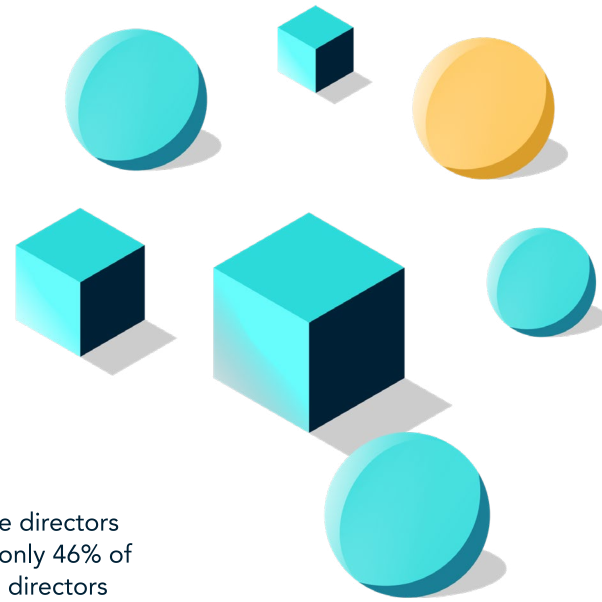
In 2021, boards once again appointed 68 directors—the current record. The share of seats that went to directors who were active rather than retired saw a steep increase in 2021, reaching 56%, compared to 41% in 2020. After three relentlessly turbulent years, boards seem to find value in more executives who have first-hand experience of navigating uncertainty.

Number of board seats filled, 2018–2021



Active executives, 2018–2021 (%)

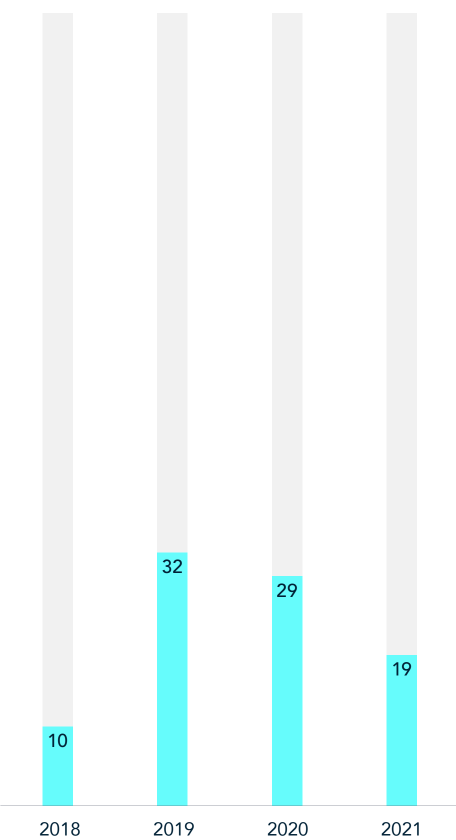




We saw a dip in the share of seats going to first-time public board directors in 2021, perhaps in response to the high levels of uncertainty on the horizon and the comfort boards feel in recruiting more experienced directors—those who have typically faced similar economic and geopolitical challenges in the past.

A higher share of first-time directors were women, 54%, while only 46% of experienced public board directors were women. In terms of ethnic diversity, Hispanic/Latino directors were more often first-time directors, but, notably, none of the first-time directors are Indigenous people.

Share of first-time public board members, 2018–2021 (%)



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

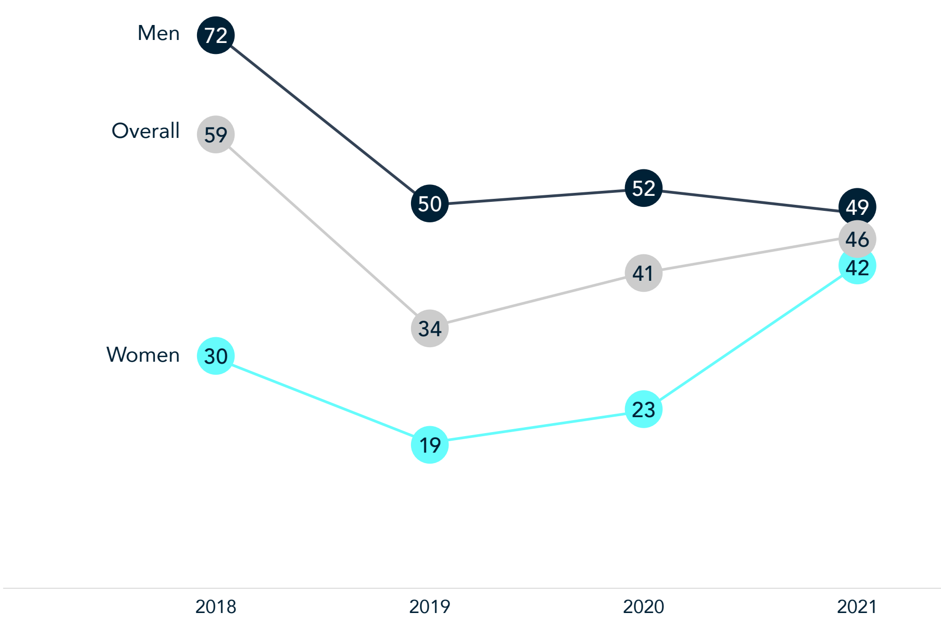
First-time public board directors		Experienced public board directors
19	Share of seats	81
	Diversity	
54	Women	46
15	Asian or Asian descent	18
8	Black or African descent	13
0	Indigenous	5
15	Hispanic/Latino	2
	Experience	
23	CEO	51
0	CFO	16
46	Other C-level	27
8	International	27
31	Social media/digital	18
0	Sustainability	16
9	Cybersecurity	0

Professional experience

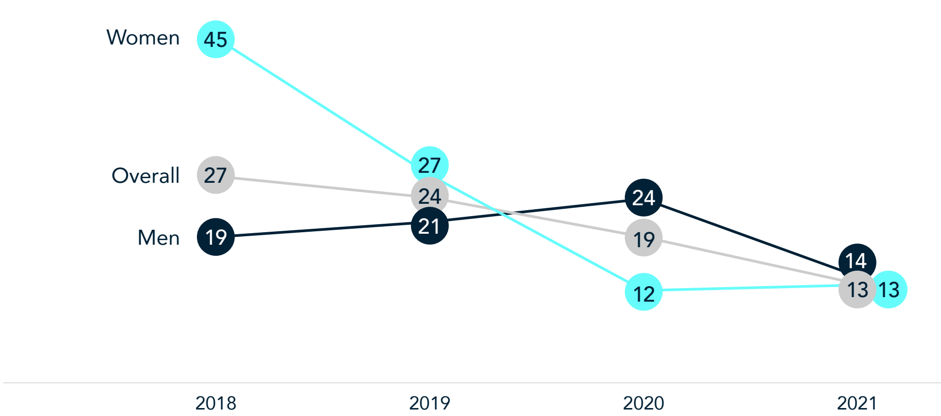
The share of seats going to directors with CEO experience continued on its upward trajectory after a dip in 2019, and it's notable that the increase in 2021 comes from the new women appointees. The share of seats going to directors with CFO experience continues to decrease, and hit the lowest share since 2018.

CEO and CFO trends, 2018–2021 (%)

CEO



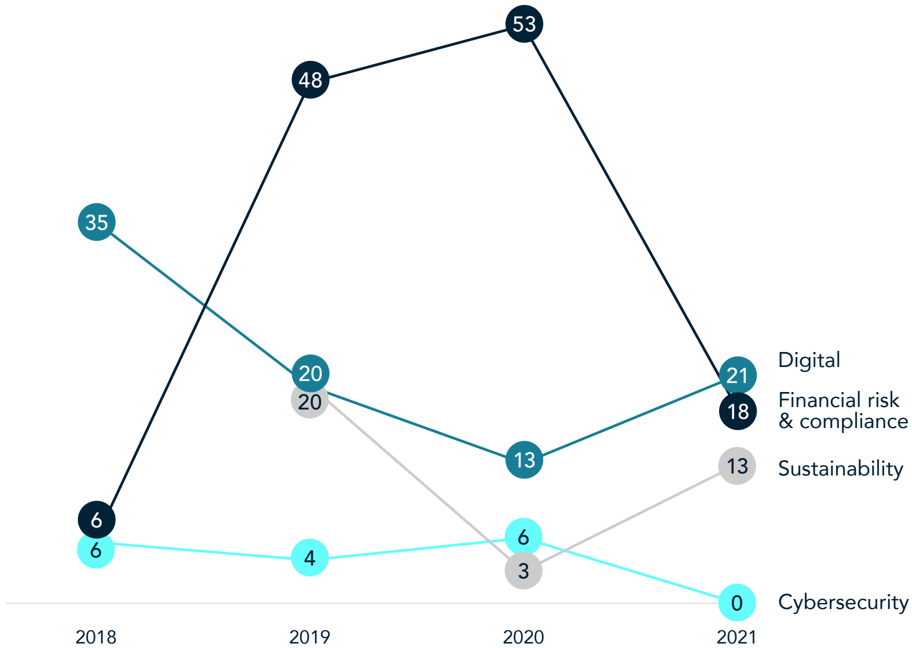
CFO



Only 7% of 2021 appointments went to directors with HR experience, all of them women. Given the increased scope and importance of HR-related challenges over the past couple of years, it is not surprising that boards needed more of this type of experience. However, directors told us that many boards are still reluctant to add people with specific, non-traditional expertise in many areas, as opposed to generalists; boards often feel they can rely on the company's HR leaders for this counsel.

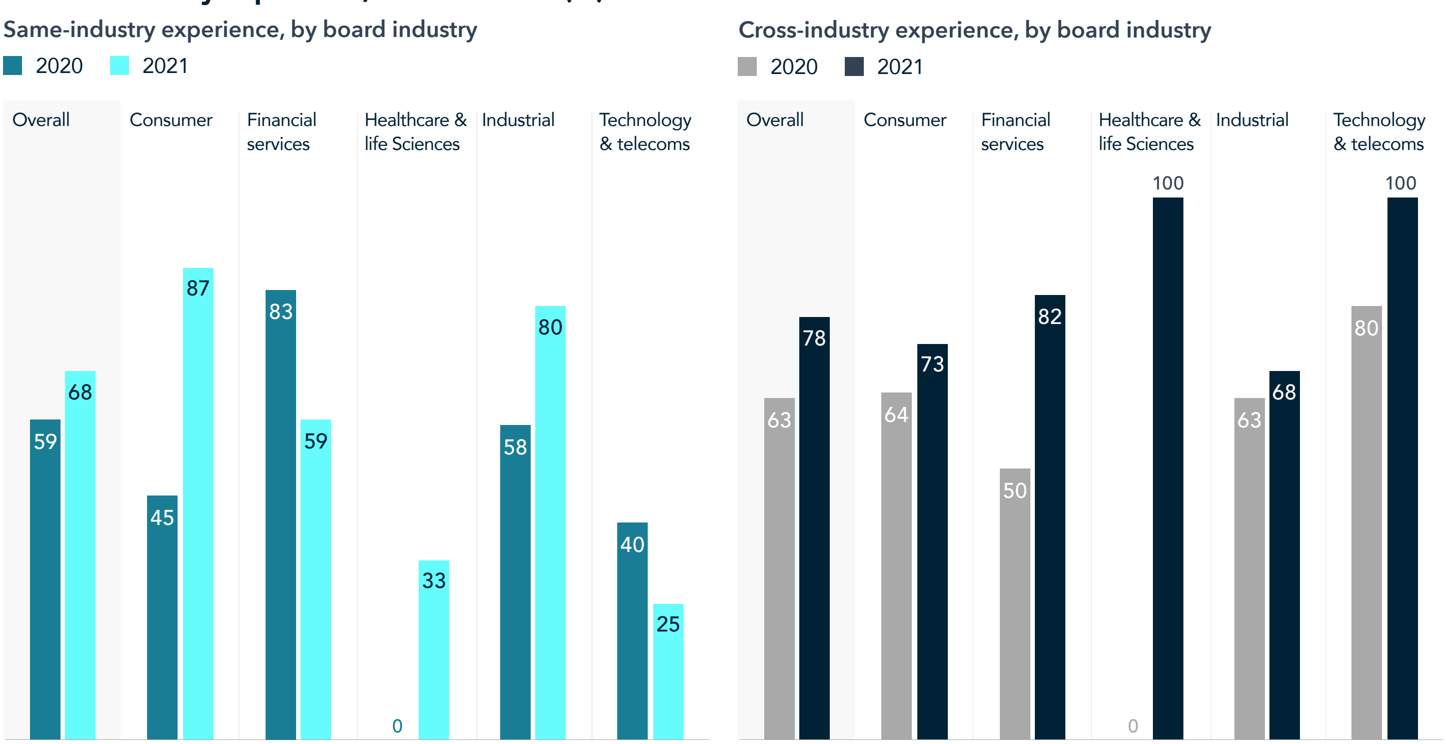
Looking at other professional experience, we saw an increase in the share of seats going to directors with digital and sustainability experience and a significant decrease in financial risk & compliance expertise.

How areas of expertise evolved in new director appointments, 2018–2021 (%)



The share of seats going to directors with same-industry experience increased compared to 2020, as did the share of seats going to directors with cross-industry experience.

Shifts in industry experience, 2020 vs. 2021 (%)

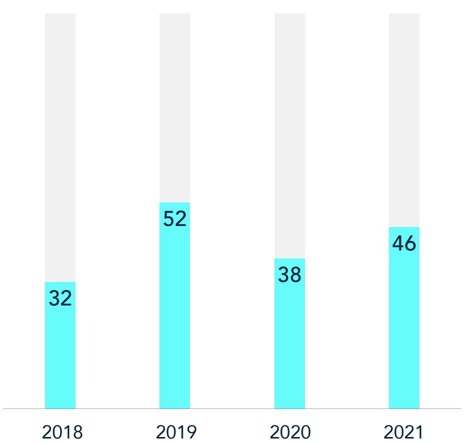


A step forward for gender balance

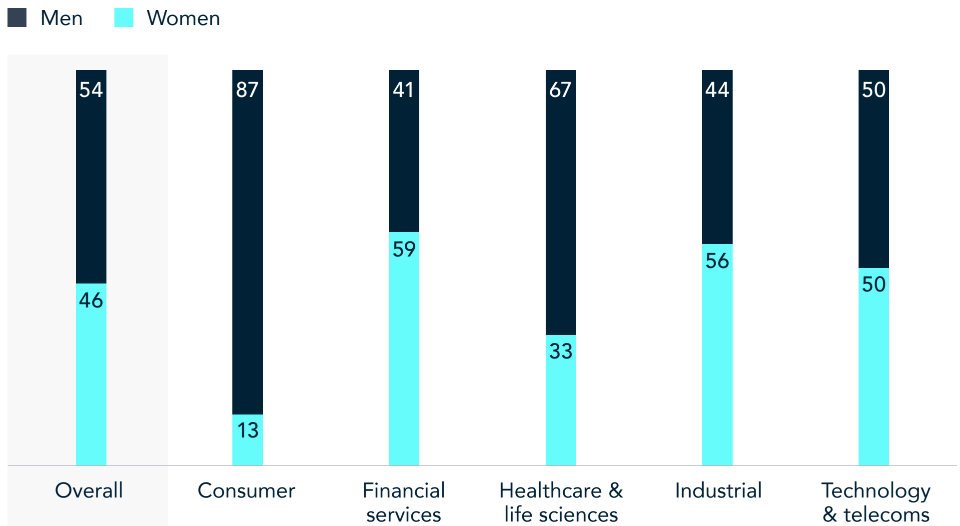
The share of seats going to women in 2021 increased to 46%, up from a rather significant dip to 38% in 2020—but still behind the record 52% in 2019.

There are great variations among sectors: financial services companies saw 59% of their seats going to women, while consumer companies saw only 13% go to women.

Gender trends, new female appointees, 2018–2021 (%)



Gender of new appointees, by industry (%)

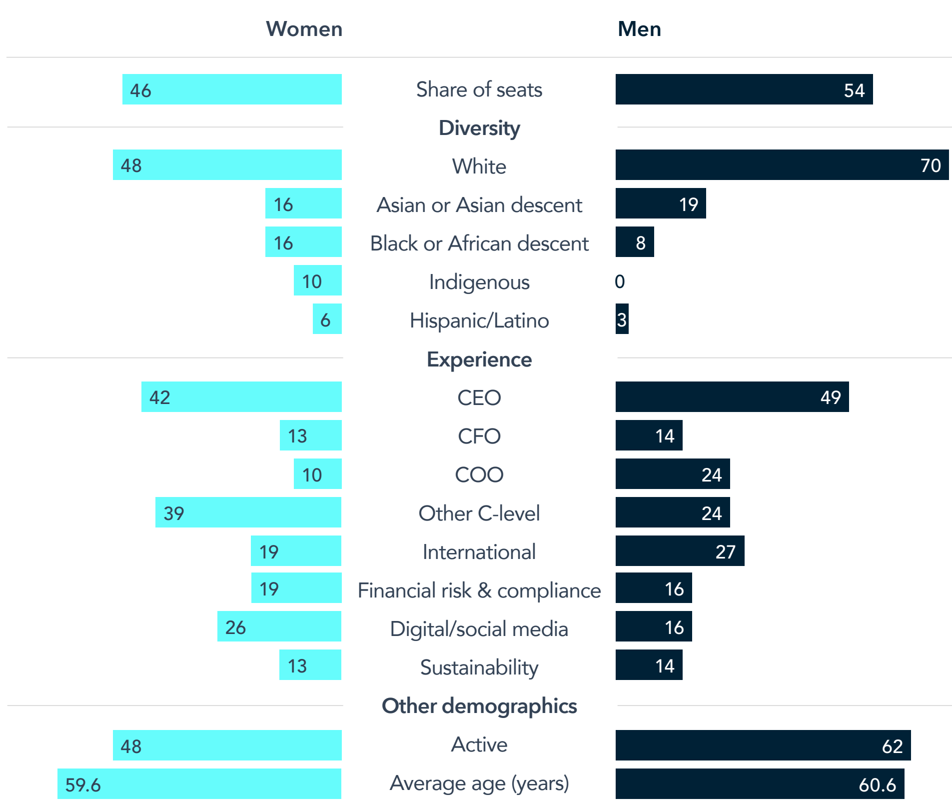


Note: Numbers may not sum to 100%, because of rounding.

On the whole, women bring similar C-level experience to the boardroom as do their male colleagues, including CEO backgrounds, which makes Canadian companies an outlier: in most of the markets for which we track board appointments, women significantly less often have CEO experience. This similarity in profiles between the men and women likely means that, in Canada, the pipeline of female leaders with substantial executive experience is now pretty much on par with that of their male peers.

It's also notable that the group of new female directors appointed in 2021 included significantly higher shares of ethnically diverse people compared to the men. Indeed, 52% of women appointed were directors of an ethnicity other than white; only 30% of men were BIPOC.

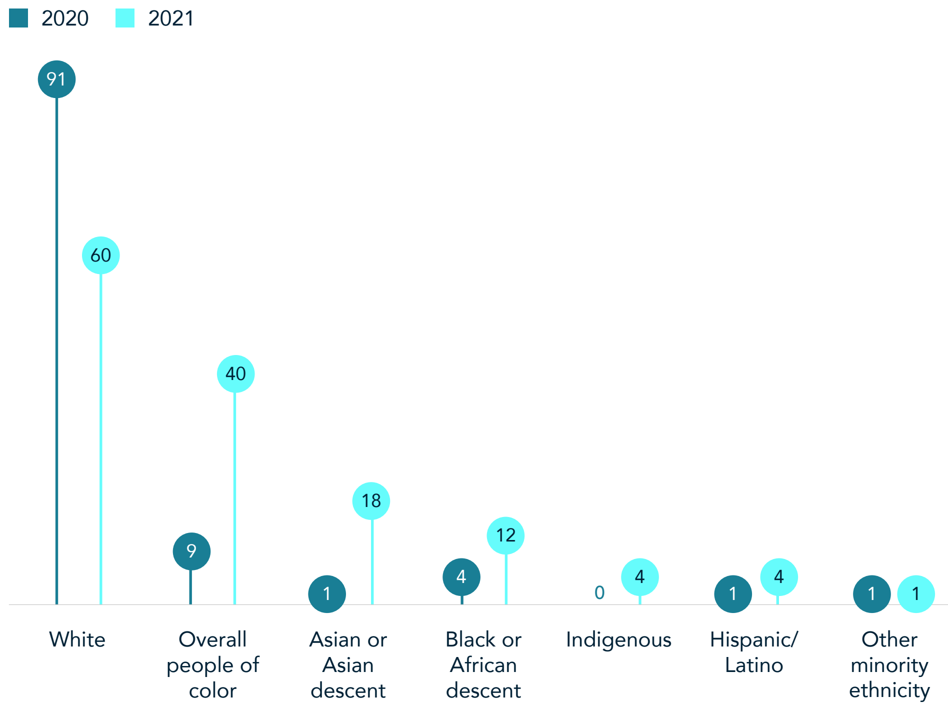
What's different between the previous experience of men and women (%)



Big strides in ethnic diversity

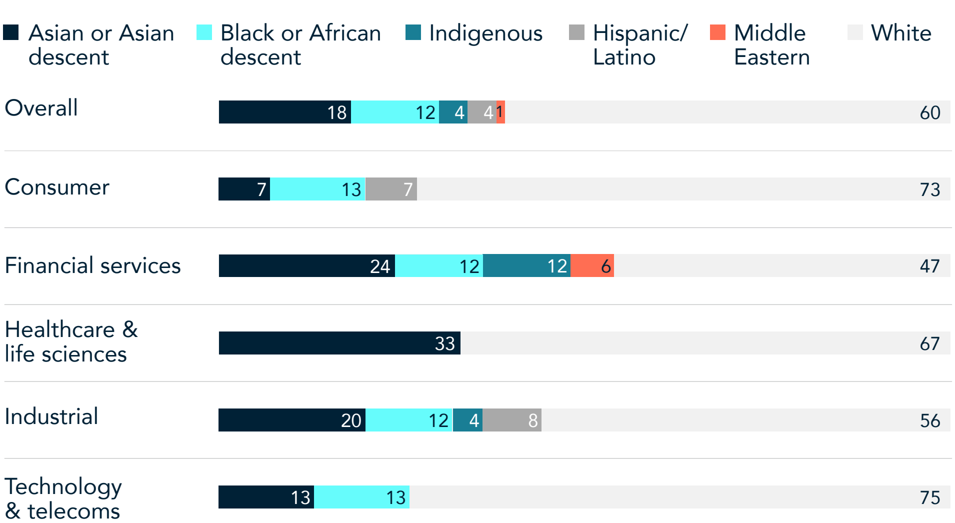
The biggest progress in terms of diversity was a marked increase in the share of seats filled by directors of BIPOC ethnicities—increasing from 9% in 2020 to 40% in 2021. Among them, 4% of seats went to Indigenous directors, up from none in 2020.

Ethnicity, new appointees, 2020 vs. 2021 (%)

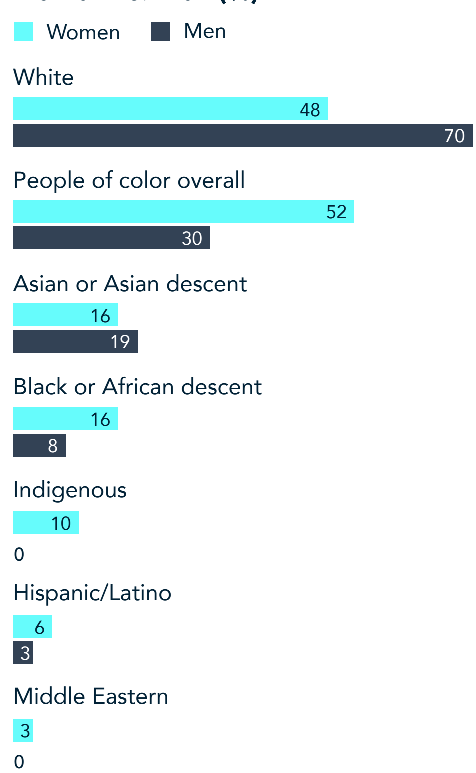


There are some notable differences in ethnic diversity by industry: although financial services and industrial organizations have appointed directors from a wide range of racial and ethnic backgrounds, that is not the case in all industries.

Ethnic diversity of new appointees, by industry, 2021 (%)



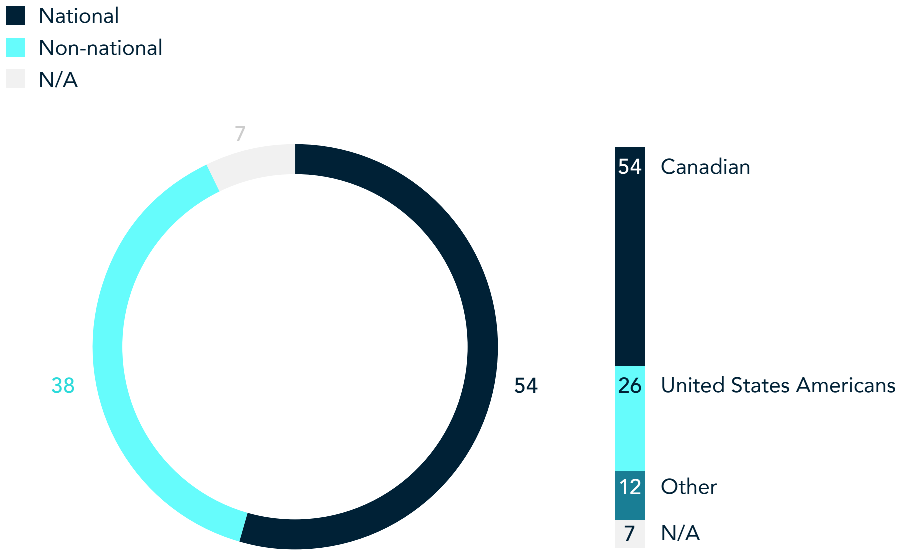
Ethnicity, new appointees, women vs. men (%)



Nationality

Fifty-four percent of the new director appointments went to Canadians, compared to 63% in 2020. In 2021, 26% of seats went to US nationals.

Nationality, new appointees (%)



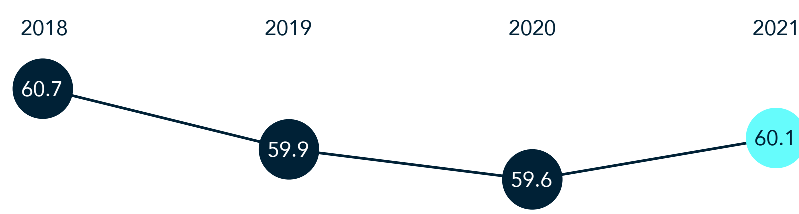
Note: Numbers may not sum to 100%, because of rounding.

Age diversity

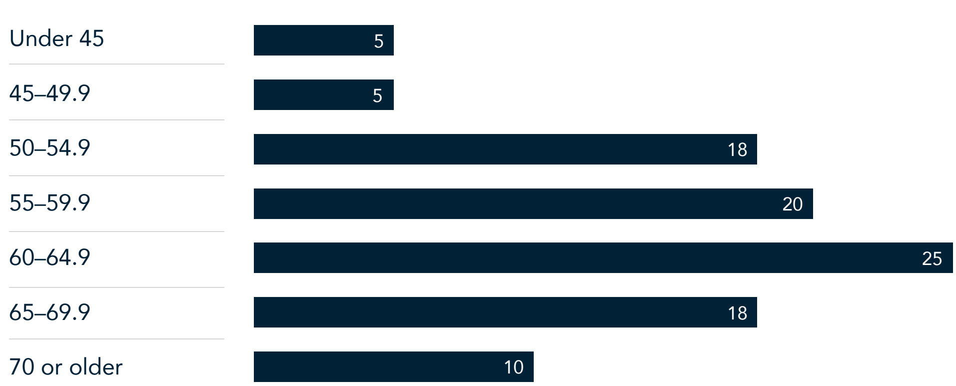
The average age of newly appointed directors was 60, with 73% of seats going to directors over 55 and only 5% to those under 45. The average age of new Canadian directors is the second highest in the markets we study, after Singapore, where the average age is 63.

Age trends, 2018–2021, and age breakdown, 2021

Average age of new appointees, 2018-2021



Age distribution of new appointments, 2021 (%)



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

Looking forward for Canadian boards

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

Canadian directors told us that there have been significant changes in the way boards approach their own succession: historically, as in many countries, many boards focused on adding retired CEOs of large companies, lawyers, financial services executives, and regulation experts, creating what some directors saw as an "old boys club." The issue, as one of the directors put it, is that "even if you have five CEOs of different industries, you have a similar thought, going forward." It is clear that a move away from this approach isn't only anecdotal: for example, in just four years, the share of seats on TSX 60 company boards going to directors with CEO experience has dropped from 59% to 46%.

Other changes the directors highlighted were an increase in the numbers of seats going to younger CEOs and entrepreneurs and a new focus on leadership capabilities such as purpose, empathy, and inclusion, which are now taking equal importance to areas of hard expertise. This, as directors stressed, is because of the importance of building strong relationships with the executive team, investors, and other stakeholder groups.

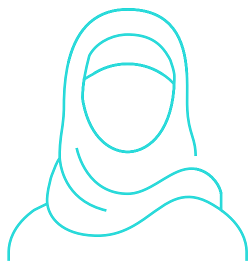
Directors we spoke with were less aligned on the need for single-issue specialists. In one view, board decision-making on some of today's most pressing issues, such as sustainability, digital, talent, or DE&I, would clearly benefit from directors with deep expertise in these issues. On the other hand, a concern persists that single-issue experts might lack the necessary experience to contribute fully to board decisions. In this context, the increase in board positions going to CHROs in 2021 may highlight a positive trend of boards seeking a mix of specific expertise in the context of overall strategic and operational knowledge, which is something we are encouraging boards around the world to explore.

We noticed a similar ambivalence when it came to first-time directors: while many of the directors we spoke with highlighted the value of bringing new directors onto boards, a few had questions about their readiness to be a fully participating board member. Our analysis suggests that this concern may be unfounded: although first-time directors less often have CEO or CFO experience, they do bring to the table experience in other C-suite roles, which helps bridge the gap in experience and help boards address the key issues their executive teams are grappling with.

As our recommendations below suggest, boards are addressing such concerns by dynamically considering all the skills and capabilities they need to remain fit for purpose and fit for the future, seeking the critical skills they need most, and finding ways to bring other voices into the boardroom. That means that they don't have to choose between experts and generalists, retired or active executives, or between more seasoned business leaders and younger leaders.

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, as well as experience in areas such as HR or different industry backgrounds.



Staying tightly focused on diversity beyond gender. Best-in-class boards are building their networks and improving their outreach to potential directors from diverse ethnic backgrounds. While the share of women on Canadian boards has increased from 17.2% in 2018 to 23.8% in 2021,[2] the Canadian figures are still trailing the majority of the markets we study. In parallel, considerations of diversity are now expanding beyond gender to include members of visible minorities, such as Indigenous people and persons with disabilities. As we noted, in 2021, Canadian boards made strides on both together: 52% of women appointed were directors of an ethnicity other than white, and 30% of men were of an ethnicity other than white. Looking further ahead, we encourage boards to start thinking about diversity beyond visible characteristics, including representation from LGBTQ2+ communities, people from a range of socioeconomic backgrounds, and neuro-diverse talent.

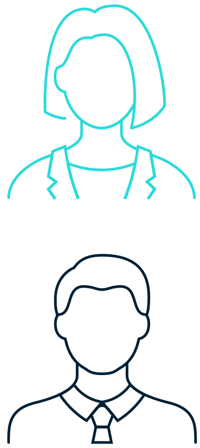
Increasing the share of directors who are in active executive roles. While there is no doubting the value that seasoned executives bring to the table, there is an increased understanding that those in active roles, often first-time directors, are playing an increasingly important role in bringing current perspectives and information into decision making—thus building more resilience in board processes. This acknowledgment is reflected in the increase of seats going to directors who are in active roles: 56% in 2021, compared to 41% in 2020.

Bolstering their sustainability acumen. The lack of progress in bringing more sustainability experience to boards is particularly concerning in a context in which we heard an increasing sense of urgency surrounding climate change, and sustainability in general. There is a clear need to increase the level of fluency boards have on the topic: a survey of board members Heidrick & Struggles conducted in collaboration with INSEAD last year found that that 85% of respondents believed that the level of overall climate knowledge on their boards needed to increase.[3] And, while we saw progress in 2021, with 13% of director seats going to people with sustainability expertise, up from 3% in 2020, more boards could benefit from a knowledgeable voice in the boardroom on the subject of climate change and its impacts.

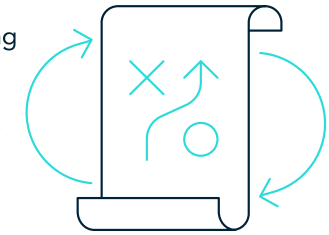
2 TMX Group, "Sector analysis of board diversity on Toronto Stock Exchange listed companies," Toronto Stock Exchange, August 19, 2022, tsx.com.

3 *Changing the Climate in the Boardroom*, Heidrick & Struggles and the INSEAD Corporate Governance Centre, heidrick.com.

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 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, digital, or the nuanced challenges facing today's multigenerational workforces.



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 of succession planning is regularly assessing the performance of boards and board members to make sure that the company has the most effective team around the table.[4]



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. More must be done to ensure that the particular mix of skills board chairs need is a key consideration in the selection process for every intake of new directors. And, for all board leadership roles, non-traditional leadership capabilities should come to the fore: boards should seek people who are good listeners and relationship builders, people who can lead through influence, and who connect with the organizational purpose.[5] This matters more than ever because it's crucial, especially now, for chairs and directors to be able to collaborate across cultural or political differences as well as differences in expertise and background—not by ignoring those differences but by using them as assets to solve problems.

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 organization's purpose and goals for the long term and prioritize efforts to add fresh perspectives where they will make the most difference.

4 For more on board refreshment, see Alice Breeden, Theodore L. Dysart, and David Hui, "Building the foundation for better board refreshment," Heidrick & Struggles, heidrick.com.
5 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

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