Heidrick & Struggles

Board Monitor
Hong Kong 2022

In 2021, boards of companies in the Hang Seng saw a record number of appointments, the largest share of seats ever going to women, and the lowest share of seats going to those with prior CEO experience.

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 publicly listed 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.

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

David Hui
Hong Kong

Welcome to Board Monitor Hong Kong 2022

Introduction

As society and business are reconciling the events of the past two years and a new licence to operate for corporations is taking shape, there is a marked need for boards to understand what changes they need to make in order to successfully lead their organizations through the near- and long-term future.

There is now a very clear expectation that companies in most markets take a stand on social and political issues; the war in Ukraine provided a clear example of this, wherein companies were expected to sacrifice their profit and operations for the greater good. Even more pronounced are the expectations and requirements that companies act in a sustainable manner. As this pressure often comes from customers and other stakeholders, not from shareholders, it puts the onus on boards to decide what to do for their companies.

We also see many changes specific to Hong Kong—one of the biggest shifts being the dismantling of traditional monopolies, a development driven by digitalization, market dislocation, changing demographics, and the impact of the ongoing COVID-19 pandemic. Finding directors who understand all these challenges is proving particularly challenging.

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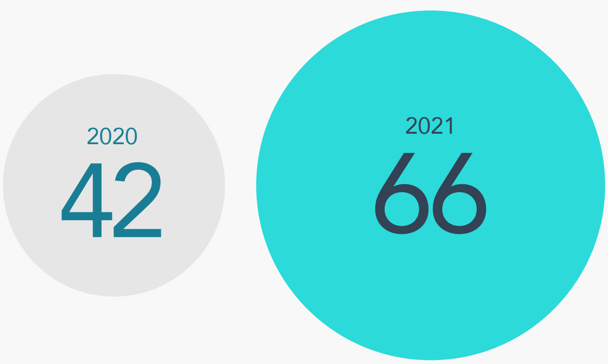
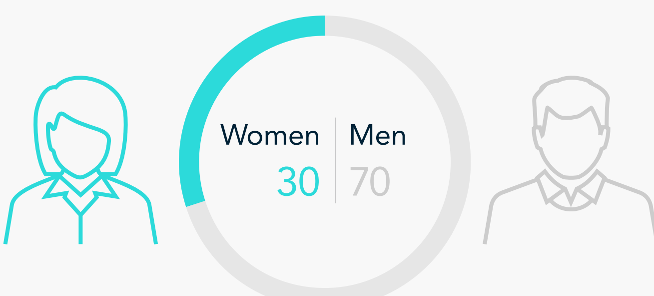
So, have boards moved the dial when it comes to changing their composition to tackle these new expectations and mitigate the risk of losing their license to operate? In Hong Kong:

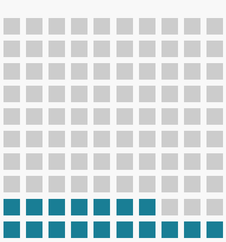
Key findings

A record number of appointments in 2021: 66 compared to 42 in 2020.



There was also a record share of seats allocated to women, 30%.

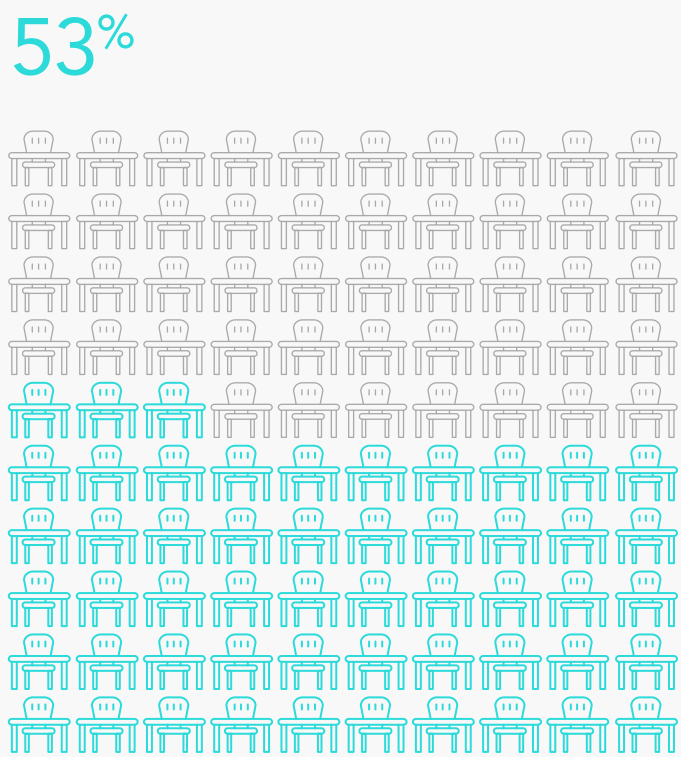




2021 saw the lowest share of seats to directors with CEO experience, at 17%.

17%

2021 saw the highest share of seats going to directors with no prior public board experience.



While there has been progress in broadening the spectrum of experience around boardroom tables in Hang Seng companies, each company needs to make sure it is not only prepared for today's challenges, but can anticipate what type of directors will be needed to future-proof the organization.[1]

1 Alice Breeden, David Hui, and Anne Lim O'Brien, *Future-Proofing your board*, Heidrick & Struggles, heidrick.com.

Snapshot of 2021 findings

New seats filled 66

Average age 56.8

Current or former CEO experience

17%

Current or former CFO experience

14%

Gender balance (%)

Female	Male
30	70

Active vs. retired executives (%)

Retired	Active
45	55

Experience (%)

First-time public board experience: 53

Previous public board experience: 47

C-level previous experience (%)

CEO	17
CFO	14
COO	5
Deputy CEO	5
Other C-level	8

Other previous experience (%)

Financial risk/compliance	50
International	14
Sustainability	11
Social media/digital	6
Cybersecurity	5
D&I	2

Distribution of industry experience, by board industry (%)

	Business services	Consumer	Financial services	Industrial	Healthcare and life sciences	Other
Consumer	17	30	22	4	4	22
Financial services	12	16	29	18	2	23
Healthcare & life sciences		17	33	17	17	17
Industrial	11	11	17	28		33

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)

The ways in which companies approach topics including sustainability, diversity, equity, and inclusion (DE&I), wellness, and ethics used to be peripheral issues, which in time became nice-to-haves built to create competitive advantages. Today, thanks to increased pressure from a wide spectrum of stakeholders and increasing regulatory demands, these issues are table stakes. Given the recent disruptions in Hong Kong's economy and life—not only the strict lockdowns, but also new political priorities—we have seen issues such as housing and the cost of living becoming political topics while the government puts pressure on companies that are increasing their costs exponentially.

Globally, environmental, social, and governance (ESG) issues are becoming a core business pillar and increasingly instrumental in corporate access to capital. Sustainability, particularly in regard to climate change, is becoming increasingly regulated across the globe, with the US Securities Exchange Commission having just recently released sustainability disclosure requirements for companies, covering a wide range of issues from water and energy consumption to human rights and the supply chain. In Hong Kong, it's mostly the larger companies that are addressing sustainability, and the definitions of what E (environment), S (social), and G (governance) mean in practice is very different from sector to sector.

In terms of employees, in multinational companies, the quest for equity and/or equality is putting pressure on executive compensation and employee rights. Another important consideration for companies is improving employee wellness and mental health.

More broadly, today more than ever, global companies are expected to step up when there is a gap in political leadership. At the very minimum, companies are expected to take a stand. The most recent Edelman Trust Barometer report showed that, at 61%, business is the most trusted institution, ahead of non-governmental organizations (at 59%), government (52%), and media (50%).[2] However, this trend is not something we are seeing in Hong Kong (aside from the issue of housing), because companies are choosing to remain apolitical.

But there is increased accountability for leaders: some countries have set regulations around the liability of senior leaders (including boards); more CEOs and other leaders are being fired for non-performance related reasons (their ethics and morals); and shareholders and investors are demanding more transparency.

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

These new expectations come with new risks and higher stakes...

There is a shift in the nature of risks derived from the new stakeholders' expectations outlined above: the approach to talent, adoption of new technologies, direct and indirect sustainability impact, the emergence of increasing accountabilities for leaders. The markets are changing, and Hong Kong's traditional monopolies are being slowly broken.

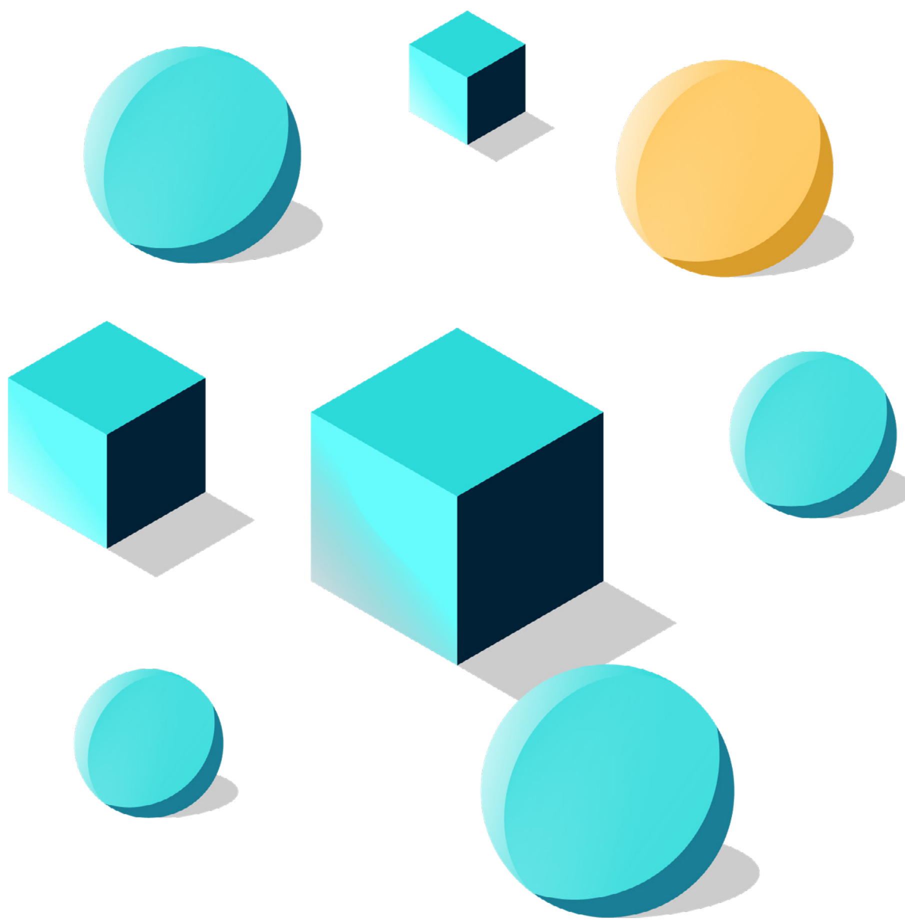
The new ways of working have become a tension between leadership and workforce. There are increasingly large and obvious discrepancies between what leadership teams want and what many employees are looking for, such as remote working, increased flexibility, and more equitable parental leave. There is a definite change in the relationship between leadership and employees, with employees gaining a stronger voice. There is also more pressure on corporate leadership to walk the talk.

DE&I is a continuous work in progress, and fairness and equity will become central to its narrative. The current focus in Hong Kong is almost exclusively on gender balance, with boards in particular still struggling to appoint women: only 14.6% of all board members of Hang Seng companies are women. However, the Hong Kong stock exchange now requires that all publicly listed companies have at least one woman on the board by 2024.

There is a tougher competition for talent. With so many people resigning and changing jobs, companies are struggling to find the talent they need and are looking for different strategies to attract and retain that talent, from making their companies more attractive to a more diverse talent pool, accessing on-demand talent, and taking an overall more fluid approach to their workforce. Historically, Hong Kong has always been a transient place with a continuous flow of executives moving in and out of the city. However, more recently, the balance seems to have skewed in favor of people leaving the city on a more permanent basis; whether this is simply a function of COVID-19 restrictions remains to be seen.

Technological progress adds complexity. More companies are making big bets on data analytics, AI, and the metaverse, while cyberattacks are becoming increasingly sophisticated and difficult to deal with.

Boards in particular are still struggling to appoint women: only 14.6% of all board members of Hang Seng companies are women.



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

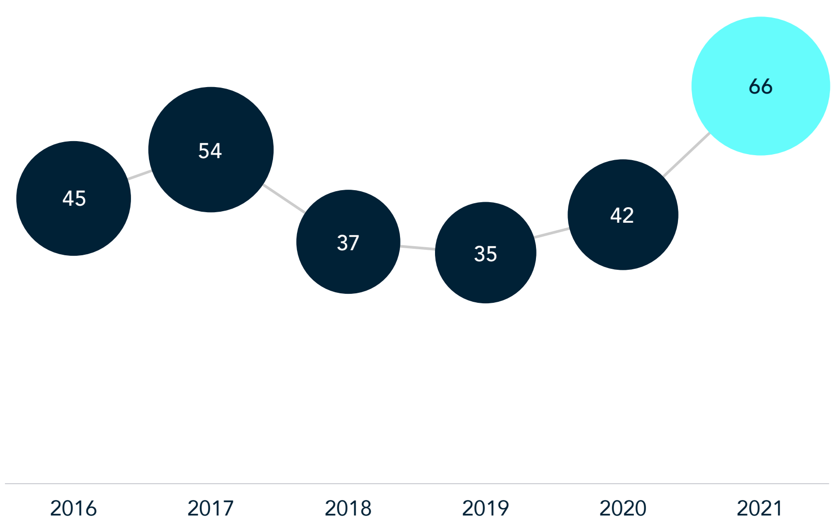
Some are infusing new perspectives

Last year saw a record number of director appointments: 66. But beyond the aggregated figure, only 52% of companies made appointments in 2021, which shows that not all companies feel the same urgency to refresh their boards. While we have recently noticed that boards have seen increased interest from potential directors, these boards are also trying to understand how the role of the board is changing and how to make the best use of the collective minds around the table. Some board members might be trying to rethink their purpose before bringing in new directors.

As always, leading companies will always accelerate ahead of the pack, and so if the goal is to be a market leader, then companies should act as such and fast track their rethinking of the purpose of the board and the profiles of the directors they need around the table.

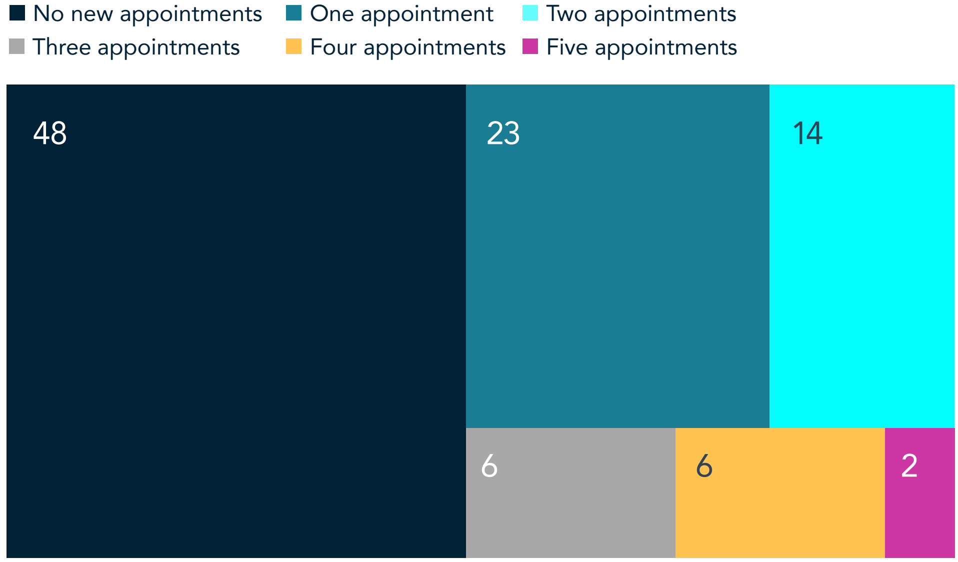
A significant increase in the number of directors in 2021

Number of board seats filled, 2015–2021



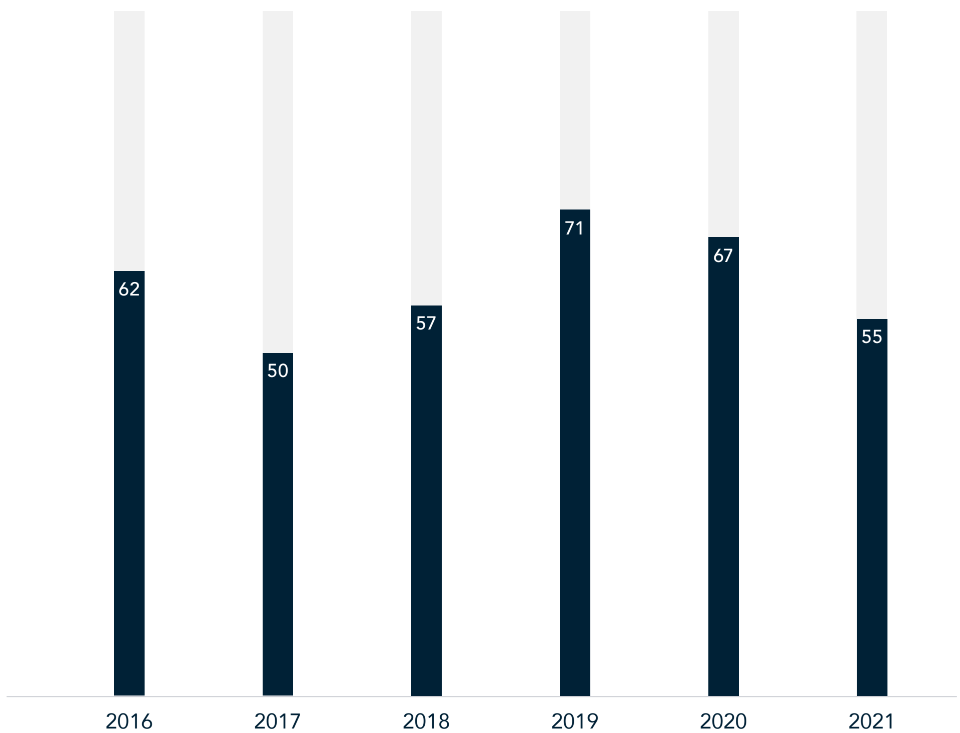
The share of seats that went to directors who were active rather than retired continued to decline from the previous two years; at 55%, it is the second-lowest share since we started tracking new board appointments in 2016. This could perhaps be a response to the continuous travel restrictions imposed in Hong Kong since the pandemic started, with fewer retired executives choosing to commit to a role that would limit their ability to take on roles in other countries and are instead expanding their NED portfolio globally.

Distribution of non-executive directors in Hang Seng companies, 2021 (%)



A lower share of directors who are active rather than retired

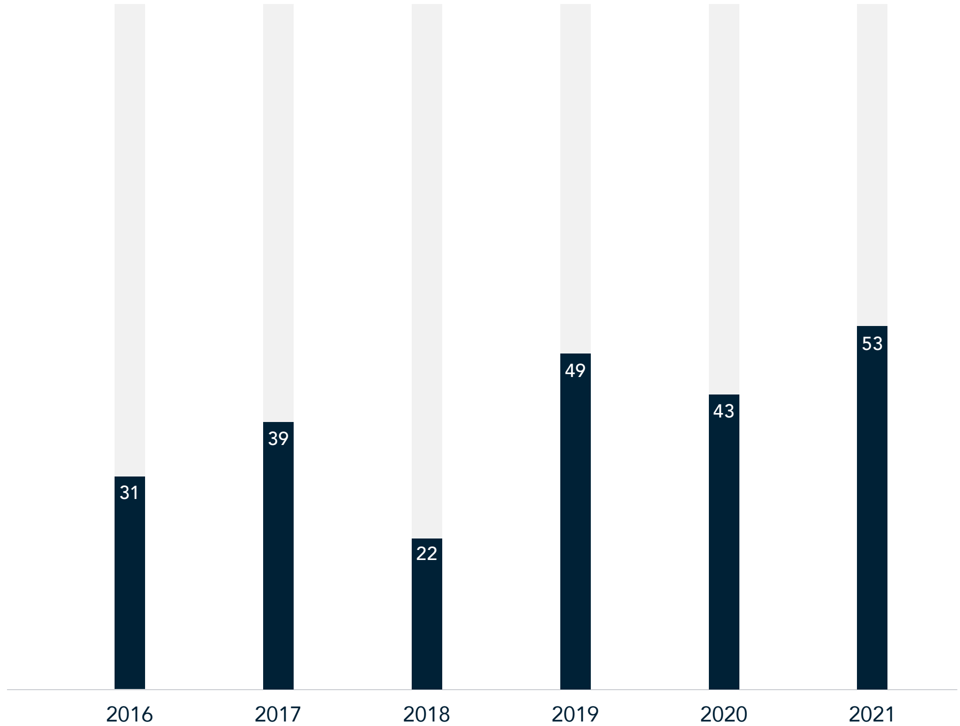
Active executives, 2016–2021 (%)



However, there is also an increase in the share of directors without previous public board experience, which is at its highest since we started tracking. First-time directors include a higher share of women: 37% compared to 23% of their more experienced peers.

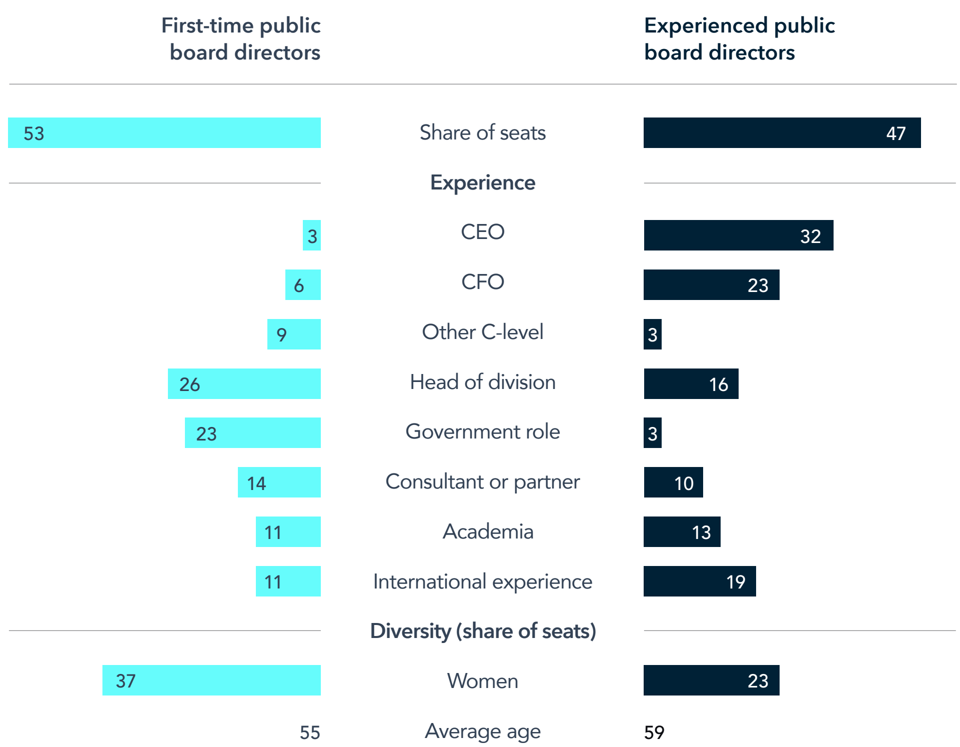
A higher share of first-time directors

Share of first-time public board directors, 2016–2021 (%)



These women are less likely to have CEO or CFO backgrounds, or international experience.

How first-time directors' backgrounds compare with their more experienced peers' (%)

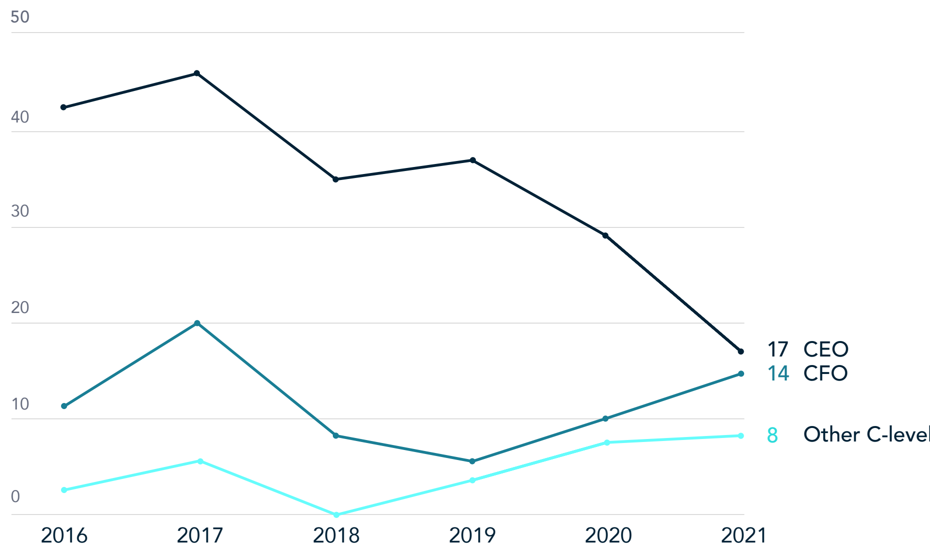


Professional experience

It's notable that we see a continued drop in the share of directors with CEO experience: 17% in 2021 compared with 29% in 2020, continuing a decreasing trend that started from 46% in 2017.

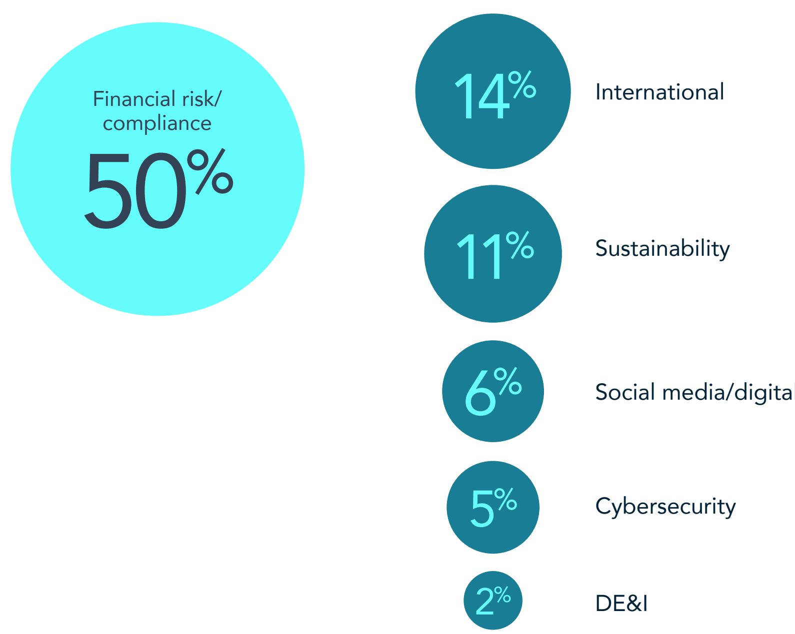
A continued decrease in CEO experience

C-level experience, 2016–2021 (%)



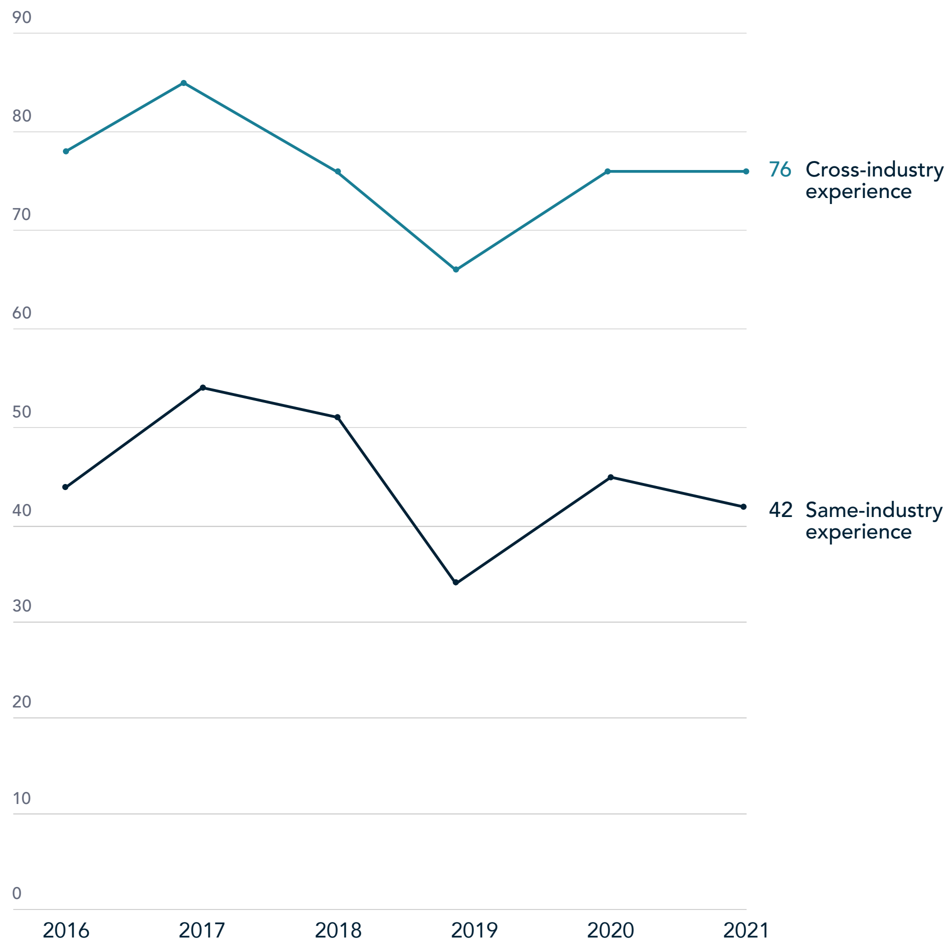
Looking at other professional experience, half of the vacant director seats in 2021 went to executives with financial risk and compliance experience—61% of these appointments were at financial services companies. Much smaller shares of seats went to directors with sustainability, social media or digital, cybersecurity, or DE&I expertise.

Other expertise (%)



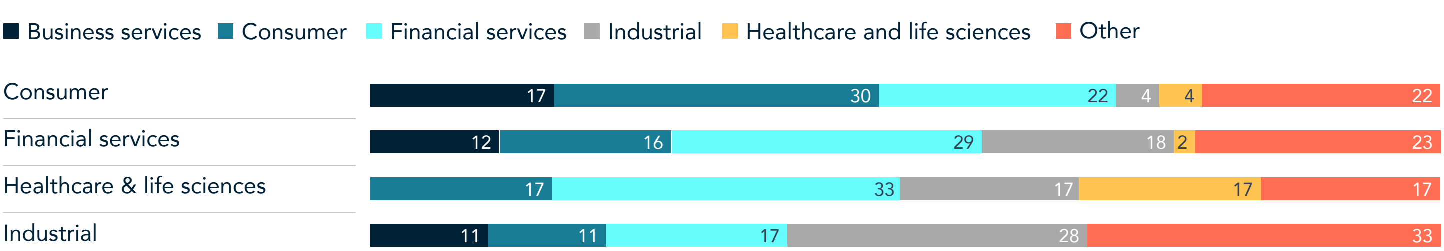
The share of seats going to directors with same-sector experience decreased slightly compared to 2020, while the share of seats going to directors with cross-sector experience held steady, at 76%.

Same-industry and cross-industry experience, 2016–2021 (%)



Companies in most sectors brought on directors from a mix of sectors. Technology and telecoms was the exception; they chose directors with consumer backgrounds.

Distribution of industry experience, by board industry (%)



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

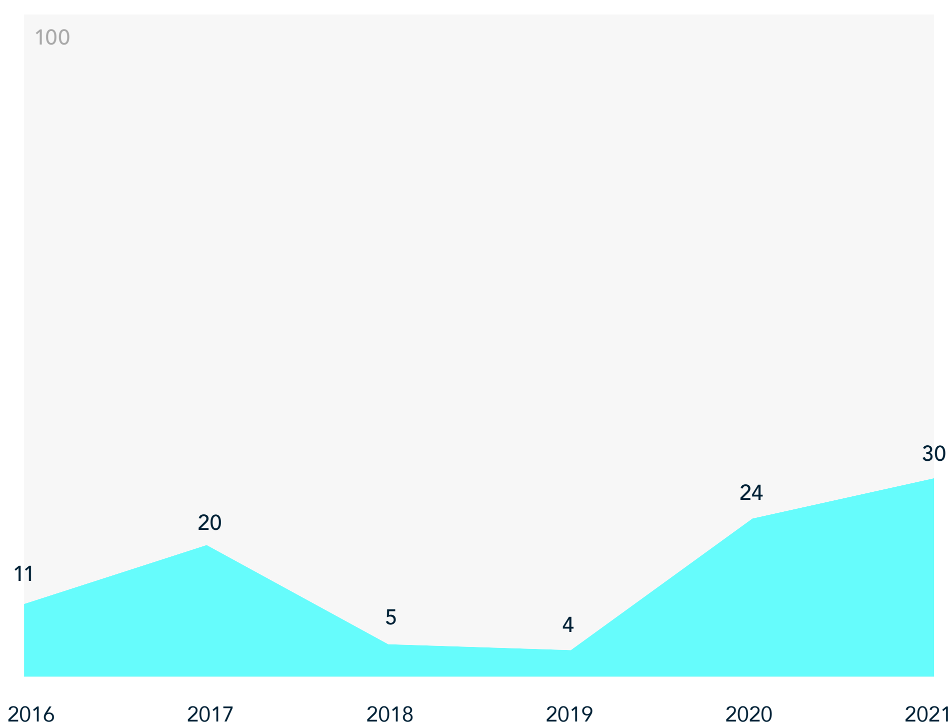
Big strides in gender balance

We saw a record 30% of seats allocated to women in 2021, but they went to a small number of Hang Seng companies: out of the 33 companies that appointed new directors, only 16 appointed women. We also noted an uneven split among sectors: consumer leads the way with 40% of seats going to women, while industrial companies lag, with only 17% of seats going to women.

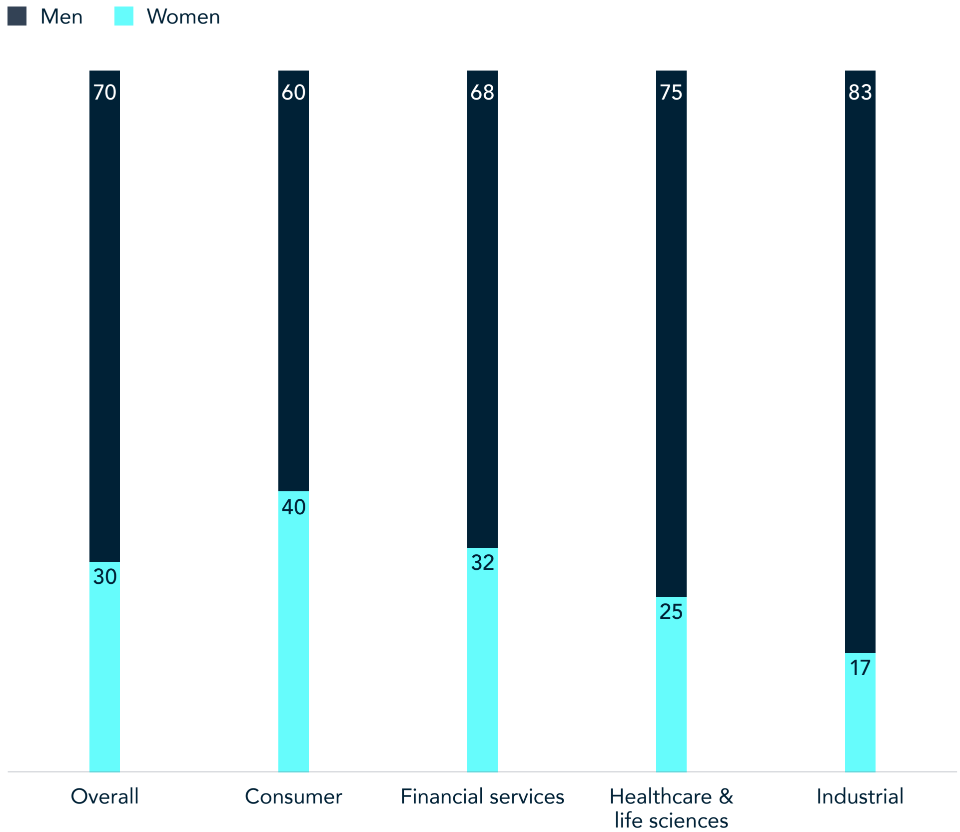
We saw a record 30% of seats allocated to women in 2021

The evolving gender balance

Share of seats going to women, 2016-2021 (%)



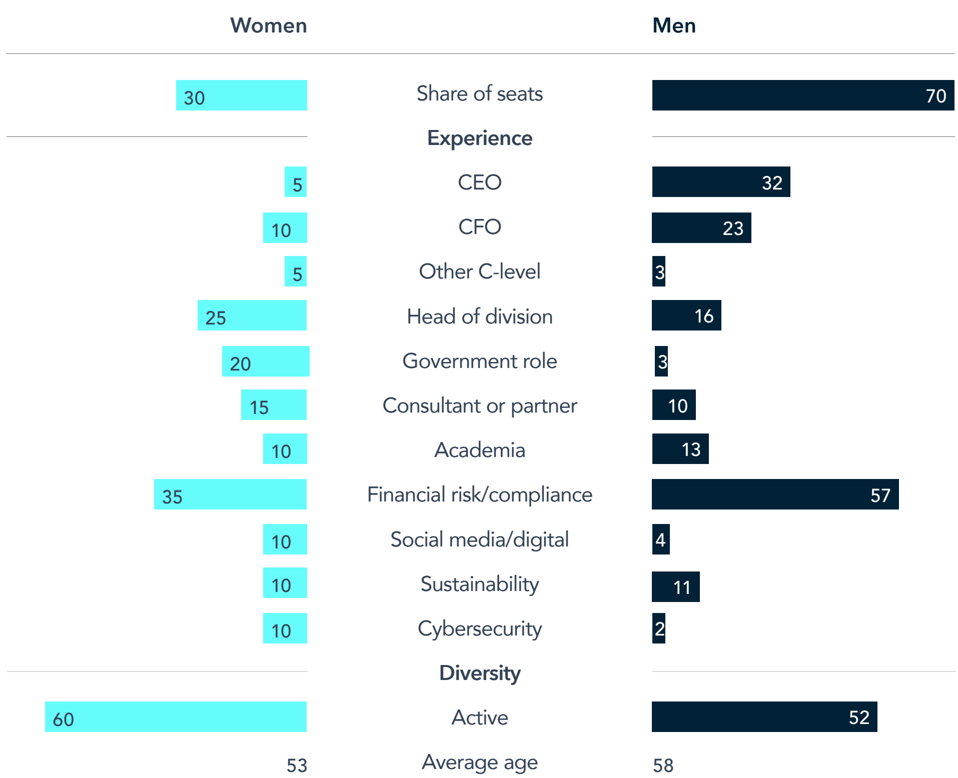
Gender balance, by industry (%)



On average, the women taking board seats are much younger than the men, less likely to have CEO experience, and more likely to be active rather than retired. Women more often bring social media/digital and cybersecurity skills, while men far more often bring financial risk and compliance experience.

Snapshot: Gender balance

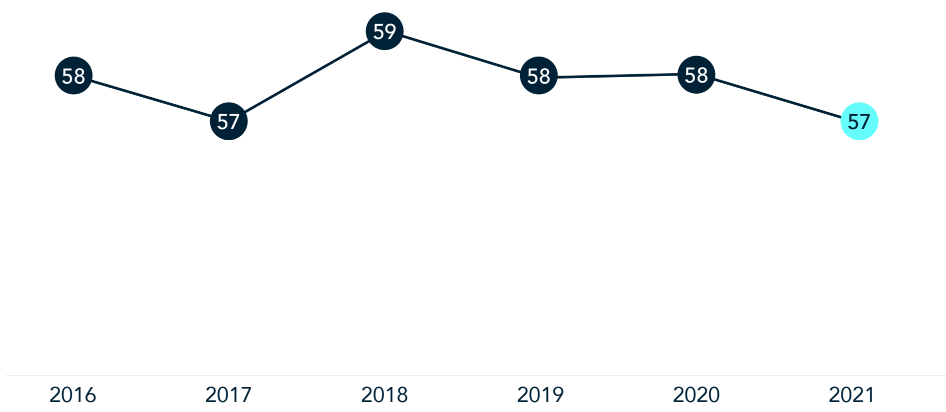
How the profiles of men and women compare



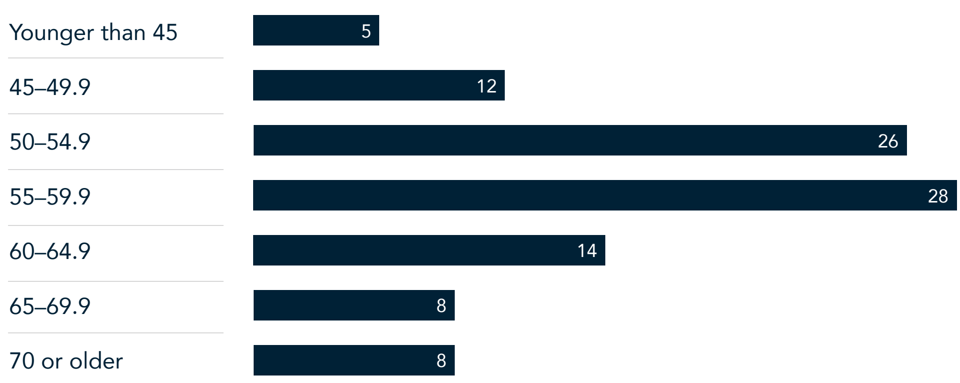
Age diversity

The average age of newly appointed directors in Hang Seng companies in 2021 was 57, a decrease from the previous year that is to a large extent driven by the increased share of women and those with first-time public board experience. In 2021, 58% of seats went to directors over age 55, and only 5% went to those younger than 45.

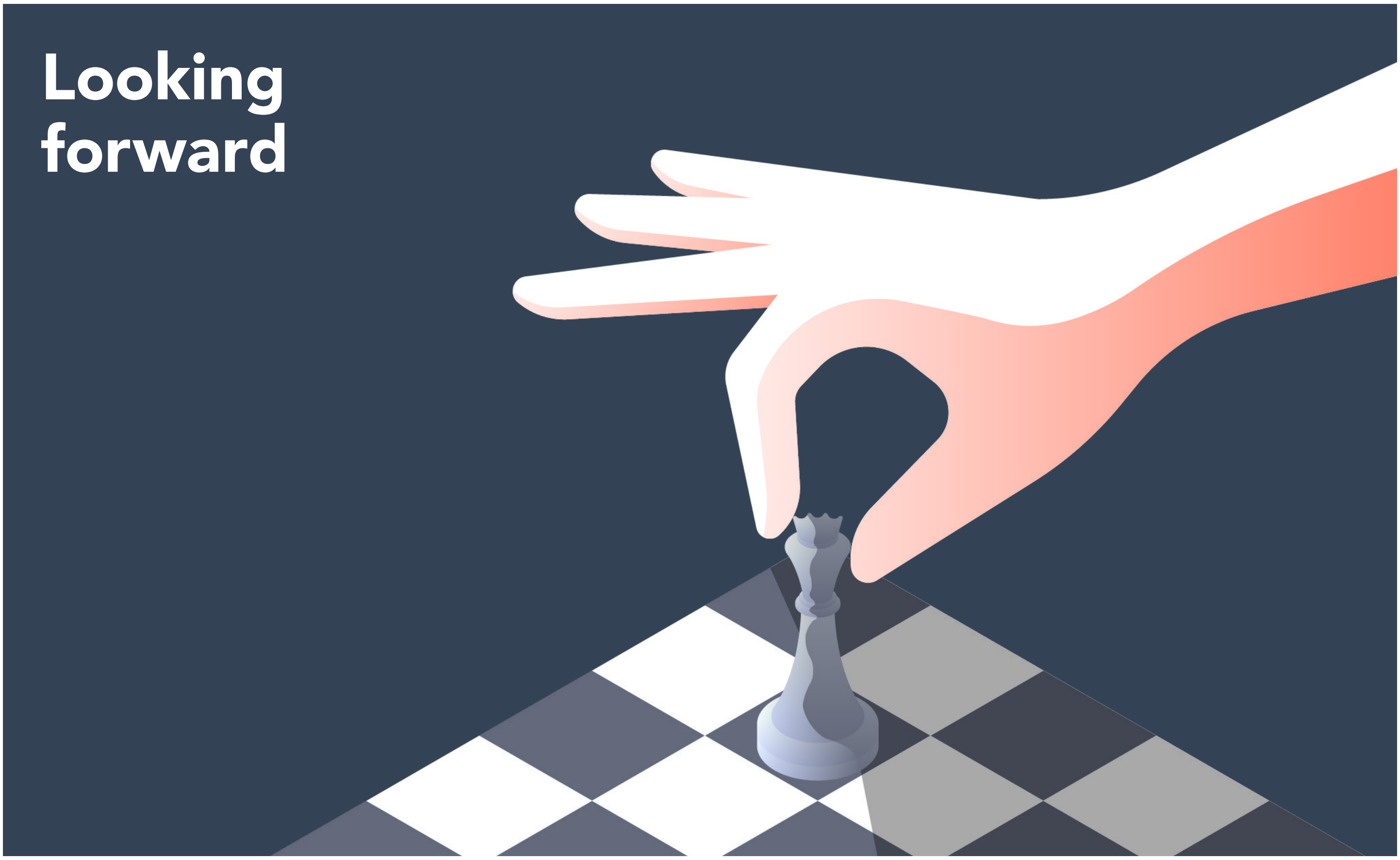
Average age of new directors, 2016–2021 (%)



Age distribution of new appointments, 2021 (%)



Looking forward

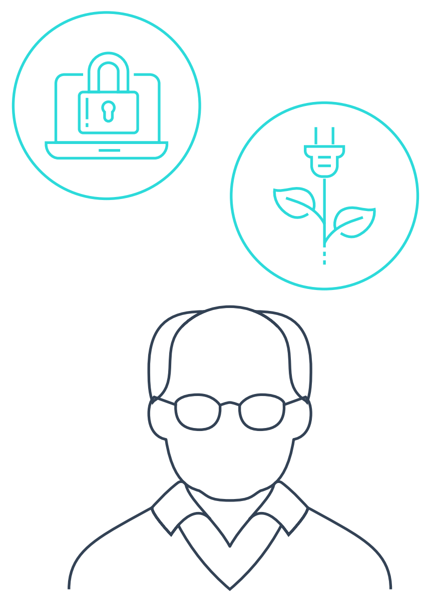


As the contract between companies and society is changing, it is necessary for boards to be fit for purpose today and be able to manage future unexpected yet inevitable crises. Companies require a newer, bolder type of leadership that is focused on organizational purpose, factors in the new demands from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

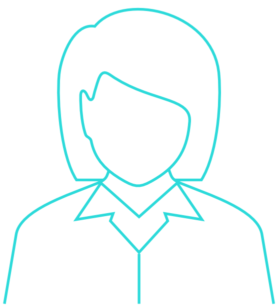
Boards need to build agility to both deal with unexpected events and achieve a certain level of foresight, and to integrate fresh perspectives into their leadership that will complement the experience of more seasoned business leaders who have seen different economic cycles and crises unfolding. In addition, leadership capabilities such as 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. In Hong Kong, increasingly the challenge will be to hire directors who understand the intricacies of the geopolitical trends and their local implications, given the high exposure of an economy that is heavily reliant on its status as a global financial center. Another skill set that we see companies looking for more and more is cybersecurity, because many financial services organizations are key targets for organized cybercrime.

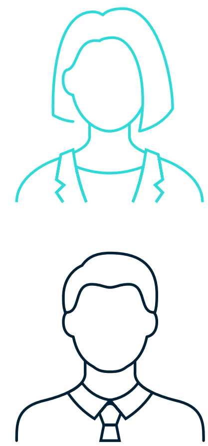


Bolstering their sustainability acumen. The incipient interest in sustainability in Hong Kong means that boards would benefit from an infusion of executives with an understanding of how ESG should be built into organizational strategy. Hong Kong's boards are hardly alone in this need. There is a clear need to increase the level of fluency boards have on the topic: a global survey Heidrick & Struggles conducted in collaboration with INSEAD found that 85% of board members believe that the level of overall climate knowledge on their boards needs to increase.[3] 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.



Shifting the diversity conversation beyond gender. Best-in-class boards are building their networks and improving their outreach to potential directors from diverse ethnic or socioeconomic backgrounds and levels of ability. However, there is much more work to do on the gender balance front and Hang Seng companies have the target of appointing at least one woman to the board by 2024.

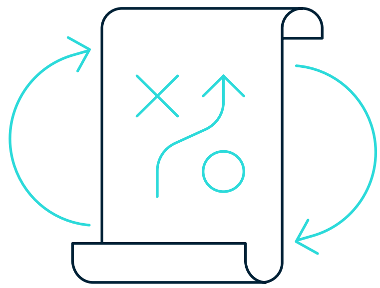
Bringing younger directors onto boards. The median age of directors appointed over the past few years has been remarkably stable. Best-in-class boards understand the advantages of perspectives brought in by executives who are in earlier stages of their careers and who are, in many cases, closer to the intricacies and consequences of some of the newer issues boards need to address, such as climate change. It's encouraging to see that the appointments in 2021 were a step in the right direction, with women appointees being younger and bringing a different set of experiences.

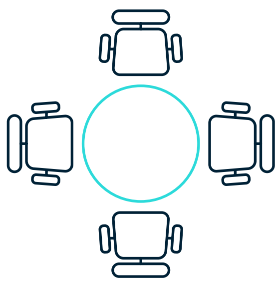


Seeking new members who have the ability to take on a leadership role, either that of a chair, senior independent director, or committee leader. The chair is central to determining what skills, backgrounds, and expertise are needed on a board, as well as to shaping a board culture that ensures all directors, old and new, can contribute effectively. Much 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, nontraditional leadership capabilities come to the fore: boards should seek people who are good listeners and relationship builders, people who can lead through influence and connect with the organizational purpose.[4] 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.

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

Thinking of succession planning as an ongoing exercise rather than an exercise undertaken in reaction to an annual deadline. A significant part of succession planning 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, no matter what 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.





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.

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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