

Board Monitor

Mexico 2022

In 2021, companies listed on the BMV showed a preference for first-time public board members as well as active executives.



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 (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), 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 Mexico 2022

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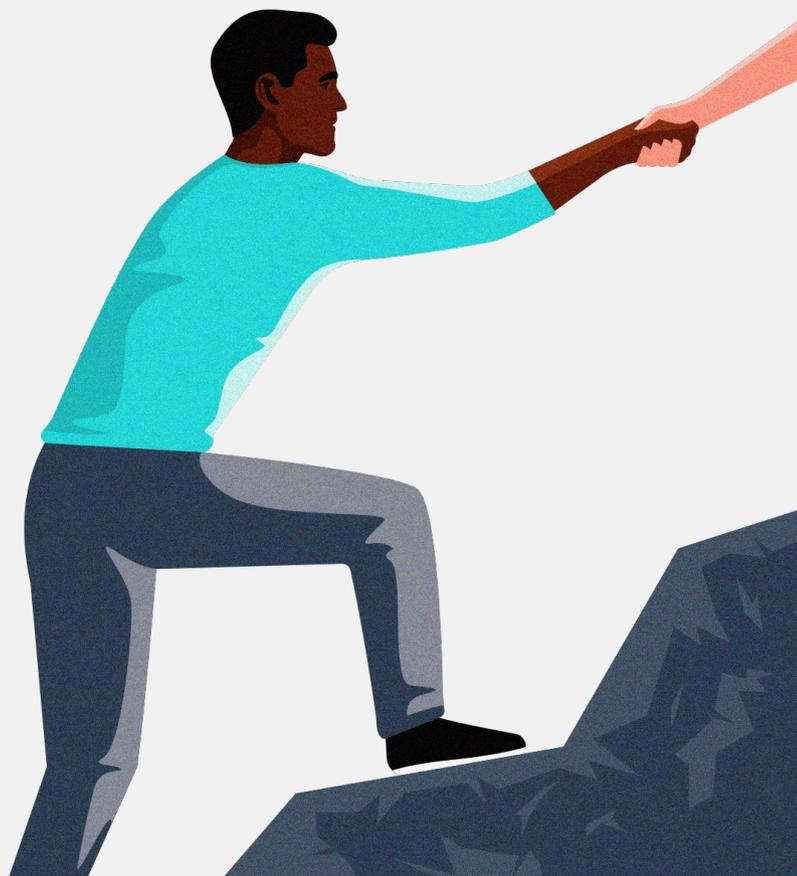
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Introduction



As society and business are reconciling the events of the past two years and a new corporate license to operate is taking shape, boards are facing a marked need to understand what changes they must make in order to successfully lead their organizations through both the near- and long-term futures.

In most countries, there is a very clear expectation that companies take a stand on social and political issues, the

war in Ukraine being a clear example in which many stakeholders expected companies to sacrifice their profit and operations for the greater good. In Mexico, companies are expected to put their communities first and protect them from the combined impacts of the COVID-19 pandemic and increased cost of living caused by the war in Ukraine. And, in almost every country, stakeholders now expect and require companies act in a sustainable manner.

Boards are facing a marked need to understand what changes they must make in order to successfully lead their organizations through both the near- and long-term futures.

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 Mexico:

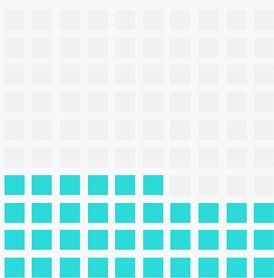
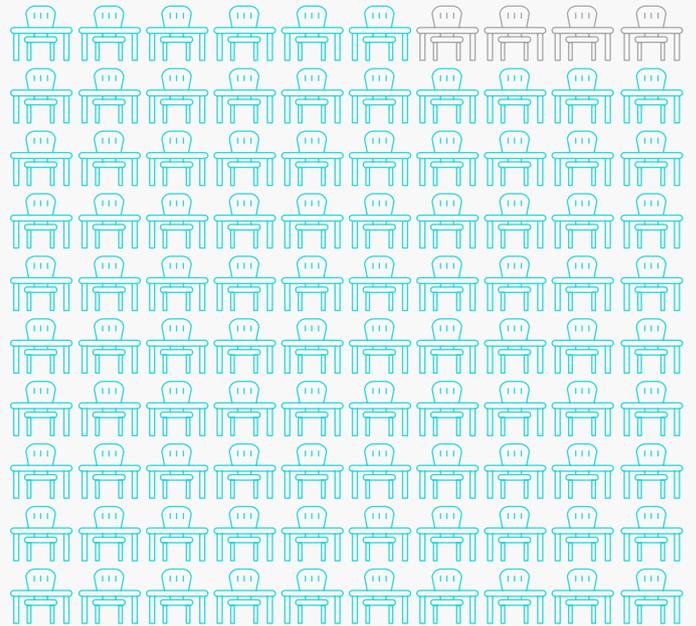
Key findings

The number of appointments to BMV IPC companies' boards held steady in 2021 compared to the previous year: there were 28 appointments in 2021 compared to 27 in 2020.



A larger share of seats went to directors who are active rather than retired: 96% compared to 74% in 2020.

96%



The share of seats allocated to **women** increased slightly, to **36%** up from 33%.



The share of directors **without previous public board experience** more than doubled, increasing from 7% to **18%**.

While there has been progress in broadening the spectrum of experience around boardroom tables in BMV IPC companies—particularly by adding the expertise of sitting executives and those who have not served on boards before—each company needs to make sure it is not only prepared for today's challenges but is able to anticipate what type of directors it needs in order to be future-proof.

Snapshot of 2021 findings

New seats filled



28

Average age



53

Current or former CEO experience



Current or former CFO experience



Gender balance (%)



Active vs. retired executives (%)

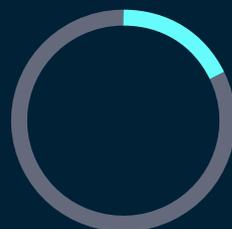


Nationality (%)



National: 68
Non-national: 32

Experience (%)



First-time board member: 18
Previous board experience: 82

C-level experience (%)

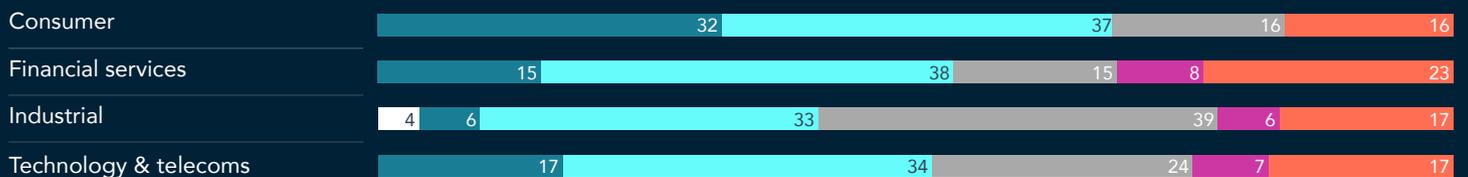


Other previous experience (%)



Distribution of industry experience, by board industry (%)

■ Business services ■ Consumer ■ Financial services ■ Industrial ■ Technology & telecoms ■ Other



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)

There is a new license to operate, and a new conception of the corporation is developing as a result. Sustainability, DE&I, wellness, and ethics were peripheral issues that, in time and in many countries, became nice-to-haves built in to create competitive advantages; today, they are table stakes for global corporations thanks to increased pressure from a wide spectrum of stakeholders and increasing regulatory demands.

Environmental, social, and governance (ESG) issues, for example, are becoming a core business pillar and increasingly instrumental in corporate access to

capital in many markets. Sustainability policies, in particular a company's response to climate change, are becoming increasingly regulated around the globe. Though Mexico has a number of laws that govern ESG, including the General Law on Climate Change, there isn't yet a regulatory requirement for sustainability disclosure. But public companies listed on the BMV are required to include in their annual reports their environmental policies, certificates and recognitions, environmental projects, carbon emissions, and information on their corporate governance including board appointment processes, composition,

and gender representation.¹ At the moment, Mexico ranks 74th in the Sustainable Development Index developed by Bertelsmann Stiftung, the UN's Sustainable Development Solutions Network, and Cambridge University Press, which shows that there is much progress to be made and suggests that government and businesses have to work together to promote sustainable growth in the country.²

ESG issues, for example, are becoming a core business pillar and increasingly instrumental in corporate access to capital.

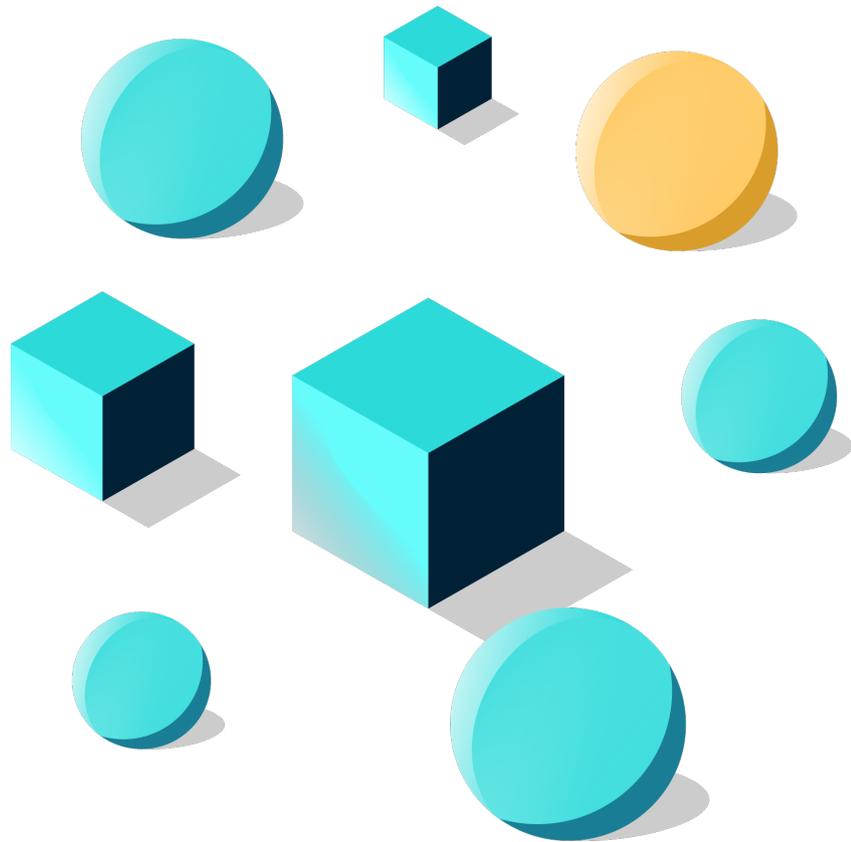
¹ Carlos Escoto, Mariana Herrero, Marianela Romero, and Lorena Kiehnle Barocio, "Setting the Scene: Sources and Overview," *Environment, Social, and Governance Law Mexico 2022*, ICLG, December 13, 2022, iclg.com.

² Jeffrey D. Sachs, Guillaume Lafortune, Christian Kröll, Grayson Fuller, and Finn Woelm, *Sustainable Development Report 2022*, Bertelsmann Stiftung, Cambridge University Press, and the United Nations' Sustainable Development Solutions Network, June 2, 2022, sdgindex.org.

Another important driver in Mexican business is digitization. An earlier McKinsey analysis showed that significantly improving Mexico’s digital maturity could boost the country’s GDP by 15%,³ and boards should be looking for ways to take advantage of those opportunities. Digital maturity will also improve companies’ ability to attract more talent by better supporting a hybrid way of working.

DE&I is a continuous work in progress. Fairness and equity are increasingly important to stakeholders. Despite seeing gender parity in the political arena—50% of Mexico’s congress representatives are women—business is trailing behind on gender balance, with women’s representation on the boards of the country’s leading companies sitting at 10%.

DE&I is a continuous work in progress. Fairness and equity are increasingly important to stakeholders.



³ Max Cesar, Alberto Chaia, Andre de Oliveira Vaz, Gonzalo Garcia-Muñoz, and Philipp Haugwitz, “How Mexico can become Latin America’s digital-government powerhouse,” McKinsey Digital, November 1, 2018, mckinsey.com.

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



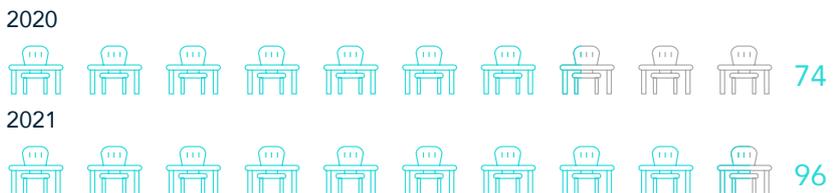
They are infusing new perspectives

The number of appointments to BMV IPC companies' boards held steady in 2021 compared to the previous year, but we saw a significant shift towards directors who are active rather than retired, from 74% to 96%.

Number of appointments, 2020 vs. 2021



Percent active executives, 2020 vs. 2021



The share of directors without previous public-board experience more than doubled in 2021 compared to 2020, increasing from 7% to 18%. However, the share is still comparatively small compared with most of the other 24 countries we track around the world. Eighty percent of first-time directors appointed in 2021 are women, which contributed to the progress on gender balance. First-time directors are more likely to be non-national compared to their more experienced peers: 60% compared to 26%, and 11 years younger on average. In terms of experience, they have no CEO or deputy CEO experience, while 61% of the experienced board members appointed in 2021 had a CEO role and 22% had a deputy CEO position during their careers.



Professional experience

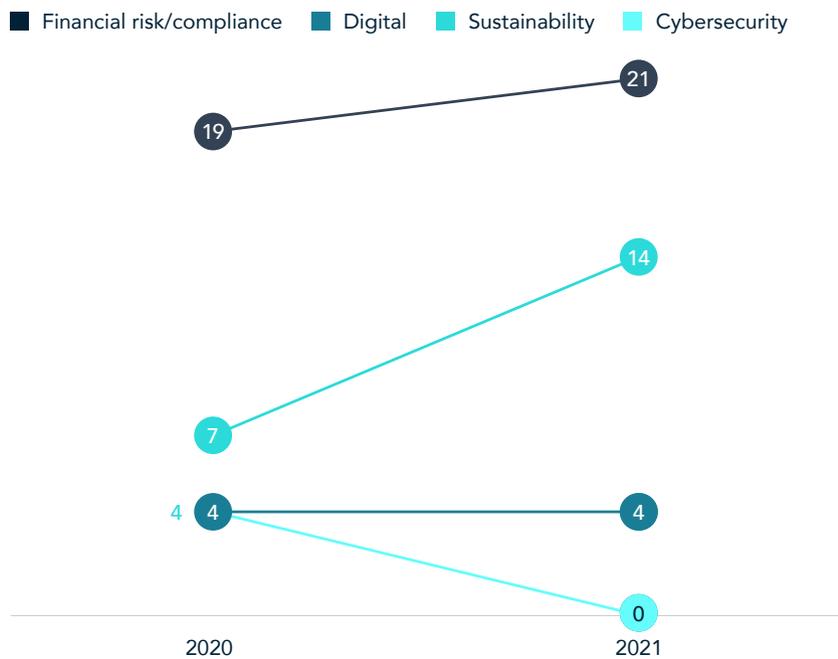
We saw a drop in the share of seats going to directors with CEO and CFO experience compared to 2020, from 55% to 48%. It's notable that we saw a steep decrease in the share of seats going to directors with CFO experience.

CEO and CFO experience over time: Men vs. women, 2020 vs. 2021 (%)



Looking at other professional experience, increasing shares of director seats went to executives with sustainability and financial risk and compliance experience, while the share going to directors with cybersecurity experience decreased.

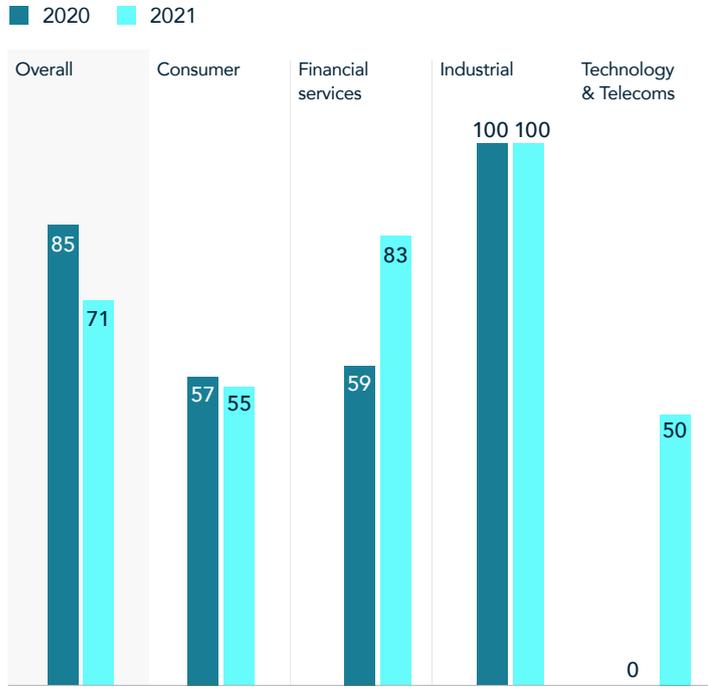
Other experience, 2020 vs. 2021 (%)



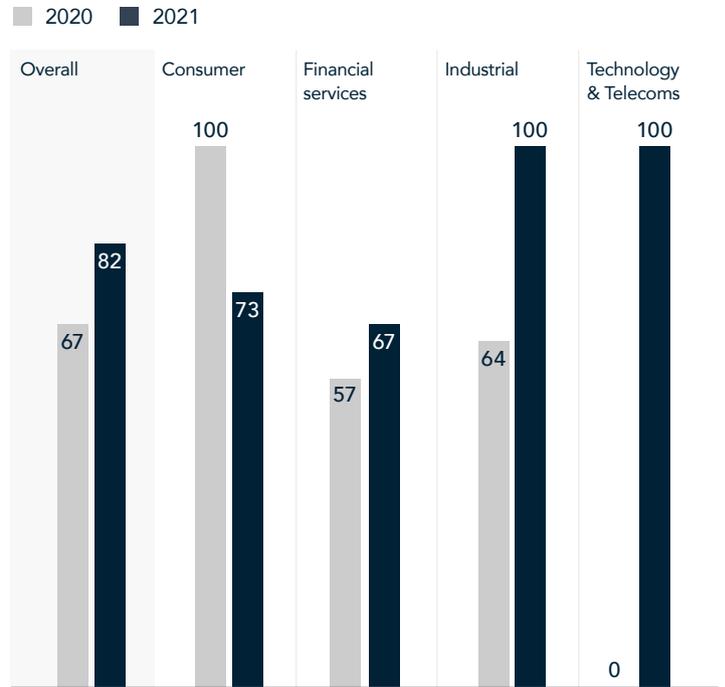
The share of seats going to directors with cross-sector experience increased.

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

Same-industry experience, by board industry



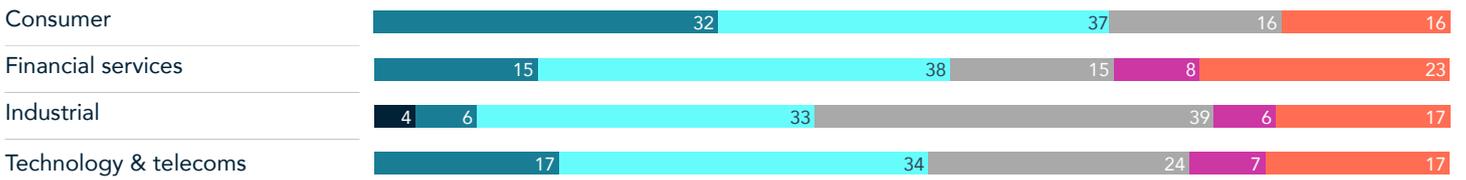
Cross-industry experience, by board industry



Most sectors brought on directors from a mix of sectors, with directors with financial services backgrounds seeing high demand across sectors, perhaps to complement the directors with financial risk and compliance experience.

Distribution of industry experience, by board industry (%)

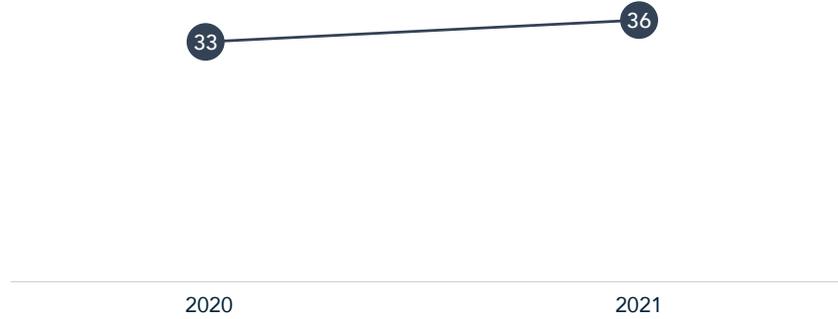
Business services Consumer Financial services Industrial Technology & telecoms Other



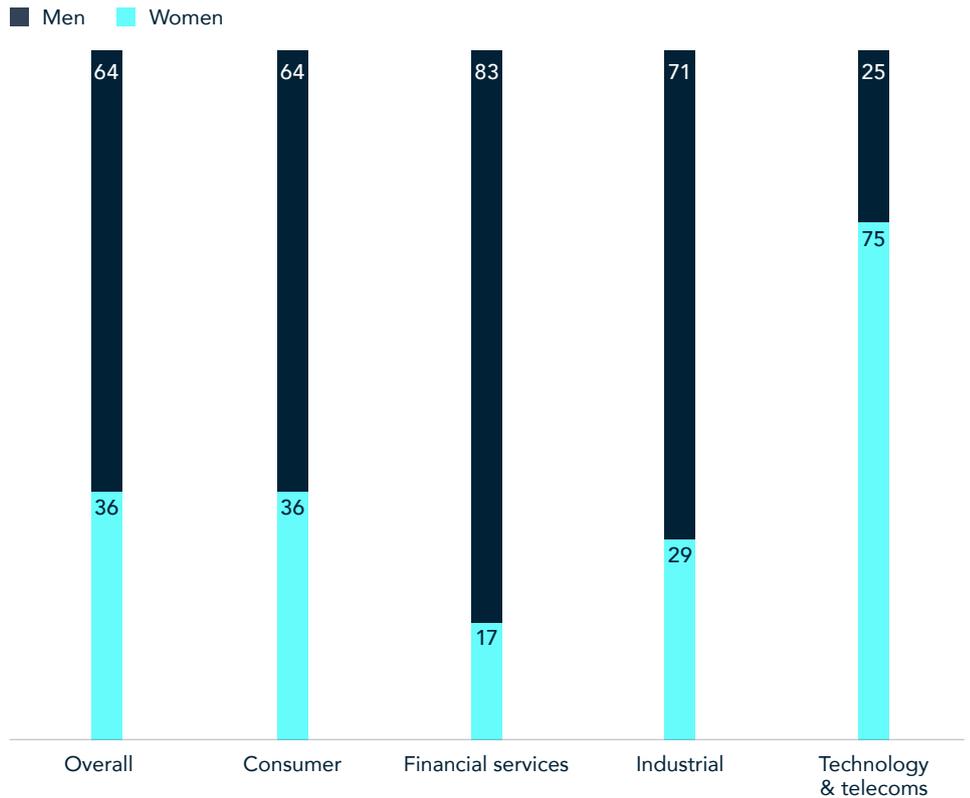
Gender balance

We saw a small uptick in the share of seats allocated to women: 36% in 2021 compared to 33% in 2020. There are great sector variations among the share of seats that went to women, from 76% in technology and telecoms to 17% in financial services.

New female appointees, 2020 vs. 2021 (%)

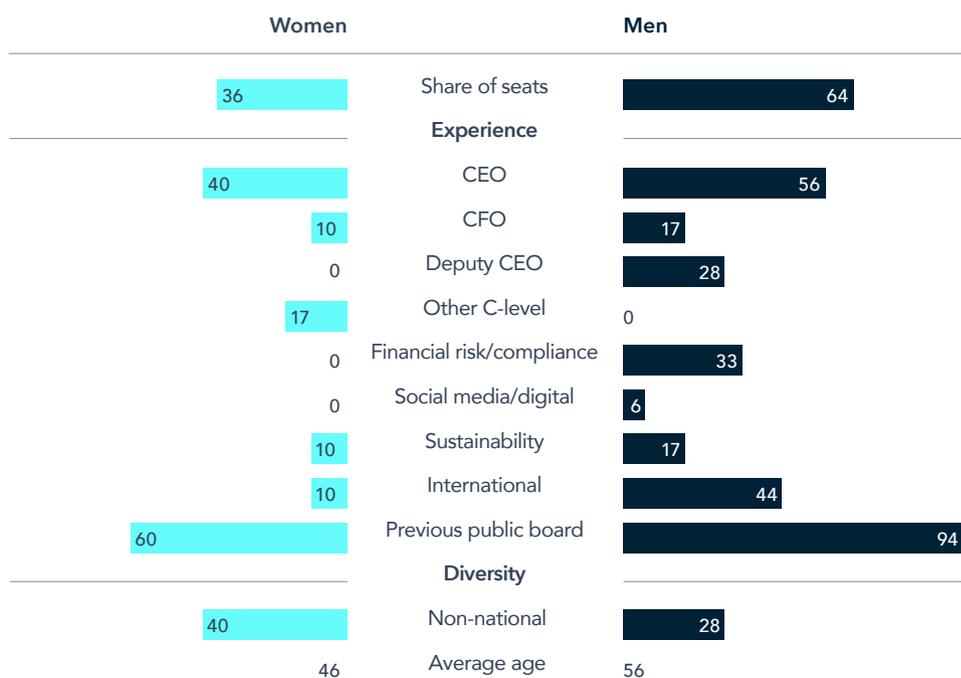


Gender of new appointees, by industry, 2021 (%)



Women less often have CEO, deputy CEO, or CFO experience, and significantly less often have previous experience on public boards. They are more often non-national and are, on average, eight years younger than their male peers.

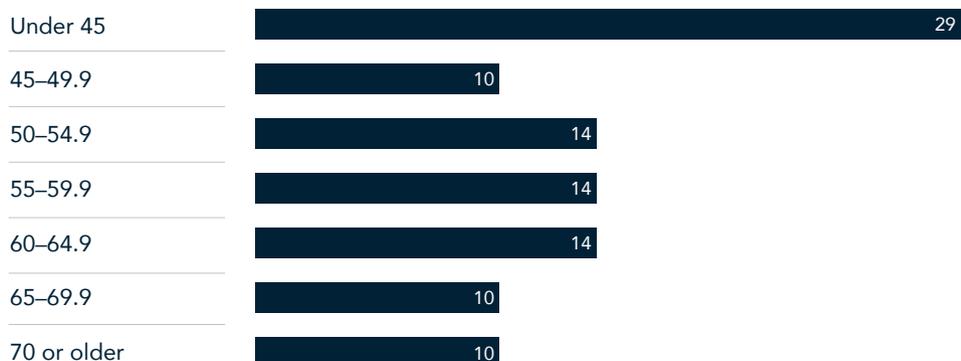
How the profiles of men and women compare (%)



Age diversity

The average age of newly appointed directors to BMV IPC boards dropped significantly in 2021, to 53 compared to 59. This most significant factor is the larger share of seats going to women. Also, in 2021, 29% of seats went to directors under 45, which is one of the highest percentages we have seen among the countries we tracked in 2021.

Age distribution, 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. As many Mexican companies are going through extensive digitization processes, it’s concerning that the new share of directors with digital skills has remained low at 4%.



Bolstering their sustainability acumen. Though we saw some progress in the share of seats going to directors with sustainability expertise in 2021, more needs to be done given the increasing sense of urgency in addressing sustainability. 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 of board members around the world found that 85% of respondents believed that the level of overall climate knowledge on their boards needed to increase.⁴ 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.

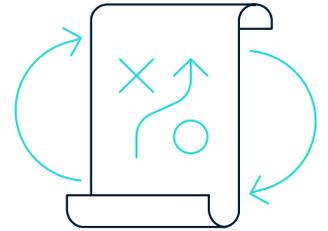


⁴ *Changing the Climate in the Boardroom*, Heidrick & Struggles and the INSEAD Corporate Governance Centre, heidrick.com.

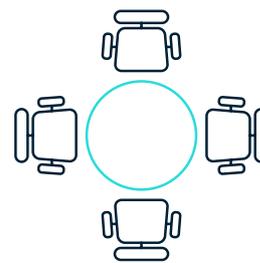
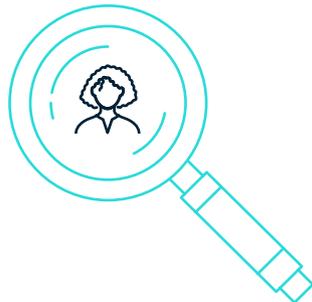
Staying tightly focused on diversity. Best-in-class boards are building their networks and improving their outreach to potential directors. Gender representation is still a challenge on Mexican boards, and more needs to be done.



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.



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, people who can lead through influence and 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.



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.

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

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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