

Board Monitor South Africa 2022

Our analysis of incoming directors at JSE Top 40 listed companies shows a preference for CEO experience as well as an increase in gender diversity.



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), 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 their contributions to this report:

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Introduction



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

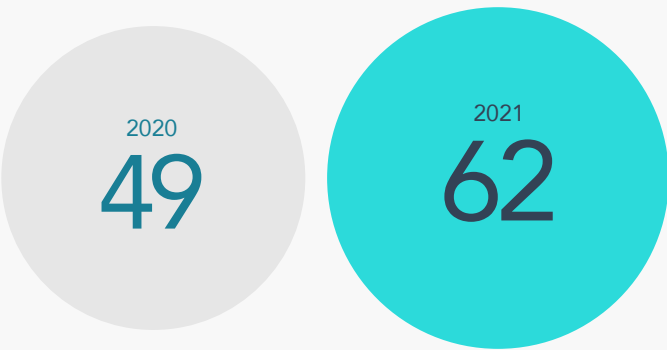
This sits at the center of the *King IV Report on Corporate Governance for South Africa*, consisting of a set of voluntary principles and leading practices with an “apply and explain” disclosure regime, which requires boards to set the tone by leading by example and behaving in an ethical and effective manner. The report further tasks boards with overseeing the implementation of ethical standards and disclosure processes in a bid to increase corporate transparency and build trust with their communities.

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, have boards moved the dial when it comes to changing their composition in order to tackle these new expectations and mitigate the risk of losing their license to operate? In South Africa,

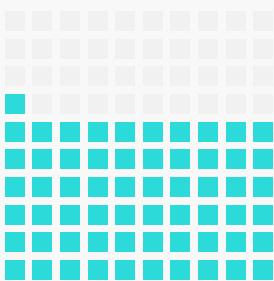
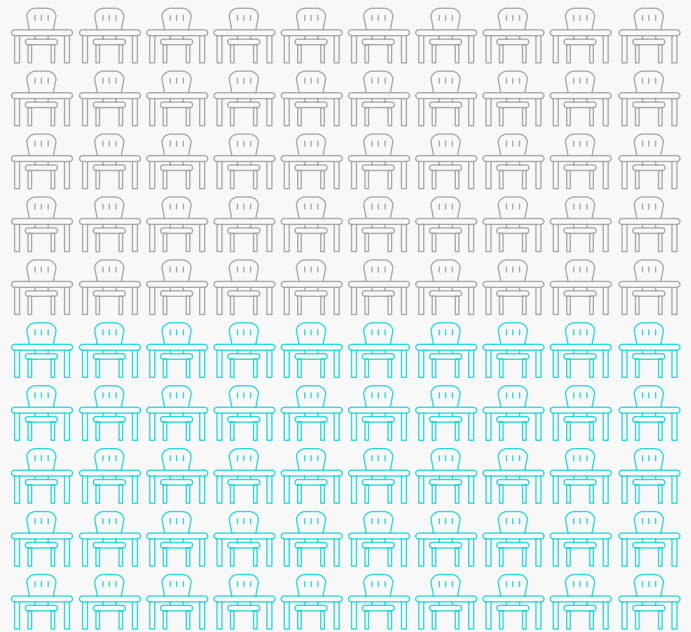
Key findings

The number of new board appointments to JSE Top 40 company boards increased in 2021 compared to the previous year, from 49 to 62.

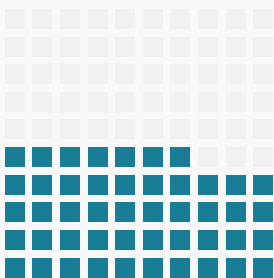


There was a larger share of seats going to directors who were active rather than retired: 50% compared to 41%.

50%



There was a significant increase in the share of seats allocated to **women**: **61%** compared to 43%.



There was a larger share of seats going to directors with **CEO experience**: **47%** compared to 39%.

Indeed, there has been progress on broadening the spectrum of experience around boardroom tables in JSE Top 40 companies. That said, each company needs to make sure it is not only prepared for today's challenges but is anticipating what type of directors it needs to appoint to future-proof its organization.

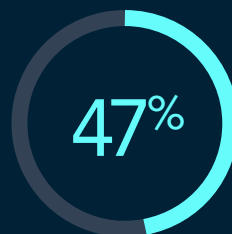
Snapshot of 2021 findings

New seats filled

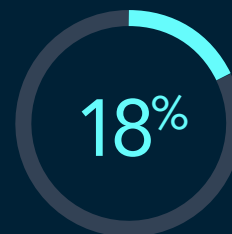


62

Current or former CEO experience



Current or former CFO experience

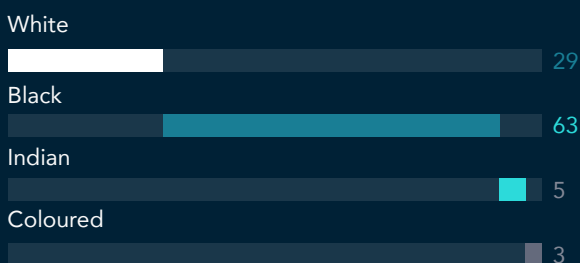


Average age



56.8

Ethnicity, South African directors only (%)



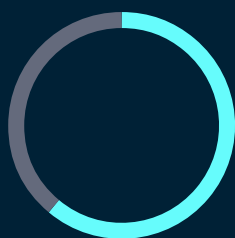
Gender balance (%)



Active vs. retired executives (%)



Ethnicity breakdown (%)



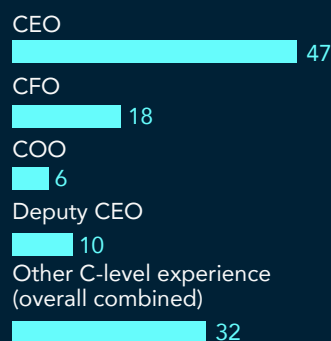
National: 61
Non-national: 39

Experience (%)



First time board member: 27
Previous board experience: 73

C-level previous experience (%)

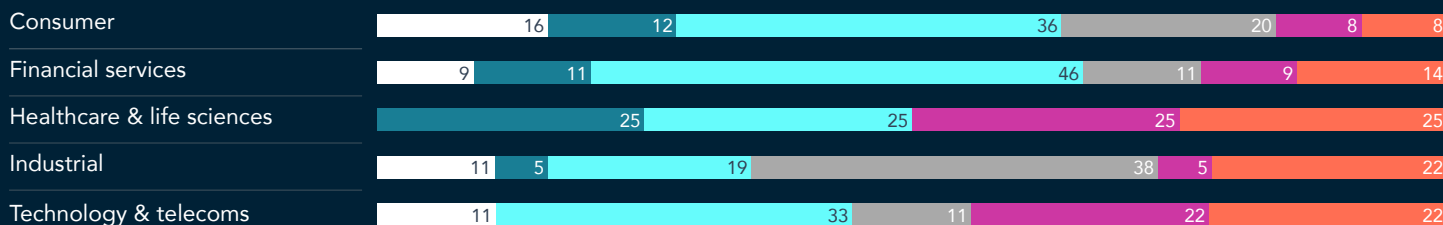


Other previous experience (%)



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 concept of the corporation is developing as a result.

How companies are approaching topics such as sustainability, diversity, equity and inclusion (DE&I), wellness, and ethics used to be peripheral issues that in time became nice-to-haves built to create competitive advantages. Today, they have evolved into table stakes thanks to increased pressure from a wide spectrum of stakeholders and increasing regulatory demands.

ESG, for example, is becoming a core business pillar and increasingly instrumental in corporate access to

capital. Sustainability and climate change considerations are becoming increasingly regulated around the globe. In June 2022, the JSE published its "Sustainability and Climate Disclosure Guidance" to help companies report on sustainability, climate, and ESG; it offers best practice examples to emulate or build upon.¹

The quest for equity, meanwhile, is putting pressure on executive compensation and employee rights. Another important trend is that employee wellness and mental health are becoming considerations in how companies act.

ESG and sustainability in particular are becoming a core business pillar and increasingly instrumental in corporate access to capital.

¹ "JSE Unveils Guidance Framework to Aid Progress in Disclosure and Governance," JSE, June 14, 2022, [jse.co.za](https://www.jse.co.za)

These new expectations come with new risks and higher stakes

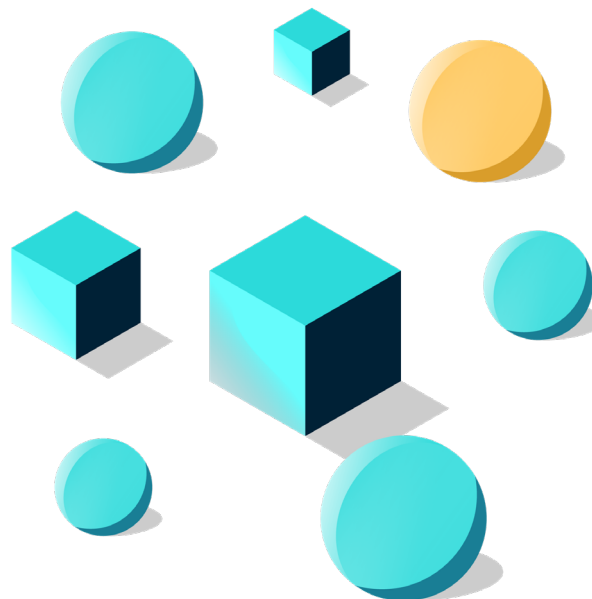
Through all this, **there is an increased accountability for leaders:** some countries have set regulations about the liability of senior leaders (including boards), more CEOs and other leaders are being fired for non-performance related reasons (such as ethics and morals), and shareholders and investors are demanding more transparency. In South Africa, the *King IV Report* sets the scene for companies to shift their approach to governance from a box-ticking exercise to one of value creation, able to set the direction for the organization.

There has been a shift in risks derived from the new stakeholders' expectations, starting with the dynamics triggered by new ways of working, which in places have become a tension between leaders and the workforce. There are increasingly large and obvious discrepancies between what leadership teams want and what many employees are looking for, policies such as remote working, increased flexibility, or more equitable parental leave. One result of this in many countries has been the "Great Resignation," with many people opting to seek jobs that accommodate a healthier work-life balance.

There has been a definite change in the dynamics of the relationship between leaders and employees, with employees gaining a stronger voice.

There has been a definite change in the relationship between leaders and employees, with employees gaining a stronger voice. There is more pressure on corporate leadership to walk the talk.

DE&I is a continuous work in progress and has been proven to be a key factor in employee satisfaction. In South Africa, this focus is particularly important in continuing to address the imbalances of the past and the current socioeconomic gap between the rich and the poor, which is the largest in the world.² Similar to countries such as Australia, Canada, the United Kingdom, and the United States, the DE&I focus is on racial and ethnic diversity as much as gender. In South Africa, boards are particularly looking for African Black women. Of the 24 new Black South African directors appointed in 2021, 17 (71%) were women.



² "Wealth inequality by country," World Population Review, worldpopulationreview.com, accessed September 2022.

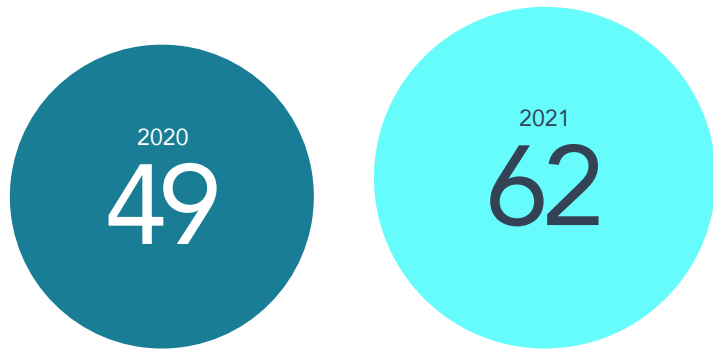
How are boards stepping up to meet the moment and prepare for an uncertain, and more demanding, future?



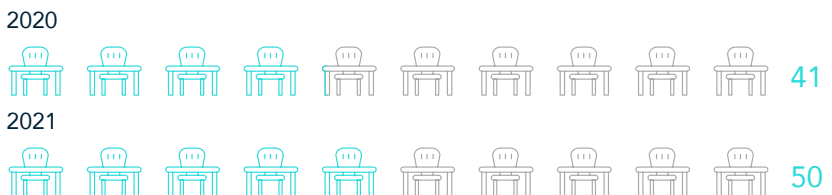
They are infusing new perspectives

The number of appointments to JSE Top 40 company boards increased in 2021 from 49 in 2020 to 62 in 2021. We also saw a significant shift toward directors who are active in executive roles rather than retired, from 41% to 50%. This follows a similar trend in the United Kingdom and the United States, where the percentage of board seats going to active rather than retired directors is increasing.

Number of seats filled, 2020 vs. 2021

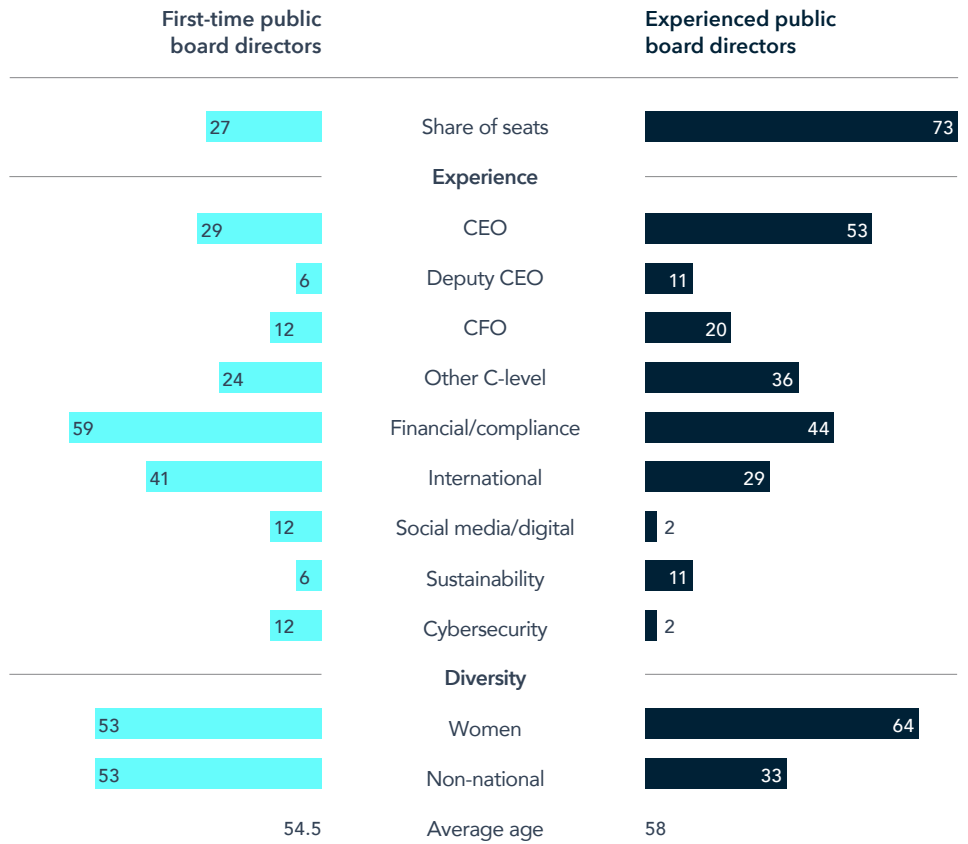


Percent active executives, 2020 vs. 2021



The share of directors on JSE Top 40 boards with previous public board experience has increased to 73%, up from 63% in 2020. The first-time company directors bring less CEO experience than those with previous public-company board experience but have more financial and compliance, international, social media and digital, and cybersecurity experience. Just over half of seats going to first-time directors (53%) went to women, which is lower than the 64% of seats going to experienced board members.

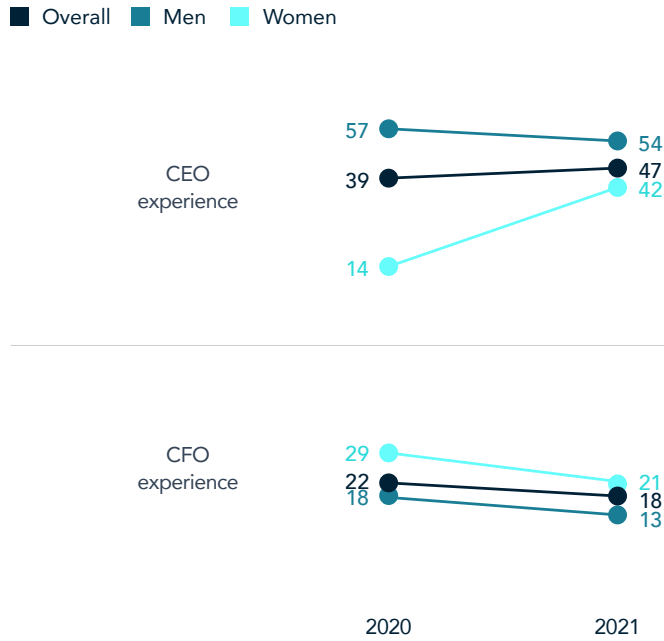
What's different between first-time directors and their more experienced peers (%)



Professional experience

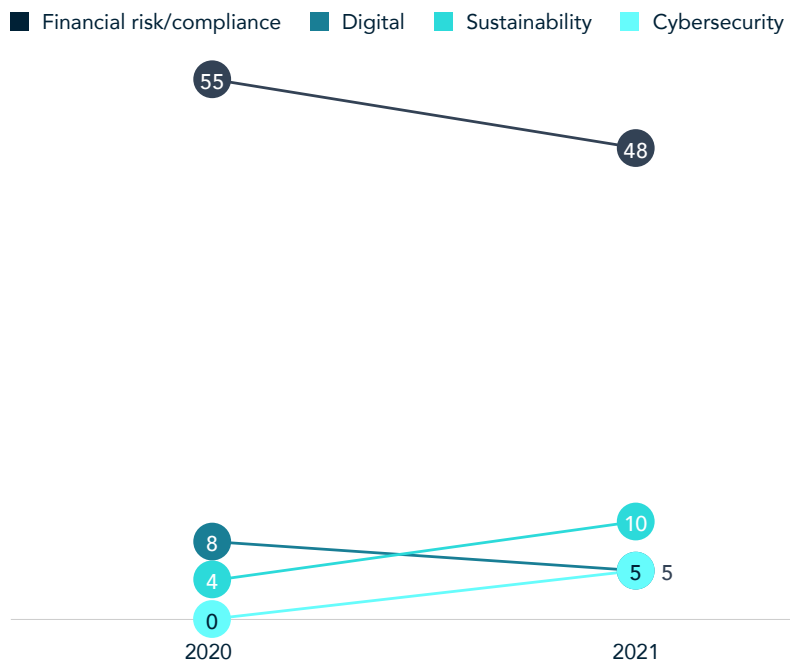
We saw an increase in the share of seats going to directors with CEO experience compared to 2020, particularly among women directors. The reverse is true for CFO experience for both men and women.

CEO and CFO trends, by gender, 2020 vs. 2021 (%)



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

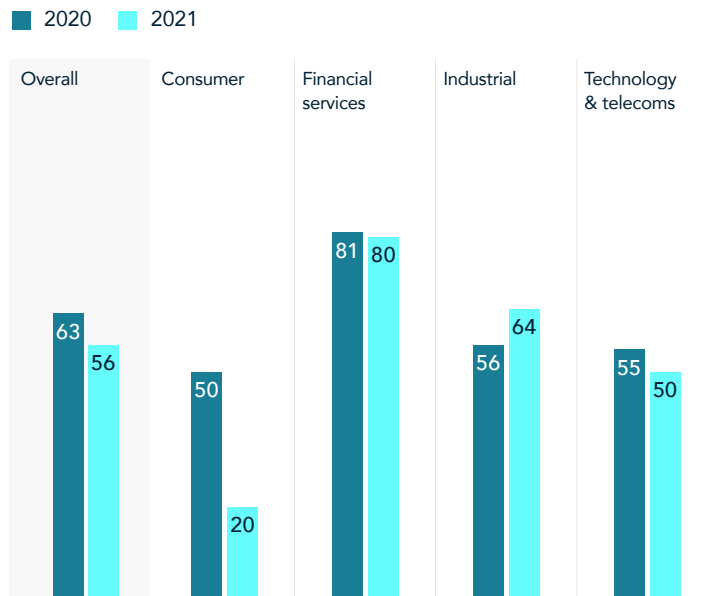
Other experience trends, 2020 vs. 2021 (%)



The share of seats going to directors with same-sector experience has decreased compared to 2020.

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

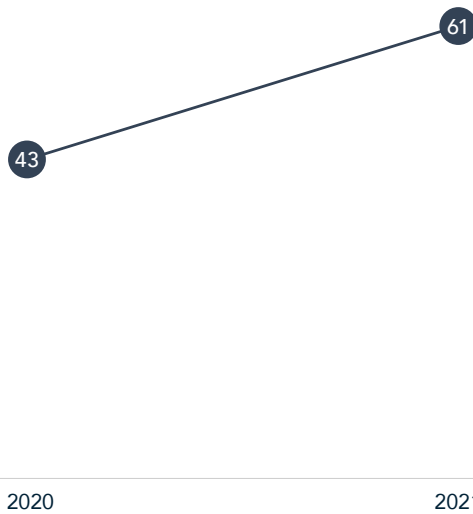
Same-industry experience, by board industry



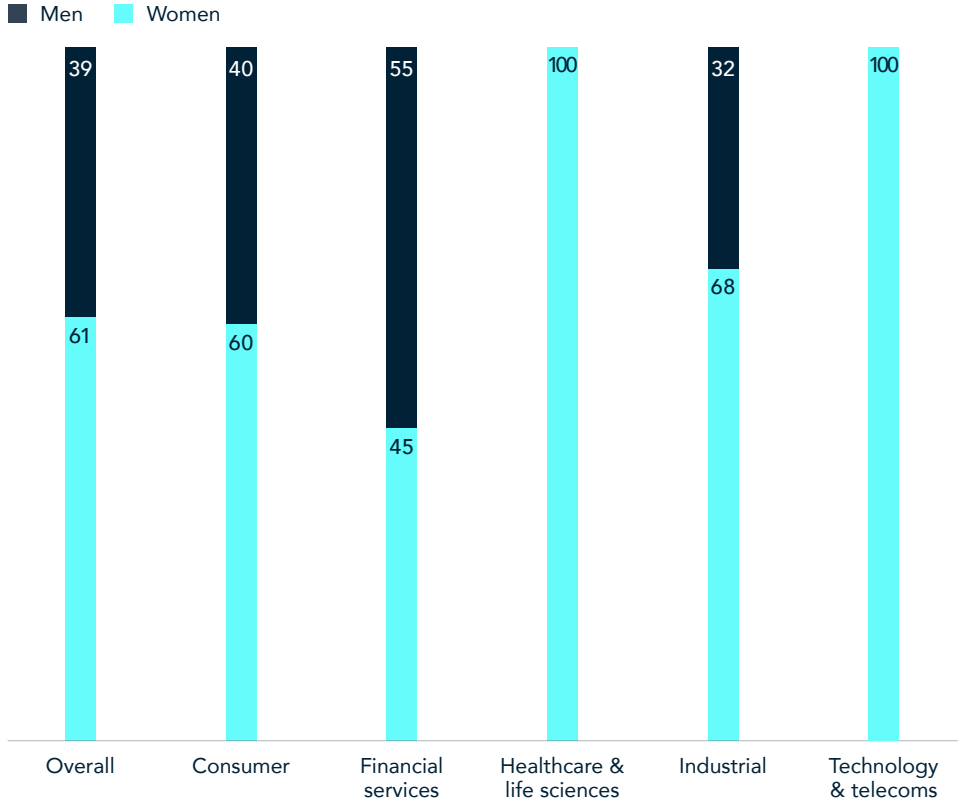
Gender balance

There was a significant increase in the share of seats allocated to women: 61% in 2021 compared to 43% the year before. However, there are large variations across sectors in the share of seats going to women.

Gender trends, 2020 vs. 2021 (%)

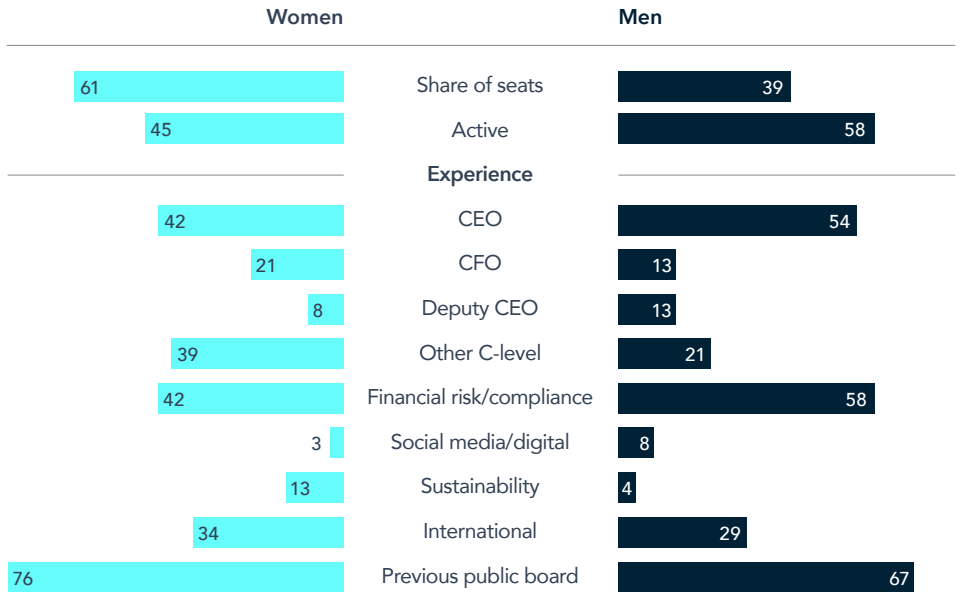


Gender, by industry, 2021 (%)



Women less often have CEO or deputy CEO experience, and more often have backgrounds as CFOs or other C-level roles. Women have more international and sustainability experience.

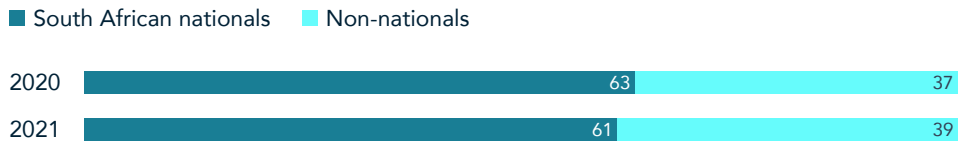
How the profiles of men and women compare (%)



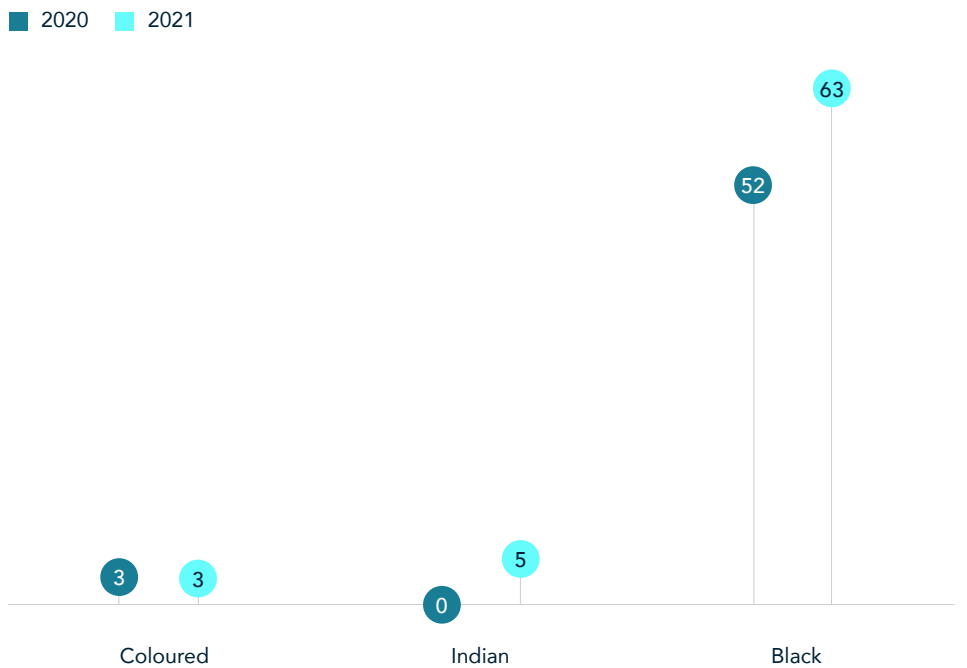
Ethnic diversity

Of the South African directors appointed in 2021 (61% of the total versus 63% in 2020) 63% were Black South Africans compared to 52% the previous year; 5% were Indian compared to none the previous year; and one new South African Coloured director was appointed, the same as the prior year.

Nationality, 2020 vs. 2021 (%)



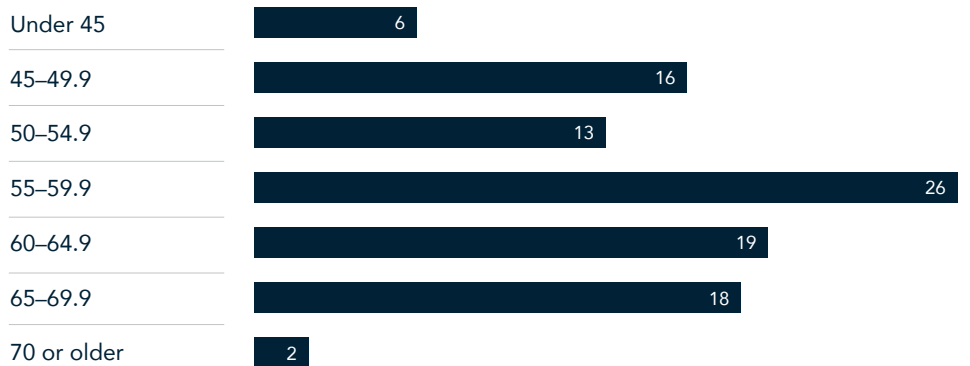
South African nationals, by ethnicity, 2020 vs. 2021 (%)



Age diversity

The average age of newly appointed directors in JSE top 40 companies has held steady at 57. Sixty-five percent of all new directors appointed in 2021 were over 55, and only 6% under 45.

Age distribution, 2021 (%)



Looking ahead



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

Boards need to build agility to deal with unexpected events and achieve a certain level of foresight, and to integrate fresh perspectives into their leadership in order to 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 have become as important as hard skills.

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, cybersecurity, or experience in different industries.

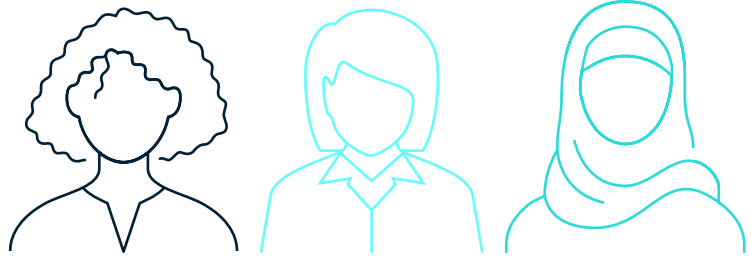


Bolstering their sustainability acumen. The lack of progress in bringing more sustainability experience to boards is particularly concerning in a context where there is an increasing sense of urgency in addressing sustainability in general and climate change in particular, and where there is a clear 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 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. The small increase in the share of seats going to directors with this expertise on JSE Top 40 boards is a promising sign.

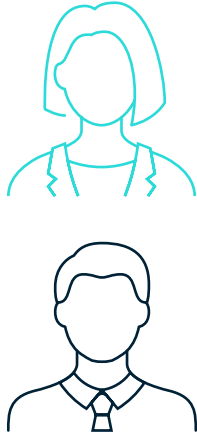


³ *Changing the Climate in the Boardroom*, Heidrick & Struggles and the INSEAD Corporate Governance Centre, heidrick.com.

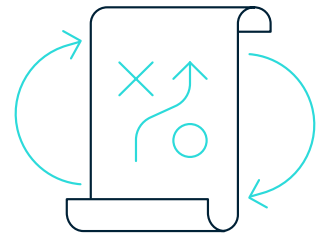
Staying tightly focused on diversity. Best-in-class boards are building their networks and improving their outreach to potential directors from diverse ethnic backgrounds. This is illustrated by the progress, albeit incremental, of directors of Black, Indian, and Colored backgrounds in 2021, and even more so the progress in appointing Black South African women to boards.



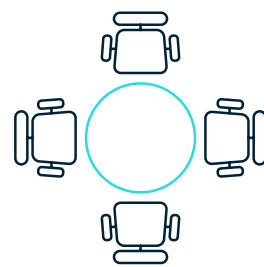
Bringing younger directors onto boards. The median age of directors appointed over the past few years has been remarkably stable, and the average age of directors overall has increased slightly. Best-in-class boards understand the advantages of perspectives brought in by executives who are in earlier 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.



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.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.



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.

⁴ 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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