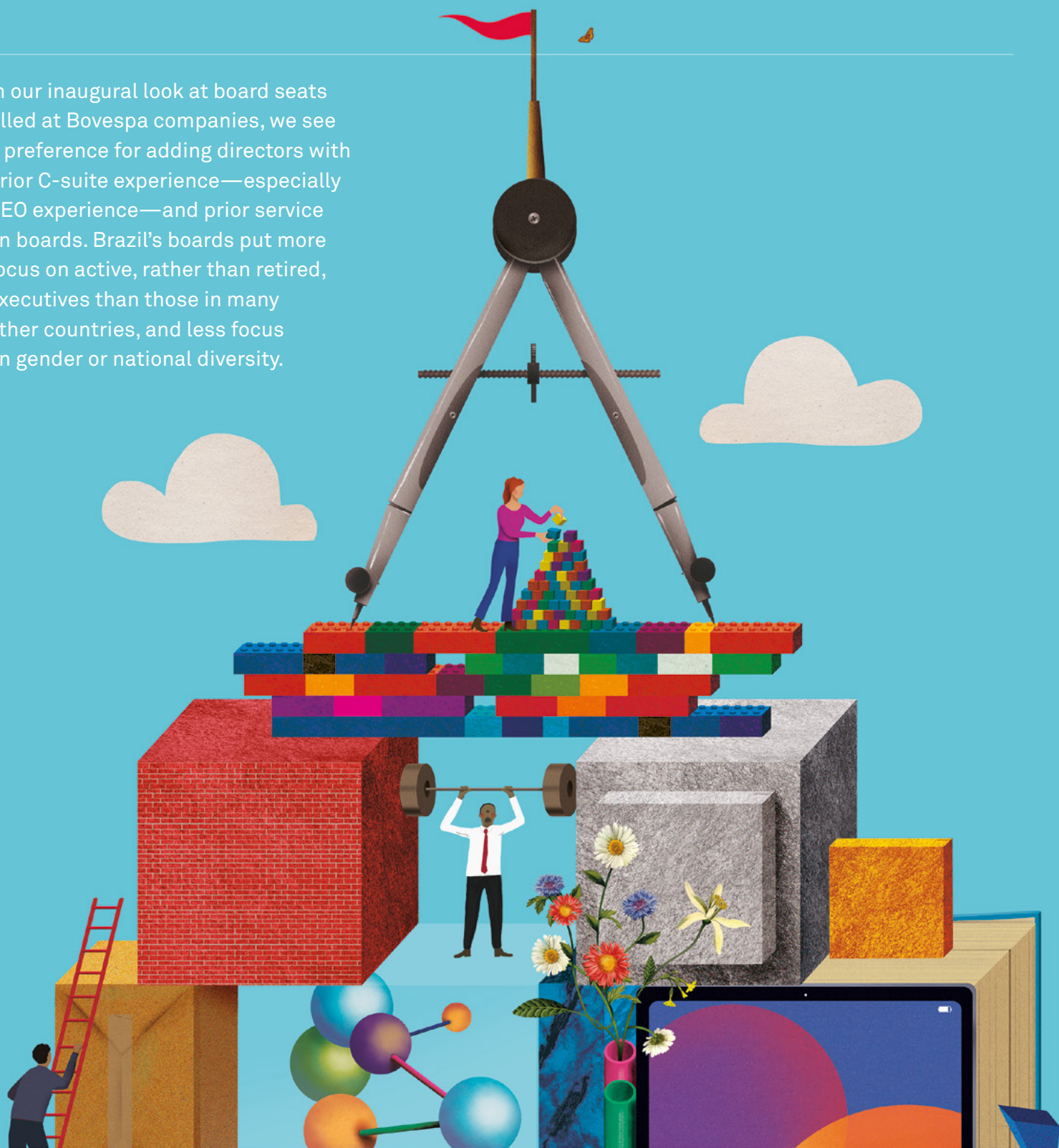


Board Monitor

Brazil 2020

In our inaugural look at board seats filled at Bovespa companies, we see a preference for adding directors with prior C-suite experience—especially CEO experience—and prior service on boards. Brazil's boards put more focus on active, rather than retired, executives than those in many other countries, and less focus on gender or national diversity.



About Board Monitor

This report joins Heidrick & Struggles' long-standing study of trends in board composition in countries around the world. Produced by our CEO & Board Practice, these reports track and analyze trends in non-executive director appointments to the boards of the largest companies in Australia, Belgium, Brazil, Canada, France, Germany, Hong Kong, Ireland, the Netherlands, New Zealand, Portugal, Singapore, Spain, the United Kingdom, and the United States.

Information about executives is gathered from publicly available sources, BoardEx, and a Heidrick & Struggles proprietary database.

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

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Meeting growing expectations of boards

Boards in Brazil and around the world were facing a range of competing expectations for the new members they would add in 2019.

Modern boards are expected to possess significant expertise in areas as specialized and diverse as digital transformation, corporate reputation management, and sustainability, to name just a few, and also include diversity in terms of gender, racial and ethnic background, age, and national origin, among other characteristics. This is all to improve decision making, by combining board members with specific expertise with the benefits of diverse teams, which are widely seen to make better decisions.

Most boards in the 15 countries we study¹ made some progress in adding

new members with diverse backgrounds and skills. In Brazil, for example, 60% of directors joined the board of a company in a different industry than the one they work in day-to-day. Many boards around the world also continued to add a number of more traditional directors. This includes people with prior board experience—78% of appointments in Brazil, higher than the United States, Spain, or Portugal—or prior experience as a CEO or CFO. Though such directors don't as often add diversity in other areas, their experience has been particularly valued by nominating committees when companies face significant enterprise risk.



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¹ Australia, Belgium, Brazil, Canada, France, Germany, Hong Kong, Ireland, Netherlands, New Zealand, Portugal, Singapore, Spain, United Kingdom, and United States are included in our studies of boards.

Among the characteristics of new directors we have been tracking, we note a few trends among new directors globally, which are somewhat at odds with each other.

Some progress on diversity...

- Women continue to make significant gains among newly added directors compared to previous years.
- Progress on racial or ethnic, nationality, and age diversity have been disappointing, with little progress to report anywhere in the world.
- The range of functional experience on boards has increased, with a corresponding decrease in CEO experience. Digital expertise, now essentially a given on boards, trended highest. With sustainability and cybersecurity rising as central concerns for companies, boards also focused on adding experience in these areas.

...and a continuing preference for traditional experience

- First-time directors are still not as common as experienced ones, despite boards' stated focus on adding new perspectives.
- Financial expertise and experience in financial services sectors remained highly sought-after backgrounds.
- Though the proportion of directors with CEO experience has continued to decline annually, it remains the most common type of prior expertise, followed by CFO experience.

As companies reshape themselves in the new environment 2020 is presenting, there will be many new opportunities for those who want to be best positioned to accelerate performance. Given the recent increased focus on racial injustice and social inequality around the world, many leaders are reconsidering and accelerating their diversity and inclusion efforts, including on boards. In Brazil, many boards have set specific targets for diversity. Boards around the world are finding they can do much better in building representation internally and in supporting diverse communities both internally and externally. Beyond that, boards will also need to focus more broadly on building the most capable board tailored to each company's unique strategy.

Simply ensuring a board has an appropriate mix of perspectives is just the start. To be highly effective, a board must be clear on its purpose: what it stands for as an entity and whom it represents in a global society. Boards must also align on how they will serve as an underpinning for a purpose-driven, socially responsible organization that delivers value to a wide range of stakeholders. And boards must have a culture and processes that ensure their directors can work well together.

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In 2020, with the added pressure from economic and societal volatility, fractured or dysfunctional boards present more risk than ever before. The solution is inclusion broadly defined. Many boards think of inclusion particularly in relation to their significant efforts to add diversity, but, as they seek to oversee recovery from a deep economic and social crisis, boards will benefit most from ensuring that every member is able to contribute fully, regardless of the board's traditional norms or habits, varying personalities, inherent biases, or for any other reason.²

In the following pages, you'll find the data and our observations on the 2019 class of directors for companies on the Bovespa and some expectations for 2020.

² For more on Heidrick & Struggles' thinking on board dynamics, see Alice Breeden, David Hui, and Anne Lim O'Brien, *Future-Proofing Your Board*, Heidrick & Struggles, May 29, 2020, heidrick.com.



Snapshot of 2019 findings

Overview

New director seats filled



Average age



Current and former CEOs

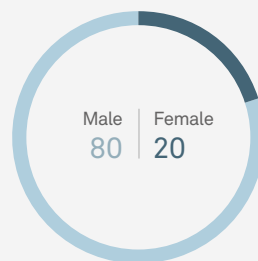


Current and former CFOs



Diversity

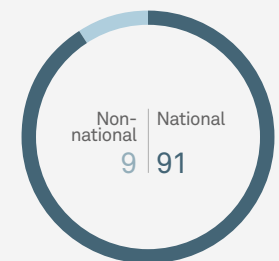
Gender (%)



Active/retired executives (%)



Nationality (%)



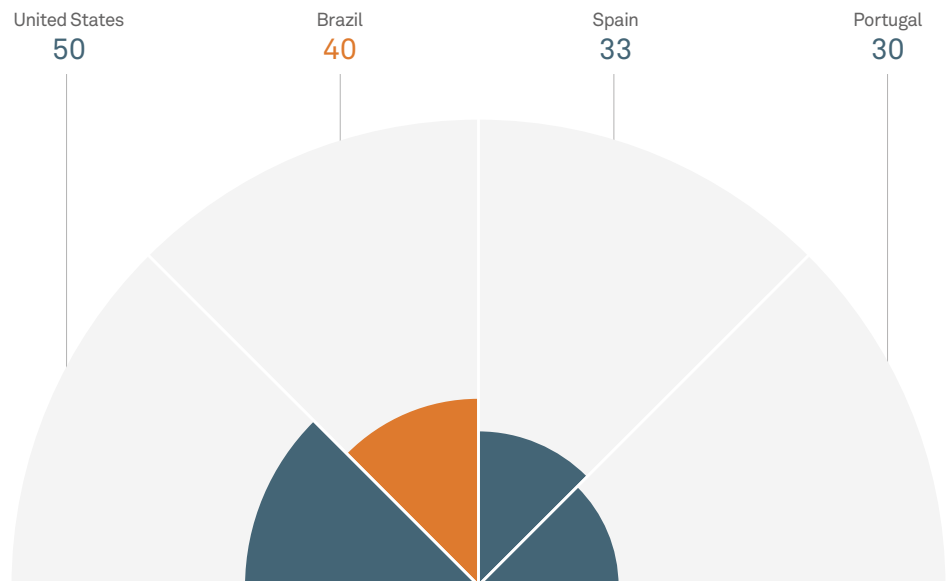
In 2019, Brazil's boards filled 108 seats, with a strong focus on prior CEO experience and prior board service



The share of new seats filled by people with prior CEO experience, at 40%, is notably higher than that in Spain or Portugal, though lower than that in the United States. Brazil's boards differ notably from those in most other countries in far more often adding new directors who are actively working at other companies—67%, compared with half in the United States, 53% in Portugal, and 52% in Spain. This is in part because Brazilian companies tend to seek non-executive directors who can support the company in various aspects of operations, and take on an active role in serving on committees with members of the C-suite and working directly with them to execute changes.

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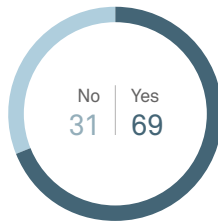
Prior CEO experience (%)



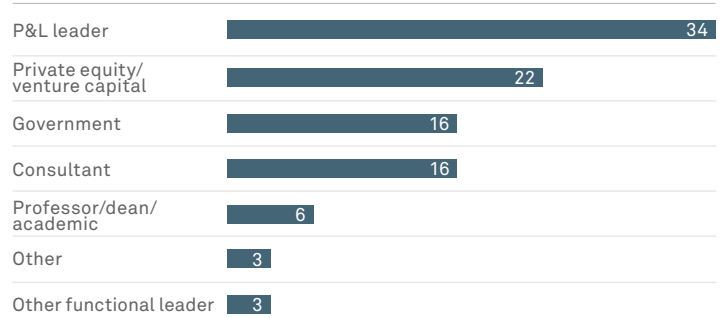
That operational focus is also highlighted in a similarity between Brazil's boards and those in other countries, most often adding new directors with P&L experience when they don't have C-suite experience.

Executive experience of new directors (%)

C-suite functional role experience

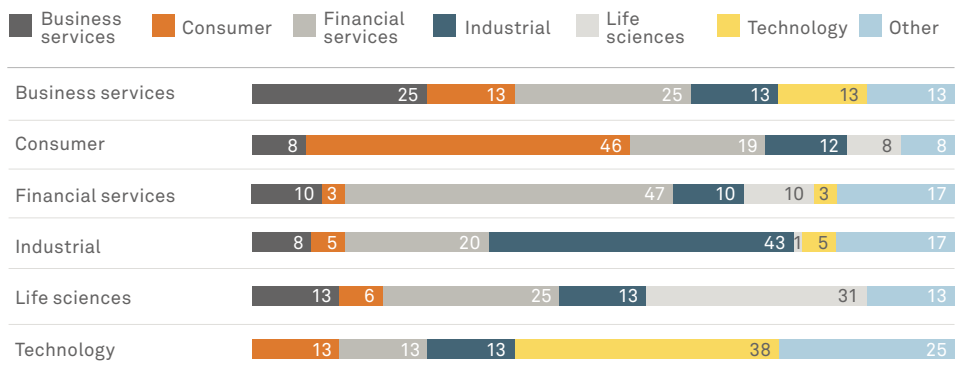


Roles for those without C-suite functional experience



Since just over half the seats filled in Brazil were at industrial companies, it is little surprise that more seats were filled with people with experience in that industry than any other, at 43%. Nonetheless, 60% of new seats were filled with people from outside the company's industry. Brazil's boards are fairly consistent with those in other countries in also setting some priority on financial expertise. For example, 40% of seats were filled by people with financial services expertise and 6% by those with experience as a CFO, the same share as in Spain.

Distribution of previous industry experience, by industry (%)

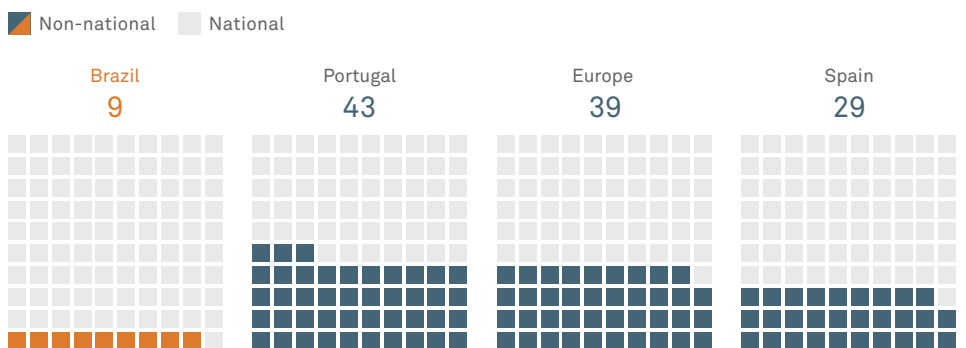


Note: Numbers may not sum to 100%, because of rounding.

Despite many having set diversity goals, Brazil's boards in 2019 appeared to focus less on diversity than those in many other countries. Nearly all of the new directors were Brazilian nationals, a different pattern than we see in other countries where we track diversity in terms of national origin. In part, this is the result of a language barrier, as well as a lack of support on many Brazilian boards for non-nationals to fully participate. The consumer industry in Brazil is quite different, however: 40% of seats on those boards were filled by non-nationals, mostly from Europe, highlighting that industry's relatively close ties to global companies and markets.

Finally, 20% of seats filled on Brazil's boards in 2019 went to women, compared with 44% in the United States, 48% in Spain, and 47% in Portugal. This is, nonetheless, progress. Furthermore, we see boards in Brazil particularly seeking female directors, as well as an increase in the number of women actively developing themselves to be able to pursue board seats.

Nationality comparison: Brazil, Portugal, Spain, and Europe overall (%)



Despite many having set diversity goals, Brazil's boards in 2019 appeared to focus less on diversity than those in many other countries.



Looking ahead



The Brazilian economy has undergone major transformations in recent years. The greater opening of the market, reforms in the economy, and more competitive labor rules have increasingly attracted investments in the Brazilian economy. In this context, companies that want to stay in the spotlight have started to adopt new positions in several areas, such as strengthening compliance

and transparency in their stakeholder relations, transforming their processes and adopting digitalization—and increasing their demand for a greater diversity of views in the leadership team. Board members of Brazilian companies have played a fundamental role in supporting this transformation and evolution of Brazilian companies, and we expect those contributions to continue.

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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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