

Our annual look at board seats filled at the top 50 Hang Seng-listed companies shows that in 2019, about the same share of new seats were filled by people who had been CEOs or CFOs as the year before, but a notably smaller share had prior board expertise. Instead, they came from a particularly broad range of backgrounds.



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 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 Hong Kong 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 2019, Hong Kong's boards filled only 51% of their seats with people who had previously served on a board, down from 78% in 2018, perhaps indicating a greater interest in fresh perspectives. That idea is also supported by the fact that only 45% of seats on Hong Kong's boards were filled by people with prior C-suite experience, notably lower than the 55% in Singapore and 52% in the United Kingdom. However, only 6% of director seats in Hong Kong were filled by women—no real change from 5% in 2018, and the lowest share in any country we study.



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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 in most countries.
- Progress on racial or ethnic, nationality, and age diversity has 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 the world transitions at pace, one Hong Kong independent non-executive director we interviewed explained, “Experienced guidance on how to deal with difficult issues can be very valuable to a corporate leader facing a tough situation—more valuable than some of the more routine skills often found around a board table.”

As companies reshape themselves in the new environment 2020 has presented, there will be many additional opportunities for those who want to be best positioned to accelerate performance. This may involve greater focus on directors with digital experience and financial risk or compliance experience; in 2019, none of Hong Kong’s new directors had either background, while boards added both areas of expertise in 2018. A Hong Kong CEO and board member said that it’s important “to ensure there is adequate diversity present during board discussions with respect to age and the operational understanding of the business. I believe I have this in my operating committee—the board is another matter.” Another director added that “experience in navigating a business through disruption and the strategic and organizational changes required to effectively respond” will be crucial. A third noted, “Boards are not put in place to ensure risks are avoided but that they are recognized and mitigated. Running a business—making decisions, making calls—all constitute risks.”

Our data continue to show that board culture is an increasingly complex issue; 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. As a board member who has been a CEO explained, “My own experience of having run companies gives me a sense of what is practical and implementable. I do not think that you need to have a similar cultural fit, as that will encourage groupthink. Instead, skills such as good listening and being self-aware are more important personal traits.” Others offered additional considerations, including that “there needs to be a good fit from a culture and values standpoint,” and the cautionary note that “one size does not fit all; one answer cannot address all scenarios.”

“Boards are not put in place to ensure risks are avoided but that they are recognized and mitigated. Running a business—making decisions, making calls—all constitute risks.”

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 Fundamentally, the role of the board is getting more onerous and complex.

A longtime Hong Kong director summed it up: “The prime characteristics of the best directors I have known are the ability to listen; to question fearlessly what they are told by management; to be prepared to do their own research into the subject under discussion; to never worry about appearing ignorant; to have taken the time to get to know the company’s business by visiting the company facilities and discussing the business with all levels of staff; to be able to mold their (extensive) business [experience] to the matter under discussion; and to know instinctively where to draw the line between being a director and becoming management, while protecting the interests of the company. I doubt a director who does not have a harmonious relationship with the others will be effective.”

Time management becomes more important as the role gets more complex, added another director. “The critical behavior for an independent non-executive director to constructively challenge management. For director effectiveness, having sufficient time to devote to the company is very important, particularly as time demands always seem to increase.”

In the following pages, you’ll find the data and our observations on the 2019 class of directors for the top 50 companies on the Hang Seng Index 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



35

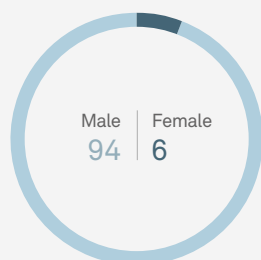
Average age



58

Diversity

Gender (%)



Active/retired executives (%)



Nationality (%)



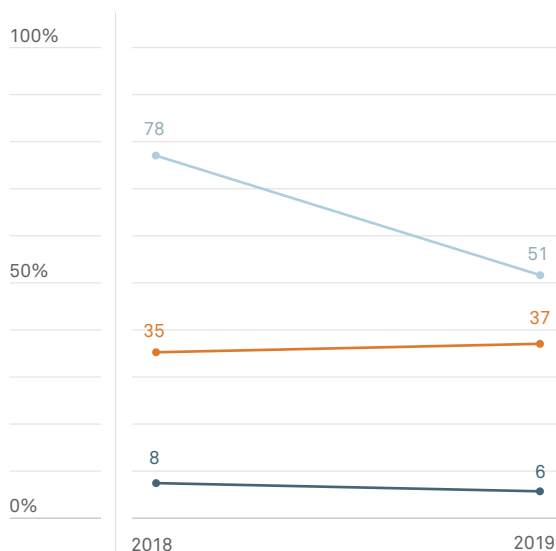
In 2019, boards in Hong Kong filled 35 seats with directors from a broad range of backgrounds.

Boards of companies listed on the Hang Seng Index filled 35 seats in 2019. About the same share of new seats were filled by people who had been CEOs or CFOs as the year before, but a notably lower share had prior board expertise. It's also notable that the shares of seats filled by people with prior board experience or any form of C-suite experience in 2019 were markedly lower in Hong Kong than in Singapore or the United Kingdom.



Prior board experience, CEO experience, and CFO experience: 2018 vs. 2019 (%)

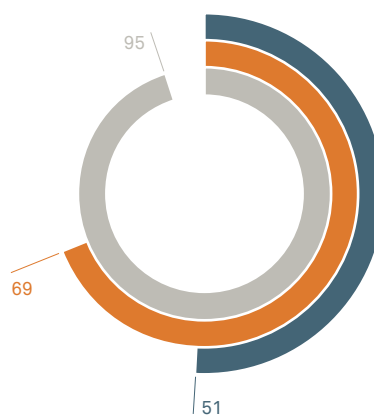
Board CEO CFO



Prior board and C-suite experience across the region (%)

Hong Kong
United Kingdom
Singapore

Prior board



Prior C-suite



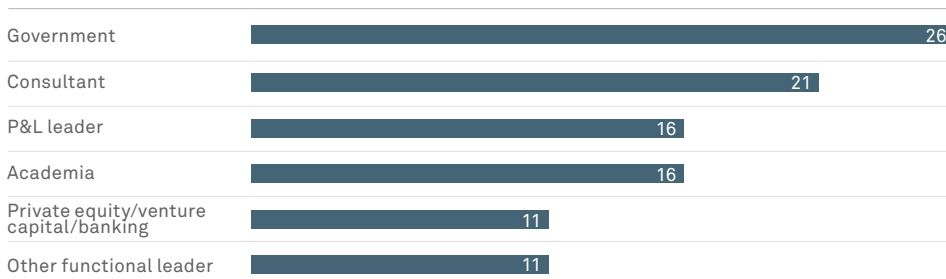
The new directors who had not been C-suite executives brought a range of prior experience. It's notable that a far smaller share in Hong Kong than in all but one other country we study had held P&L leadership roles.³

³ The country with a lower share in 2019 was Ireland, where the share was zero.

In terms of industry expertise, a preponderance of seats were filled by people with financial services experience, consistent with the fact that 51% of the 2019 director appointments were at financial services firms.

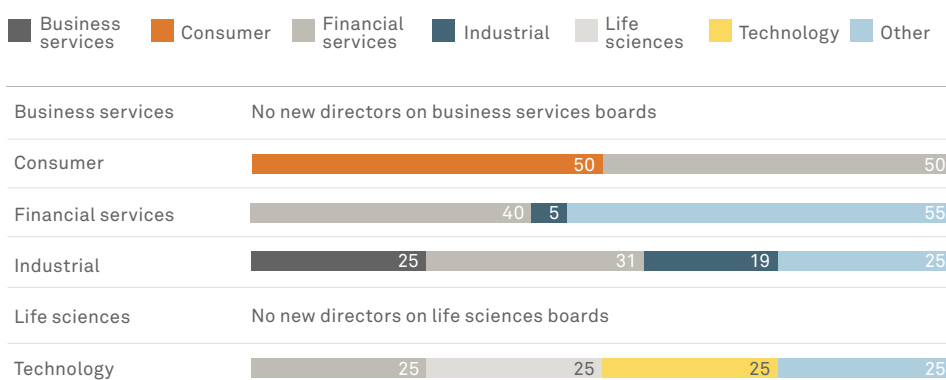
Finally, boards in Hong Kong in 2019 did not add any new directors with digital or social media experience or financial risk or compliance experience. Looking at boards in Singapore and the United Kingdom over 2018 and 2019, it seems there is significant variability in boards' ability to add such new directors, despite the increasing importance of such expertise to most companies.

Backgrounds of new directors without C-suite experience (%)

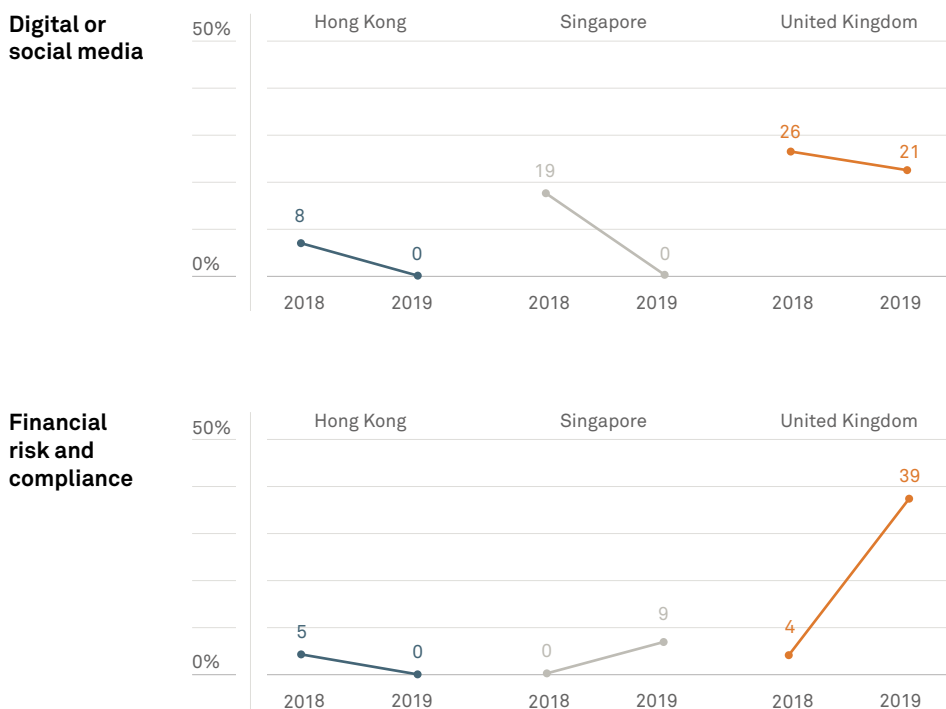


Note: Numbers may not sum to 100%, because of rounding.

Distribution of previous industry experience, by industry (%)



Digital or social media and financial risk and compliance expertise: Hong Kong, Singapore, and the United Kingdom (%)



Looking ahead



We see more and more interest in boards and their performance. One outcome is that the role of independent non-executive directors is coming under more scrutiny and will only become more challenging. For directors, meeting rising demands while managing their time will be crucial to being productive board members. And for directors, chairs, and other stakeholders, a key question is how to judge directors' performance and contributions going forward.

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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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