

Board Monitor Canada 2020

In 2019, Canadian boards exhibited a strong preference for new directors with previous corporate governance experience, greater gender diversity, and financial, operational, and sustainability expertise.



About Board Monitor

Produced by Heidrick & Struggles' CEO & Board Practice, *Board Monitor Canada* tracks and analyzes trends in non-executive director appointments to the boards of companies in the Toronto Stock Exchange (TSX 60). US data are on Fortune 500 companies, and UK data are on the FTSE 250. Data on appointments are tracked through BoardEx, proxy filings, and corporate websites.

Information about executives is gathered from publicly available sources, BoardEx, and a Heidrick & Struggles proprietary database. For the second consecutive year, in tracking the experience of new appointees, the report takes into account all the significant industry experiences of each director (for example, a new director who has worked most recently in the consumer industry may also have valuable experience in the industrial sector or in technology).

**Thanks to the following
Heidrick & Struggles colleague for
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Tim Jensen
Toronto

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diversity and financial, operational,
and sustainability expertise



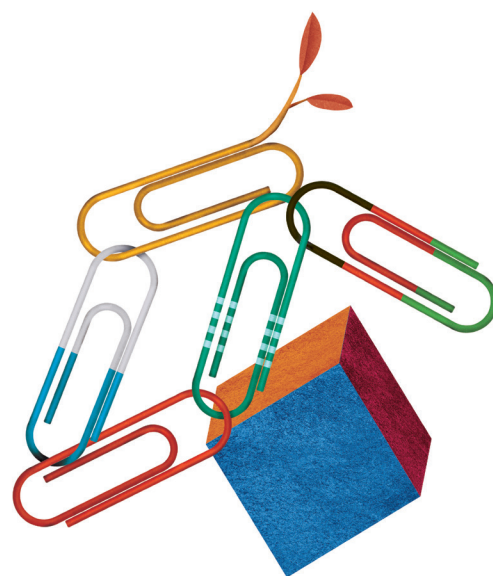
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Looking ahead



Meeting growing expectations of boards

In 2019, financial expertise and gender diversity were top priorities for boards as they nominated new directors to help them meet increasing demands; they will need all that expertise and diversity, and more, to thrive in 2020.



Boards in Canada and around the world faced 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, cybersecurity, corporate reputation management, sustainability, and social media, to name just a few, and to 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: combining board members with specific expertise with the benefits of diverse teams is widely seen to produce better decisions.

Most corporate boards in the 15 countries we study¹ made some progress in adding new members with diverse backgrounds and skills. In Canada, for example, over half, or 52%, of non-executive director appointments were women, up from 32% in 2018. Many boards around the world also continued to add more traditional directors. This includes people with prior board experience—68% of appointments in Canada—or prior experience as a CEO or CFO. Though such directors don't as often add diversity in other areas, their experience is particularly valued by nominating committees when companies face significant enterprise risk.

In Canada, over half, or 52%, of non-executive director appointments were women, up from 32% in 2018.

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 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. In particular, 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 increasing diversity.
- 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 recently 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. Most are finding they can do much better at 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 they can work well together.

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 responses to a fast-moving crisis and meet the calls for greater racial representation and equality, boards will benefit most from moving beyond diversity to 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 in the Toronto Stock Exchange (TSX 60) and some expectations for 2020.

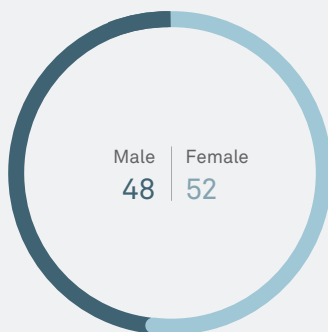
² For more on Heidrick & Struggles' thinking on board dynamics, see Alice Breeden, David Hui, and Anne Lim O'Brien, *Future-Proofing Your Board*, Heidrick & Struggles, May 29, 2020, heidrick.com.

Snapshot of 2019 findings

New director
seats filled

50

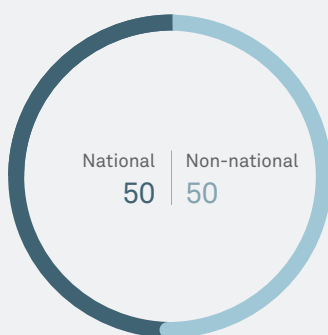
Gender
breakdown (%)



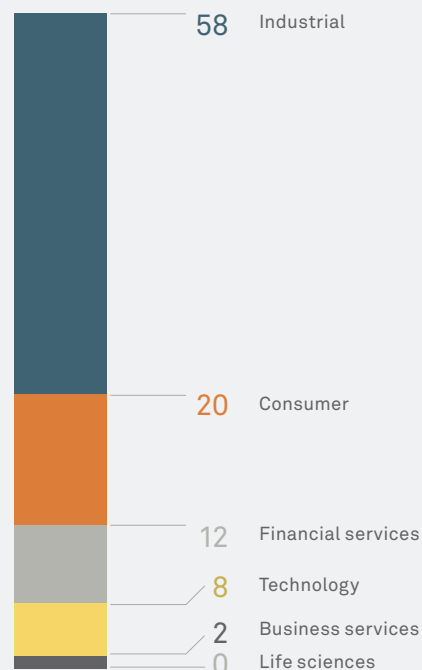
Average
age

60

Nationality
breakdown (%)



Board industry (%)

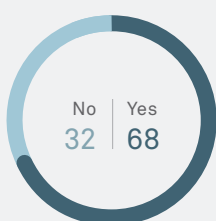


Work experience (%)

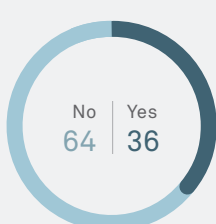
Active/retired
executives



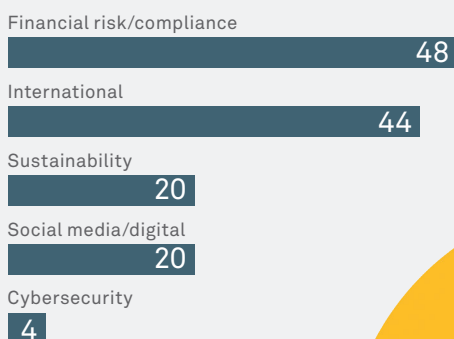
Prior public board
experience



Prior audit committee
experience



Other experience



In 2019, Canadian boards pursued gender diversity and financial, operational, and sustainability expertise

Our data show that, of the 50 seats filled on the boards of the TSX 60 last year, there was a strong preference for new directors with previous corporate governance experience, greater gender diversity, and financial, operational, and sustainability expertise. These three areas of expertise were notably more significant among new Canadian directors than among companies in other countries such as the United States and the United Kingdom.



Rising demand for financial and operational expertise, less for CEO experience

48%
2019 ▲

6%
2018

Forty-eight percent of seats filled went to directors with **financial risk and compliance expertise**, a substantial jump from only 6% in 2018, and higher than the proportion in the United States, at 12%.³

24%
2019 ▼

27%
2018

CFO experience remained the second most common area of functional expertise (behind CEO experience) among new directors—though it dropped three percentage points from 2018—with 24%, or 12 seats, going to people who are current or former CFOs.

34%
2019 ▼

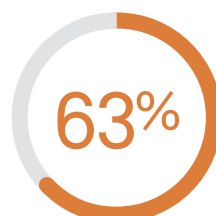
59%
2018

CEO experience dropped slightly in 2019 too: 17 seats, or 34%, went to current or former CEOs, compared to 59% in 2018. This is similar to trends in both the United States and the United Kingdom.

As boards simultaneously seek to become more diverse and to recruit directors with recent operational experience—and given that women and people of color often don't occupy the most senior C-suite roles at large organizations—we're seeing many companies finding new directors who haven't held a C-suite role but have managed a substantial P&L.



Of the director seats filled on Canadian boards, 19, or 38%, went to individuals who have **not had a C-suite role during their career**.



Of that group, 12, or 63%, have had **roles that oversaw a P&L**.

³ For more, see Heidrick & Struggles, *Board Monitor US 2020*, September 9, 2020, heidrick.com.

Progress for women as boards sought balance of diverse director appointments

Gender breakdown

52%
2019 ▲

32%
2018

Last year was a year of significant progress for the appointment of women to Canadian boards, with 26, or 52%, of the director seats filled going to women, up from 32% in 2018. For comparison, Fortune 500 companies in the United States had 44% of seats filled by women last year, and the figure is 51% for boards of the United Kingdom's FTSE 250.⁴

Nationality breakdown

50%
2019 ▲

46%
2018

Half, or 25, of the seats filled last year in Canada went to non-nationals, up four percentage points from 2018. In the United Kingdom, 40% of seats went to directors from other countries.

Continued reliance on previous board experience and notable interest in digital and sustainability experience

Prior public board experience

68%
2019 ▼

90%
2018

Corporate governance experience continued to be a priority for Canadian boards as they appointed new directors, with 34 seats, or 68%, last year going to those with previous public board experience. However, this is a notable drop from 2018, when the figure was 90%.

Prior audit committee experience

36%
2019

Audit committee experience does not seem to be as sought after as overall board experience—only 18 seats, or 36%, went to directors who have served on a public company audit committee.

Digital experience

20%
2019

40%
US

As digital becomes increasingly vital for companies, digital expertise continues to increase in importance for boards globally. Canadian boards filled 10 seats, or 20%, with directors with digital experience last year, lower than boards in the United States, which filled 40% of seats with people with digital expertise. This suggests that boards in Canada will need to put a higher priority on recruiting directors with this expertise to ensure their organizations' digital integration journeys maintain momentum.

Sustainability experience

20%
2019

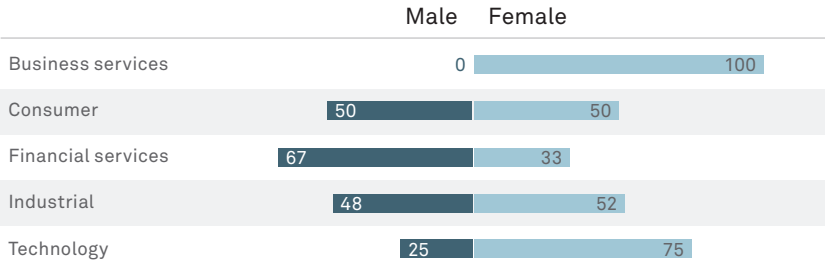
10%
US

Sustainability was another area of expertise boards put some priority on last year, with 10 seats, or 20%, going to directors with this experience. Canadian boards prioritized sustainability expertise far more than boards in other countries—the United States filled only 10% of its seats with directors with sustainability expertise last year. We see organizations across sectors in Canada playing a key leadership role in striving to positively affect local and global communities, and that building this competency on the board has the potential to become a distinctive competitive advantage.



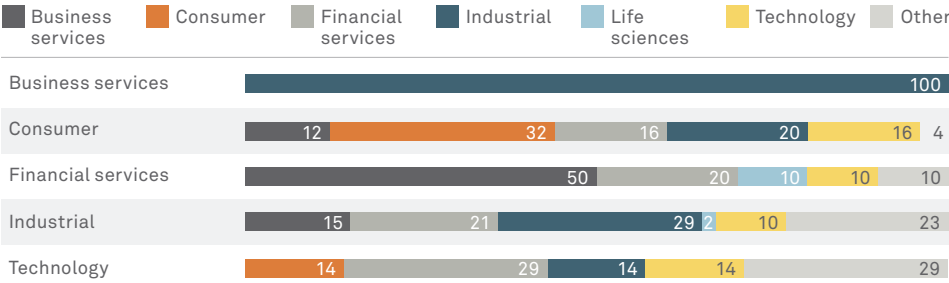
⁴ For more, see *Board Monitor Europe 2020*, forthcoming on heidrick.com.

Gender breakdown, by industry (%)

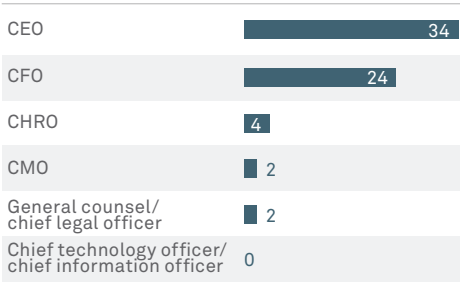


Total career experience (%)

Distribution of previous industry experience by industry



Function

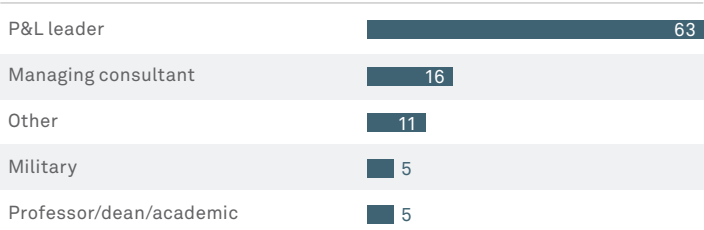


P&L roles (%)

C-suite functional role experience



Roles for those without C-suite functional experience



Looking ahead



We anticipate that the turmoil and challenges of 2020 will be reflected in board recruitment data we present in next year's report. As organizations seek stability and financial resilience, we expect to see continued interest in directors who have previous board experience and financial and operational expertise. We also expect a renewed interest in directors with experience in bankruptcies, restructuring, and capital markets to advise as companies seek increased liquidity.

However, we also anticipate areas of expertise tied to innovation and meeting broad stakeholder interests—such as digital and sustainability—to increase in importance. Perhaps most important, we expect a greater focus on racial and social diversity in board recruitment.

This mix of trusted experience, newer and specialized expertise, and diverse backgrounds will help companies rise to the economic and social challenges the next few years will bring.

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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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