

Board Monitor

Europe 2020

This year's report shows that corporate boards sought financial expertise and directors with international backgrounds last year, which should help companies navigate this year's economic and social volatility.



About Board Monitor

Produced by Heidrick & Struggles' CEO & Board Practice, Board Monitor tracks and analyzes trends in non-executive director appointments to European boards. 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 fourth consecutive year, in tracking the experience of new appointees, the report takes into account all of 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 colleagues for their contributions to this report:

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Welcome to Board Monitor Europe 2020

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Meeting growing expectations of boards



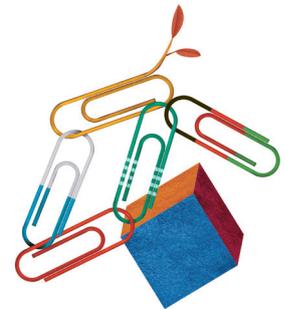
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Meeting growing expectations of boards

This year's Board Monitor explores the diversity of backgrounds and expertise of new directors added to corporate boards in 2019. As boards seek to help their companies reset in a time of severe economic and social disruption, these are the directors with the freshest perspectives.



In 2019, boards around the world were facing a range of competing expectations for the new members they would add in order to meet their ever-growing remit. 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, as well as to include significant diversity in terms of gender, racial and ethnic background, and national origin, among other characteristics. Beyond adding specific expertise, it's widely accepted that more diverse teams make better decisions.

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

in adding new members with new backgrounds and skills: from different countries and regions, functions, age groups, ethnicities, and genders. This increased diversity should help boards make better decisions, even though, due to COVID-19, the situation facing all companies is now radically different from when the new directors signed on.

However, most boards also continued to add a number of more traditional directors: people with prior board experience or prior experience as CEOs or CFOs. Though such directors don't as often add diversity in other areas, their experience may be particularly critical this year as many companies face more significant enterprise risk than ever before.

Most corporate boards in the countries we study made some progress in adding new members with new backgrounds and skills.

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.

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.
- 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 rebuild and recover in the aftermath of the pandemic, there will be many new opportunities for those best positioned to compete. In large part, that means building the most capable board tailored to each company's unique strategy.

Of course, simply ensuring a board has an appropriate mix of perspectives is just the start. To be properly mobilized to perform its work, 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. A key first step is inclusion in its broadest sense. Many boards think of inclusion particularly in

relation to their significant efforts to add diversity. But, particularly as they seek to oversee resetting their organizations for a radically uncertain world, boards will benefit most from ensuring that every board 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

That said, composition is crucial, and we believe, more than ever, that tracking where boards have been will provide the grounding to understand where they need to go to build the boards that can provide the greatest value for their companies.

In the following pages, you'll find the data and our observations on the 2019 class of directors at public companies in Belgium, France, Germany, Ireland, the Netherlands, Portugal, Spain, and the United Kingdom.³

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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.

³ Data for each country are taken from the BEL 20 (Belgium), CAC 40 (France), DAX 30 (Germany), ISEQ (Ireland), AEX 25 (Netherlands), PSI 20 (Portugal), IBEX 35 (Spain) and FTSE 350 (United Kingdom).

Snapshot of 2019 findings

Overview

New director seats filled

563



Average age

56



Current and former CEOs

35%



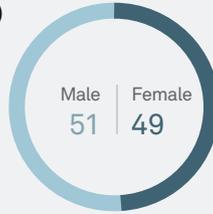
Current and former CFOs

15%



Diversity

Gender (%)



Active/retired executives (%)



Experience (%)

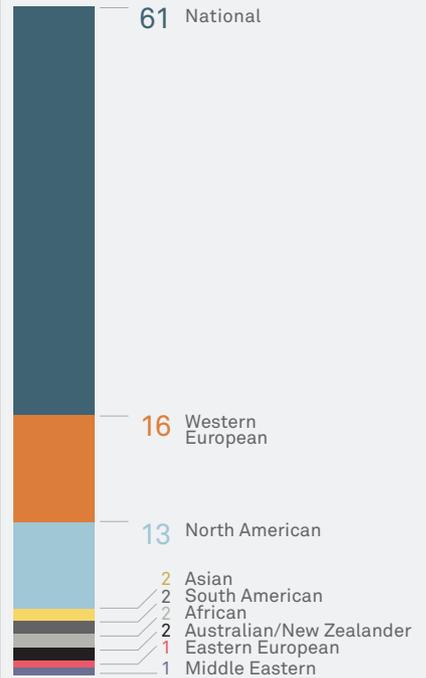


Nationality

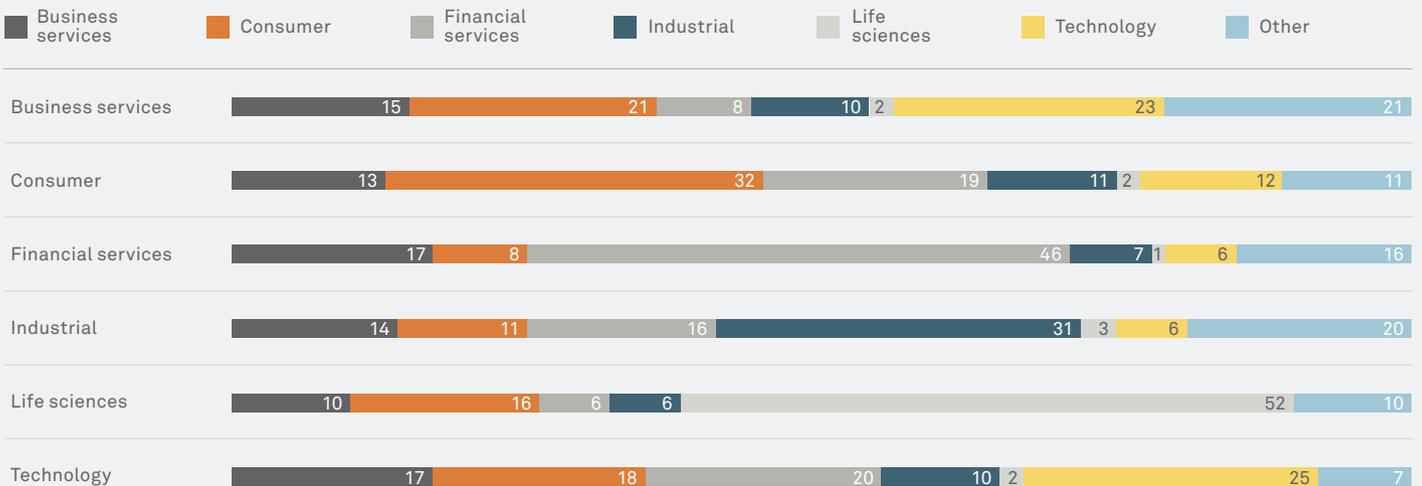
Nationality breakdown overview (%)



Nationality breakdown detail (%)



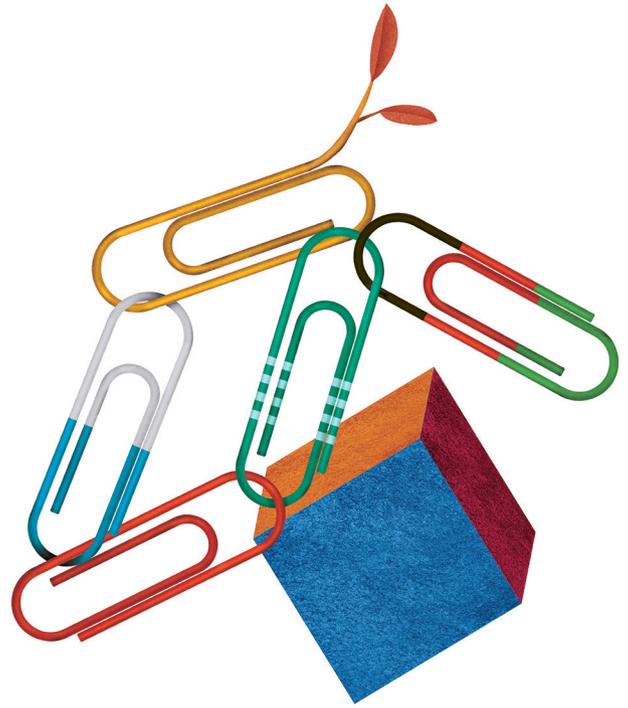
Distribution of previous industry experience, by industry (%)



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

Boards seek new directors who can help manage new risks

Across Europe, we noted boards taking a broader view of risk than ever before, increasingly recruiting new directors with risk mitigation in mind, and also taking a broader view of the competencies, skills, and experience they require to manage businesses in what was already an economically volatile and fast-changing environment.



A carefully constructed board comprising directors with skills and experience that align with the company’s strategy and anticipated challenges can significantly enhance the board’s ability to see around corners and identify both potential opportunities and pitfalls and offers the best chance for it to make good decisions in the face of unexpected events like those in the first half of 2020.

Financial expertise is most prevalent among new directors

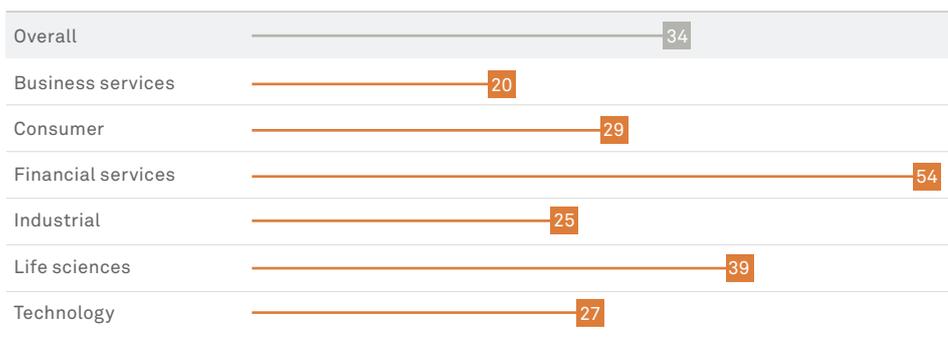
Experience across the financial services sector—including banking, insurance, private equity, and venture capital—is of the highest priority for European boards. Nearly half of director seats were filled by people from this sector, far exceeding any other.

Within the financial services sector itself, there was significant demand for non-executive directors with financial and compliance expertise who are able to navigate a new regulatory environment, including the disruption being caused

by Brexit. While there was some variation by country, 54% of new director seats in financial services—and 34% overall—were filled by those with such expertise, an increase of 25 percentage points since last year’s report.⁴

Financial experience is also playing a major role from a functional perspective: 15% of seats were filled by people with CFO experience, second only to the share filled by those with CEO experience. Particularly because the CFO role has become more strategically oriented at many companies, these people’s expertise is increasingly valuable for both financial oversight and risk oversight.⁵

Financial compliance experience, by industry (%)



⁴ Board Monitor Europe 2019, Heidrick & Struggles, September 29, 2019, heidrick.com.

⁵ For more on how CFOs have helped their companies manage through the COVID-19 crisis, see Jill Blackburn, Alyse D. Bodine, Susie Clements, and Steven Krupp, “CFO agility in the spotlight: Balancing current risk and future viability,” Heidrick & Struggles, June 9, 2020, heidrick.com.

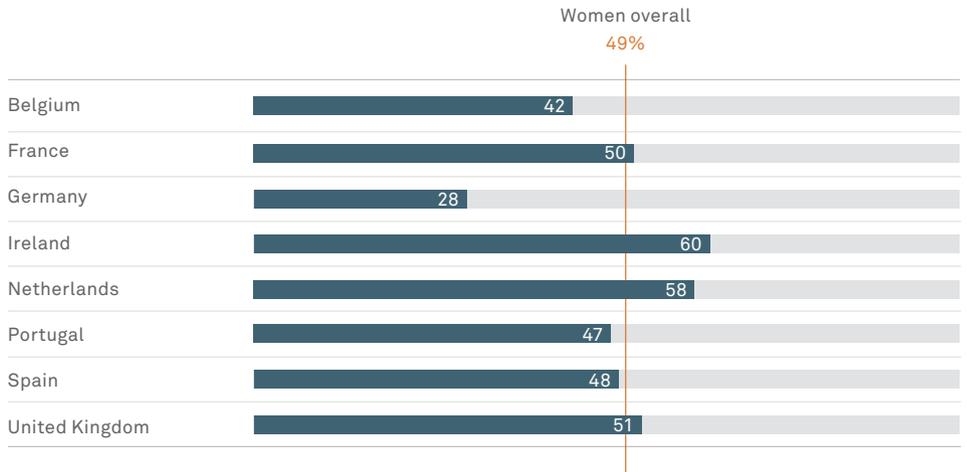
Continued strong demand for women on boards

Gender diversity, driven among European companies by many countries' quota requirements, continues to figure prominently among European board-recruiting goals.

With many individual countries' boards outperforming projected quota expectations and deadlines, half of new directors added to European boards last year were women. That represents the highest percentage since we began tracking this statistic, and well ahead of US boards, where women filled 44% of new seats.

Some years ago, boards frequently cited a scarcity of women director candidates as a reason for slow progress. But now, these data show that boards are finding a sufficiently large pool when their search is properly targeted. That means looking for less-visible candidates a level or two down in their organizations and likely younger, but with significant operating experience running smaller companies or large units of bigger companies. Boards simply must be willing to remain flexible and look beyond their customary parameters.

New director seats filled by women, by country (%)



Half of new directors added to European boards last year were women.

Betting on less-traditional directors

Until recently, both CEO and board experience were unshakable criteria for new director searches. But boards are now seeing the competitive need to add directors who can provide deeper, alternative insights into the new challenges companies are facing.

A third of these newly added directors have broad P&L experience that can

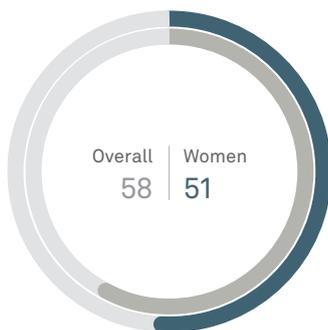
serve as a proxy for CEO experience; others come from fields as wide-ranging as management consulting, academia, private equity, and venture capital.

In addition, the requirement of prior board experience, which has long been a staple for director candidates, has been considerably relaxed. While 66% of new directors do have this experience, that percentage is down from a high of 76% in 2016.

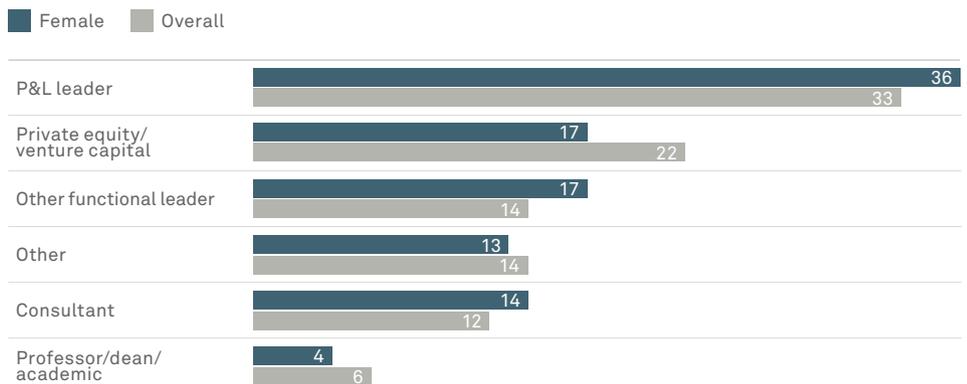
Finally, European boards are steadily filling seats with new directors from countries other than the one where the company is headquartered: 39% in 2019 were non-nationals. This is one trend we expect to see strengthened in 2020 because the remote-working environment boards must now operate in has made geographic distance a non-issue and therefore greatly expanded the pool of candidates for boards seeking any kind of expertise or diversity.

Executive experience of new directors (%)

C-suite functional role experience



Roles for those without C-suite functional experience



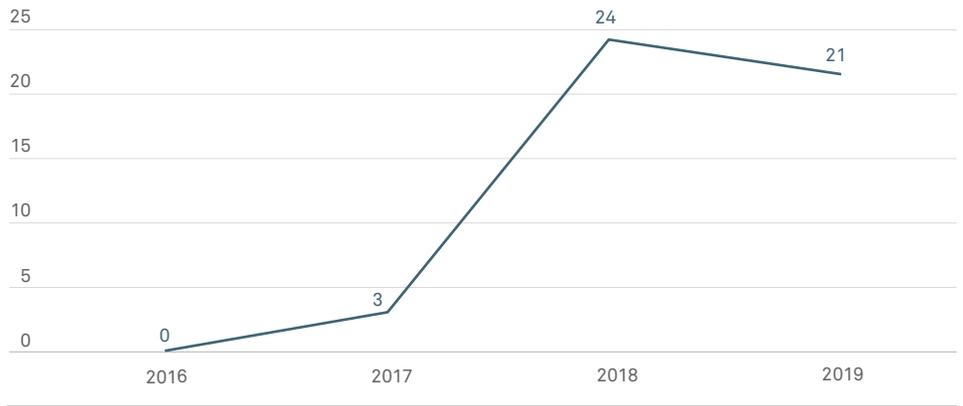
Note: Numbers may not sum to 100%, because of rounding.

Managing risk may have crowded out other strategic expertise

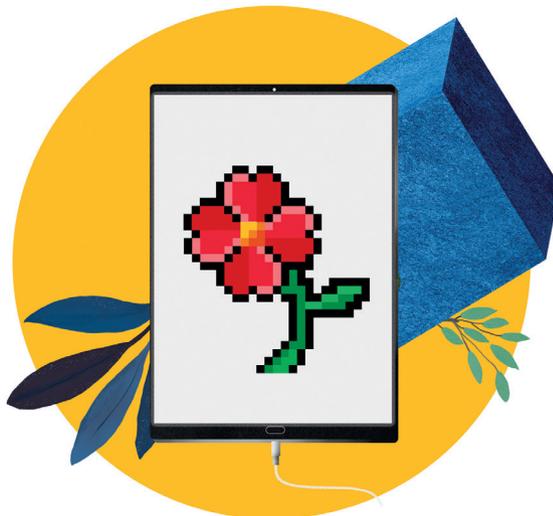
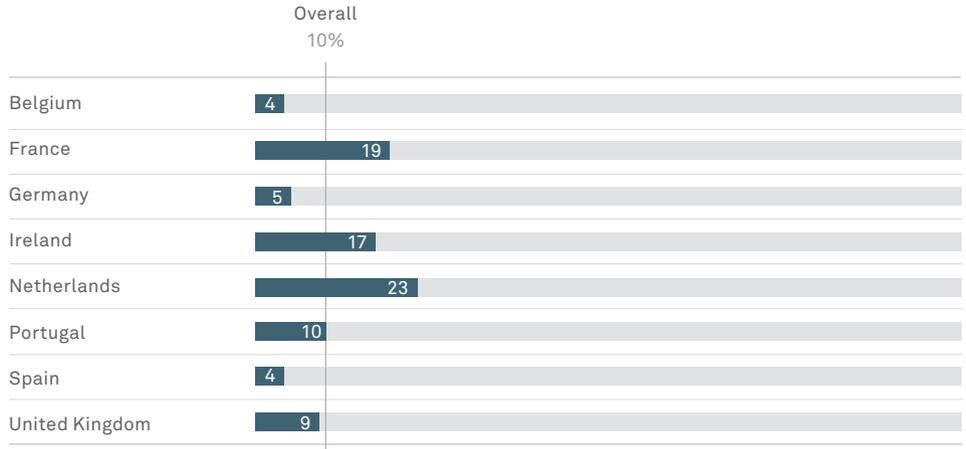
Though boards did increasingly seek non-traditional expertise, one area of expertise in which the data show a little backsliding in 2019 is digital. Such directors can provide significant value by ensuring a successful digital strategy that complements the overall company strategy as well as overseeing management charged with executing that strategy. Digital expertise was considered crucial to business in 2019 and has become only more so in a world overshadowed by a pandemic. However, less than a quarter of the seats filled on European boards last year went to people with this expertise, slightly lower than the figure in 2018.

Similarly, sustainability—which has long been a priority for many companies in Europe and their stakeholders—is nonetheless not at the top of the criteria list for new directors. While there was some variation by country, overall, only 10% of new board seats went to those with sustainability experience.

Digital experience over time (%)

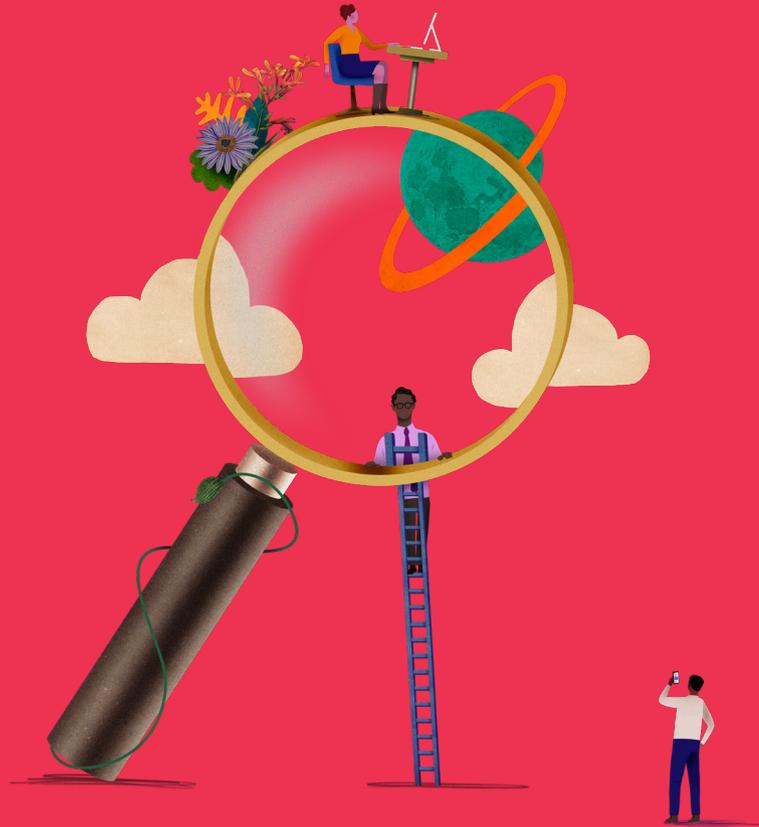


Sustainability experience across countries (%)



Less than a quarter of the seats filled on European boards last year went to people with digital expertise.

Looking ahead



Based on what we are currently hearing, we expect the new directors added to European boards in 2020 will even more often be mature executives who have successfully led organizations through turbulent times. Though that doesn't mean diversity in terms of personal identity or professional expertise is less of a priority, it may well be an unintended casualty, at least for the short term, as digital appears to have been in 2019.

However, we do expect that boards will continue to recruit directors with the specific expertise they believe will help guide them successfully through this highly uncertain, challenging period. That includes adding directors with experience in enterprise transformation and change management. With many companies more vulnerable to activists,

we also anticipate that companies will be adding experienced independent directors able to take an activist lens and shore up weaknesses as needed.

Moreover, in the current environment, boards will continue to seek highly specific financial skill sets, including those related to cash management, liquidity, and restructuring. From a functional standpoint, boards will continue to recruit broad-based CFOs with proven track records and a breadth of skills that have made them valued partners to their CEO.

In short, boards will need to be thoughtful in adding to their ranks the specific mix of skills and experience that will enable their companies to weather the current crisis and reset for resilience, whatever the future may hold.

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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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