GLOBAL CORPORATE GOVERNANCE REVIEW 2022

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EDITORIAL

Corporate governance: going beyond diversity

In a time when governance makes headlines almost everywhere, companies' actions are scrutinized by employees, consumers, and shareholders alike. As for board members and the organizations they stand for, they have come to the realization that in order to understand their customers and their era, they must reflect the society they live in.

One could argue that this ever-growing set of criteria calls for a redefining of governance itself, and how it is relevant to current organizations, their executives and their administrators.

The Cambridge Dictionary offers a straightforward definition: governance is "the way that organizations or countries are managed at the highest level, and the systems for doing this." The concept, however, goes much further today, to include questions of responsibility, inclusiveness, and transparency; the way companies and their ecosystems interact, and the impact they leave on society as a whole.

The question might therefore be rephrased as: **what is good governance?**

The answer can be found in the ongoing conversation between companies, executives, boards, customers, employees, stakeholders, regulators, etc. It strikes a delicate balance between culture, context, and strategy.

Accountability, risk management, financial oversight, as well as environmental and social commitments: these represent the moving parts that directors and executives must manage for their companies to thrive in the current environment.

One thing remains certain: gone are the days of the "old boys' network" and opaque, hierarchical boards of directors. Boards' scope and competences exceed mere financial and strategic oversight. Now they encompass such topics as innovation, HR and hiring, public relations, and matters relating to diversity, the environment, society, and governance (ESG).

CEOs are part of this shift towards more open and transparent practices: aware that a company's success depends also on a successful board, they are moving towards greater collaboration with their directors.

This blurring of boundaries between the C-Suite and the board represents an emerging trend that should be closely monitored. Independence grows more important than ever for board members in order to ensure healthy relationships, guaranteeing accountability and transparency at all levels.

The present study aims to show the headway made in these regards – and explore new avenues for progress and development.

We hope you find it enlightening, and we wish you a pleasant read.

Julien Rozet

CEO, Alexander Hughes

Executive Summary

Governance is evolving. The emergence of diversity, responsibility, and sustainability questions, added to a rapidly changing labor market and growing demands for transparency from the public, customers, and shareholders are pushing companies to implement new accountability policies and strategies.

As a monitoring and governing body, boards of directors are bound to reflect the same evolution as the organizations they represent.

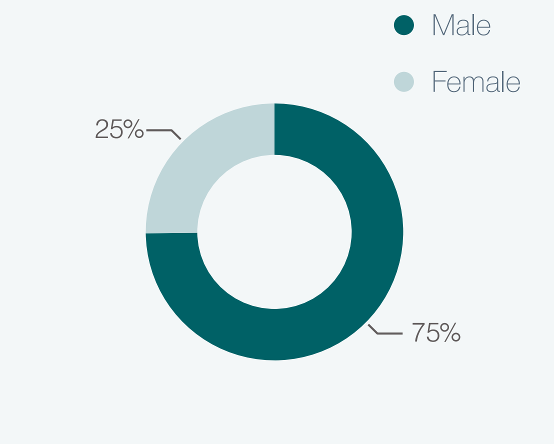
This study aims to show the progress and margin for improvement of those policies. Surveying over 8.800 board members and more than 10.500 persons in the leadership teams of 1.100 companies in more than 27 countries throughout the world, it examines criteria such as gender, age, independence, tenure, promotion, and leadership in order to present a clear and current snapshot of governance as it stands today.

Our study focuses on the challenges stemming from these new forms of governance, and on the possible ways to meet them. It also explores potential ways to meet these challenges and improve current practices on boards as well as in the C-suite.

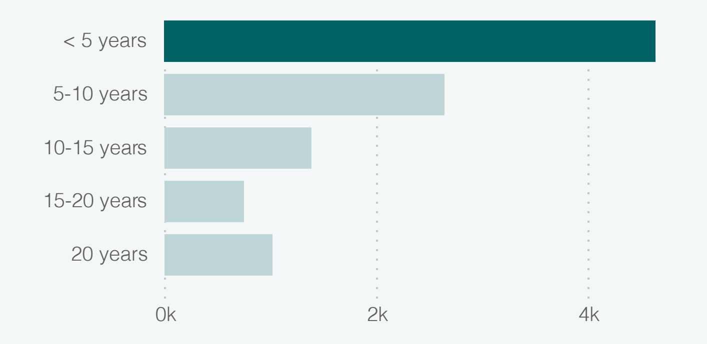
Evidence is demonstrating that diversity, responsibility, and accountability are better for companies' bottom lines. Given the considerable shifts in human resources, digitalization, consumer habits, and stakeholders' requirements, the need for different governance should lie at the heart of executives' and board members' concerns today.

Boards of directors throughout the world: a situational analysis in 2022

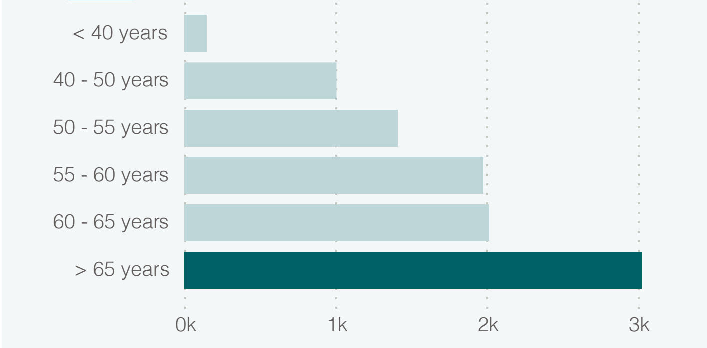
GENDER



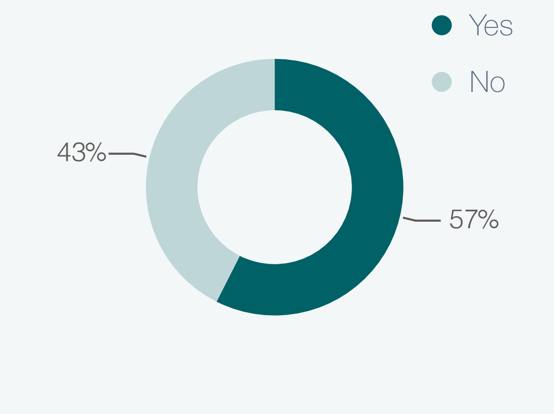
TENURE



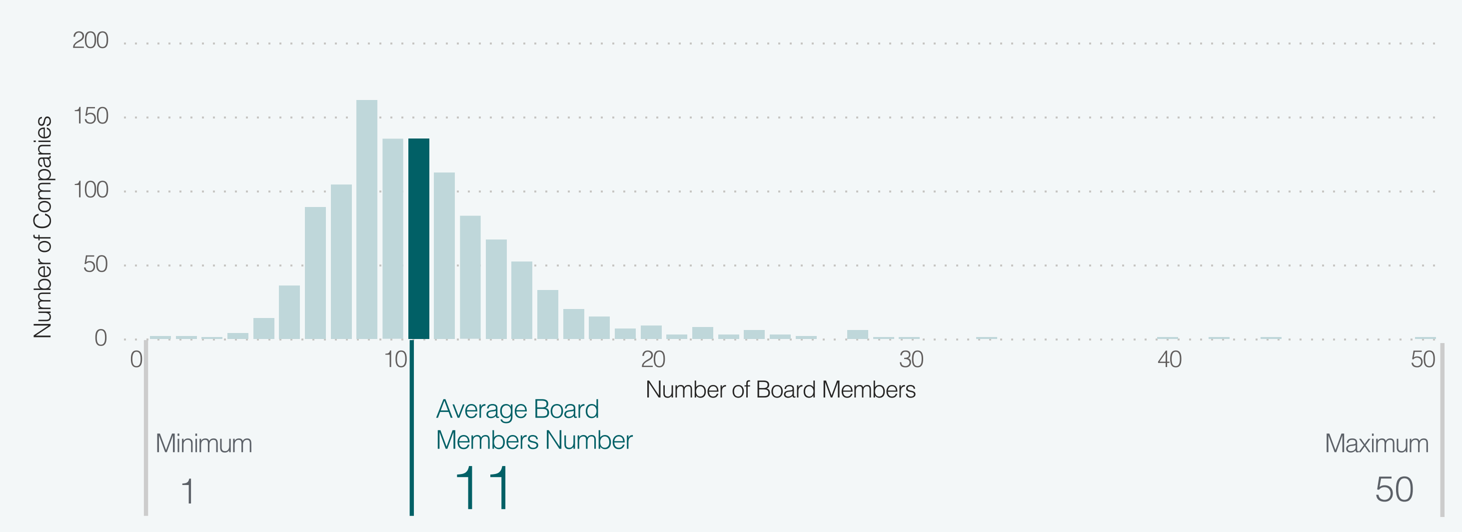
AGE



INDEPENDENCE



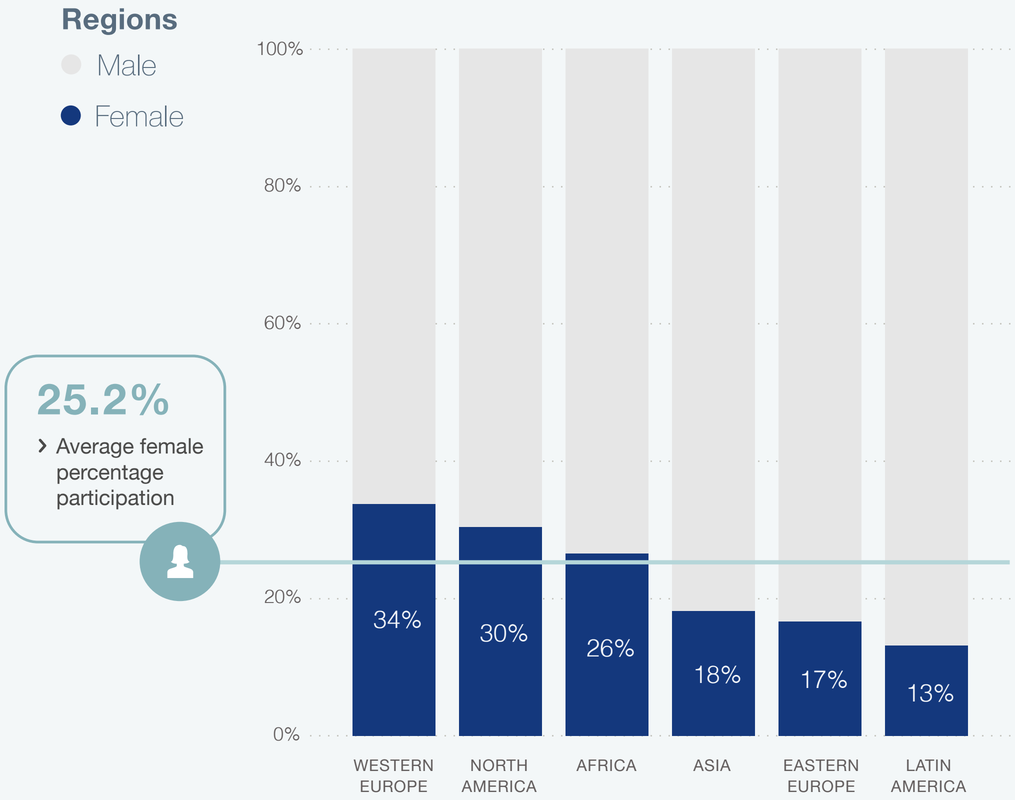
NUMBER OF BOARD MEMBERS



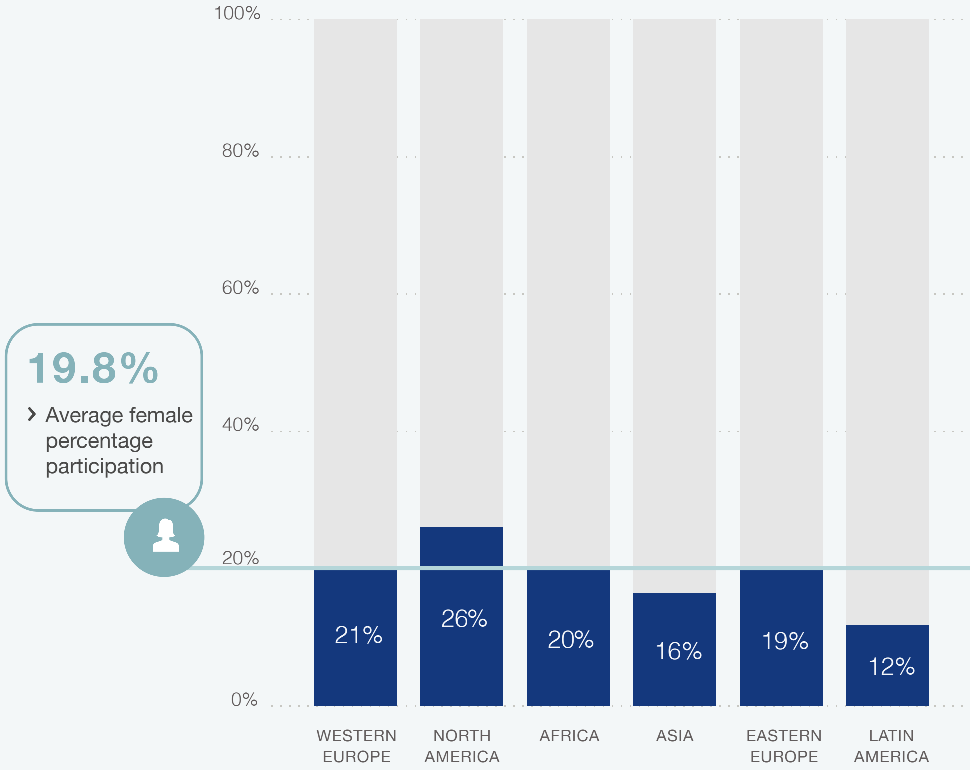
1. Diversity

Gender is the tip of the diversity iceberg: long-established and often more visible than other kinds of inclusivity, it reveals, however, that total gender equality has yet to be reached in boards – and even more particularly, in leadership teams – throughout the world.

GENDER DIVERSITY - BOARD MEMBERS



GENDER DIVERSITY - LEADERSHIP TEAM

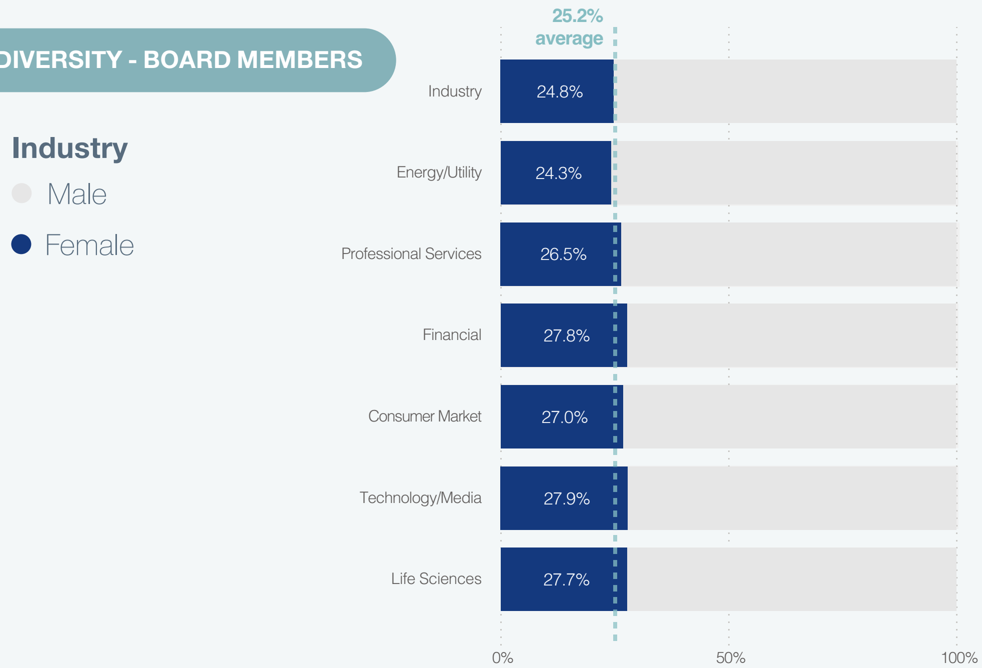


Of all the diversity measures, **gender inclusivity is the most visible – and allows the most perspective**, as gender diversity policies have been implemented for a long time, including for boards, in some regions of the world (specific policies can be dated back to the 1940s in the USA, 1957 in the European Union).

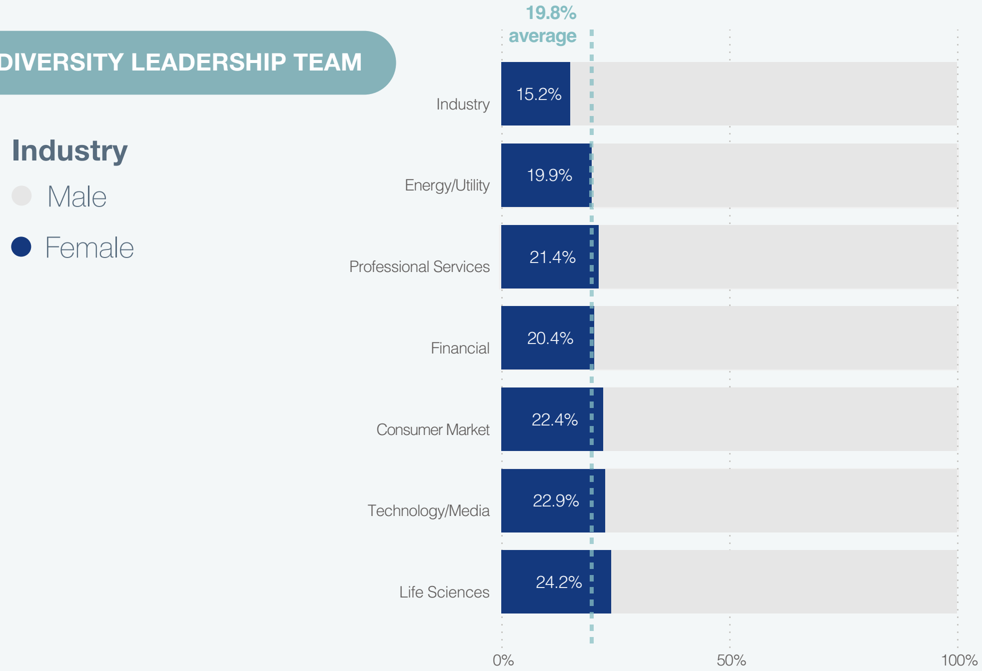
Our study shows that boards now include an average of 25% female participation, with wide disparities depending on geography: Western Europe and North America are in the lead with 34% and 30% respectively – no doubt thanks to their well-established gender diversity policies. While Eastern Europe (17%) and Latin America (13%) lag far behind, Africa represents a notable exception, with **26% female participation in boards**, possibly due to active policy choices in the matter.

One can also note differences between sectors: the **life sciences, technology, media, consumer market, and financial sectors are the most diverse**, with 27-28% female participation on average; the energy/utility sector comes out last, at 25%. This could be due to a lack of perception of the advantages that accrue to diversity in boards, since women are not the core target in these sectors, or indeed in the industry sector overall, where female participation reaches 25%.

GENDER DIVERSITY - BOARD MEMBERS



GENDER DIVERSITY LEADERSHIP TEAM



FOCUS

Diversity does not just "happen"

All the elements are there: you have women on your board, members with diversified profiles, a good age balance, a healthy mix of experience and drive... Now what?

According to a 2020 McKinsey study, companies that implemented a comprehensive diversity policy improved their performance overall. On gender diversity, for instance, the more balanced executive teams were 25% more likely to show above-average profitability than their less inclusive peers, and such positive figures can be seen across the board – on gender but also on age, ethnicity, etc.

Such results do not simply "happen", however. As demonstrated by Daan van Knippenberg, Lisa H. Niishi and David J.G. Dwertmann, writing for the Behavioral Science & Policy Association, diversity policies need concrete follow-through to be efficient and actually benefit companies.

Systemic and concrete action – rather than artificial and piecemeal measures – must be seamlessly integrated into existing processes to ensure decisive synergy. Boards can have a vital impact in this ongoing effort by taking the necessary time to integrate diverse perspectives, ensuring teams are aware and active in the process, providing support and demanding accountability at every level of the company...

Boards should look to their own practices as well as challenge leadership teams about the rigorous application of a proactive diversity policy in their company. In a time when consumers, the public, and investors themselves are increasingly vocal in their demands for inclusiveness, transparency, and responsibility, this role represents a challenge that boards must fully embrace.

QUOTAS

Fast-track to equality

To help advance diversity, legislators have imposed quotas – such as the Rixain act, promulgated in December 2021 in France, and imposing 30% women among executives and leadership teams in companies with 1.000 employees or more by 2027 (reaching 40% by 2030) .

80 countries around the world have implemented such measures, and figures show that this approach helps advancing the cause: as our own study demonstrates, female participation in countries where quotas are imposed averages 33.8%, while the number of female board members remains limited to 22.9% in countries without quotas in place.

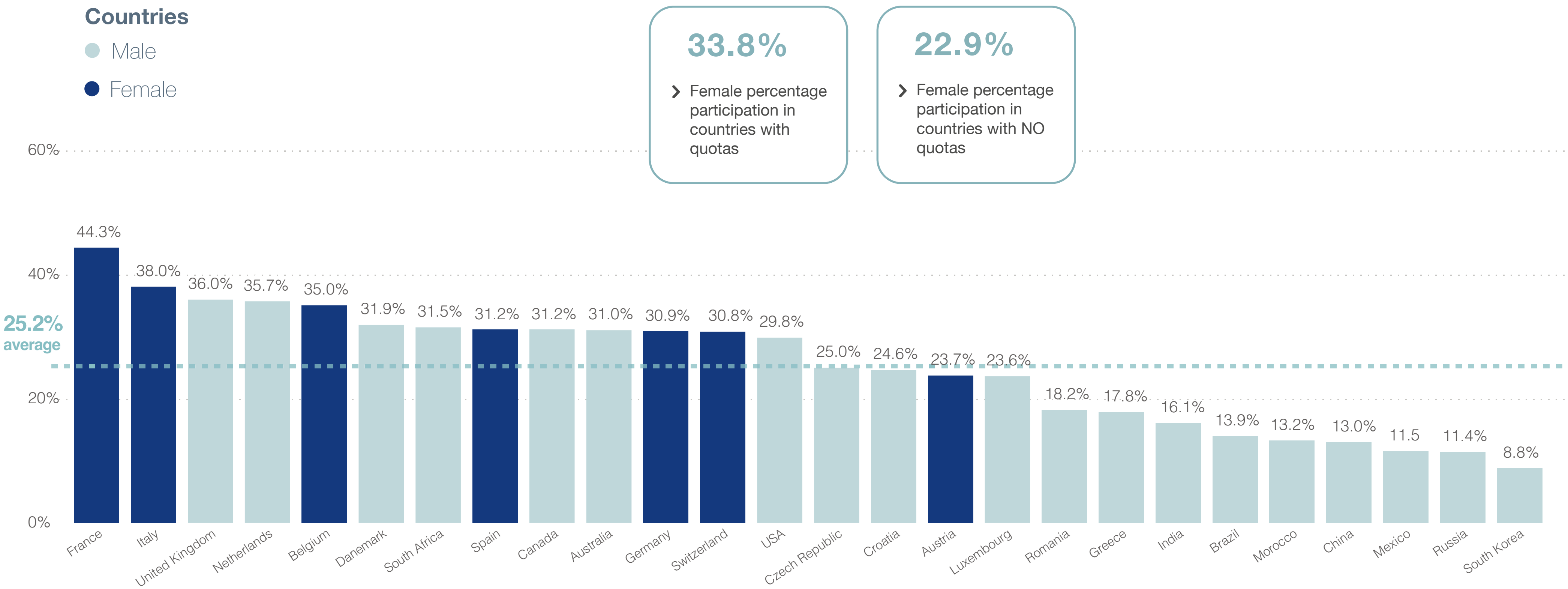
GENDER DIVERSITY - BOARD MEMBERS

33.8%

> Female percentage participation in countries with quotas

22.9%

> Female percentage participation in countries with NO quotas



2. Age

A balanced board, in terms of age, can be delicate to achieve. It is impossible to do without experienced members, bringing essential stability and maturity, but fresh ideas and flexibility have become more necessary than ever – and younger generations are crucial in this regard.

Boards are older than their executive teams, as our study shows: **the average age in boards is 60.3**, whereas **leadership is 53.8 years** (with the exception of Eastern Europe and Africa, where the difference between leadership teams and boards reaches just 5-7 years).

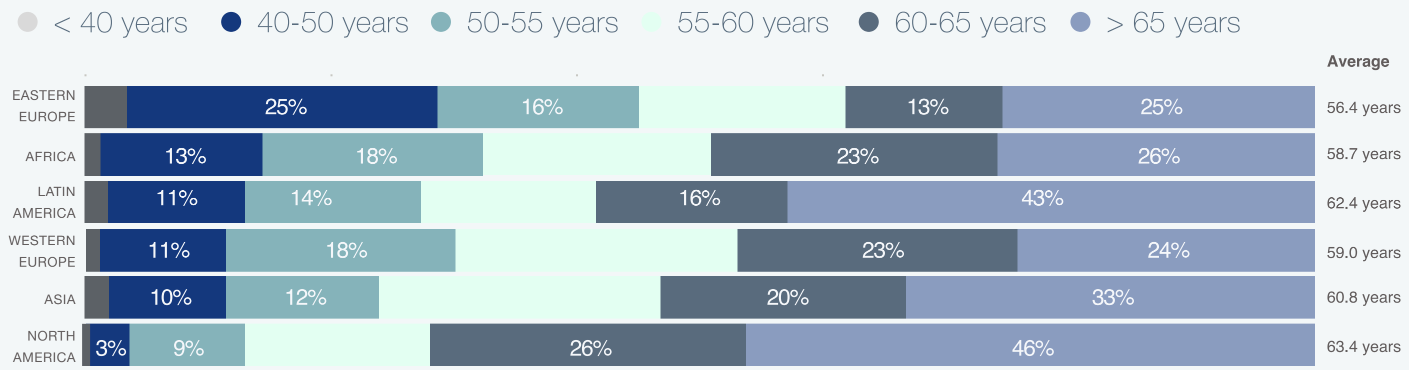
This ten-year gap can be explained in terms of profile, as board members tend to be more experienced individuals, closer to retirement or already retired.

60.3 › BOARDS AVERAGE AGE

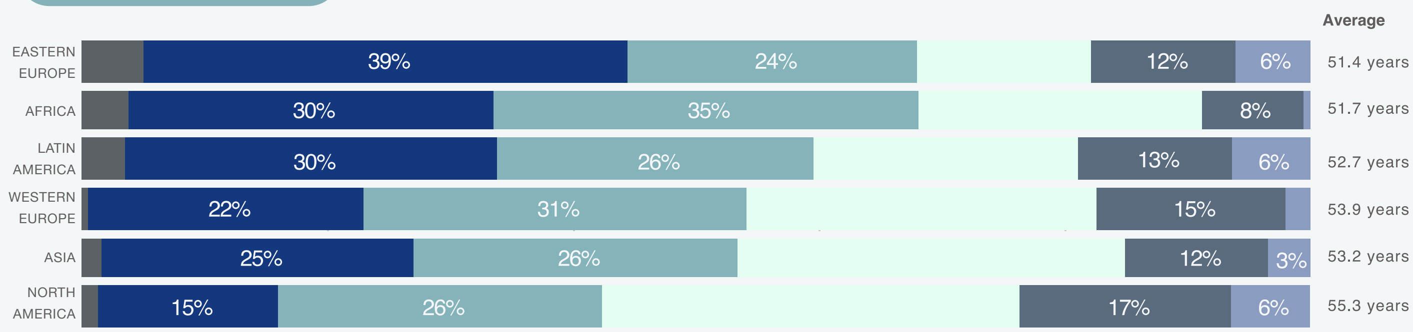
53.8 › LEADERSHIP AVERAGE AGE

SENIORITY - BOARD

Age by region



SENIORITY - LEADER

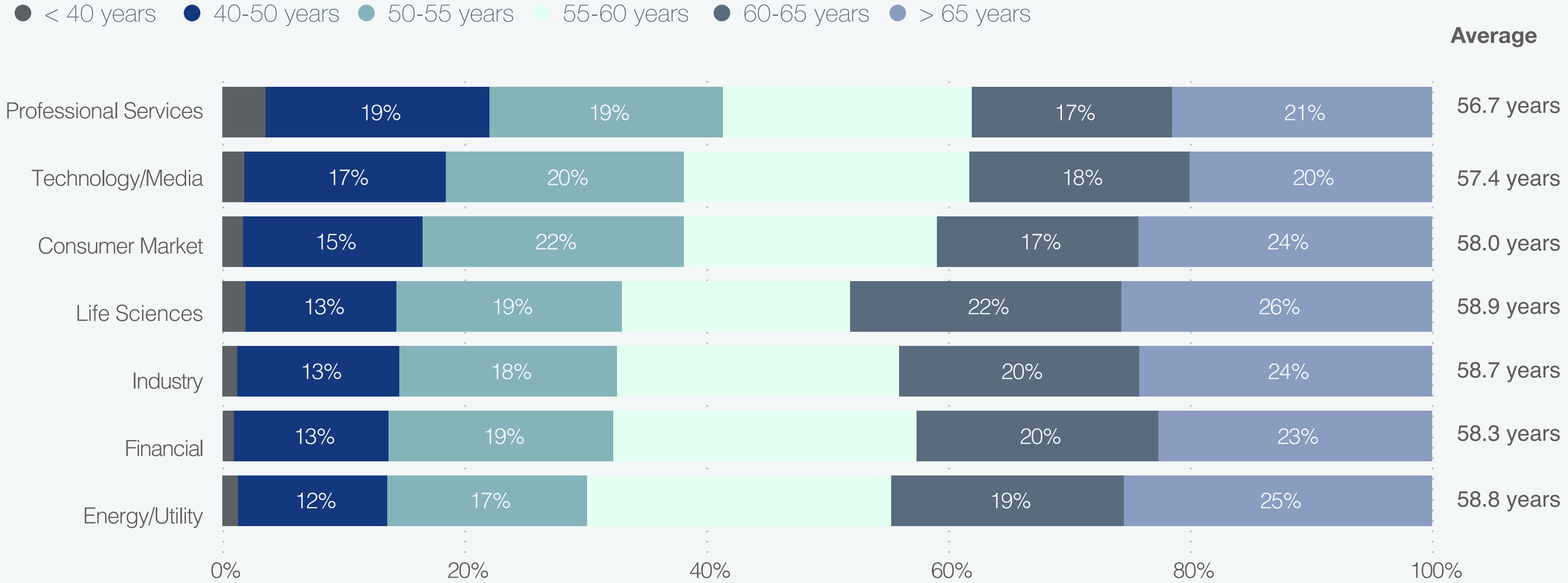


In terms of sectors, there is an interesting parallel to be made with gender parity. "Traditional" sectors with fewer women in the mix – such as energy and industry – tend to have slightly older boards (60 years and over) and leadership teams. Sectors that are perceived as more progressive (consumer markets, technology, professional services) are closer to an average age of 59 years.

Age also poses an interesting question in terms of inclusivity: while rejuvenating boards and leadership teams is necessary, ageism must be avoided – if only because, for demographic and societal reasons, careers are getting longer and retirement age is increasing, thereby raising the number of seniors in the workforce.

SENIORITY - ALL

Age by sector



FOCUS

Is new blood a necessity?

Two simple figures: 63%, the percentage of the world's population under 40 … and 60.3, the average age of board members, according to our study. Why is this an issue, and how can it be addressed?

Age in the workplace is a thorny subject, surrounded by many prejudices, and boards are no exception in the matter. However, the topic needs to be addressed urgently, for several reasons. Some are purely demographic: the "baby-boomer" generation is starting to retire, which will automatically leave a vacuum to be filled. There is also the fact that in many boards, an age limit is imposed, thereby accelerating renewal.

Moreover, an academic paper by Elena Chatzopoulo and Adrian de Kiewiet describes millennials as "the largest and most ethical generation": if companies want to cater to this vast pool of consumers and investors – and remain attractive to new talent in a time of profound shifts on the labor market and in the workplace –, they must understand their needs, aspirations and demands.

As new criteria for good governance are emerging in terms of environment, social responsibility, accountability, including representatives of the younger generation on boards simply seems to make good business sense.

More in touch with millennial consumers and often more receptive to weak signals indicative of emerging trends, younger members can bring a crucial input in terms of innovation, product and brand positioning, and emotional appeal. In a time when 84% of executives think innovation is an important element for growth, and 80% believe their business model is at risk (according to a McKinsey study) younger members can bring fresh ideas to the table, increasing creativity and flexibility throughout the board.

An "age-balanced" board – with a proper synergy of experience, flexibility, and in-depth training – is simply better placed to progress in this ever-evolving environment.

As stated by Adolph Cruz, Managing Partner at Alexander Hughes Mexico,

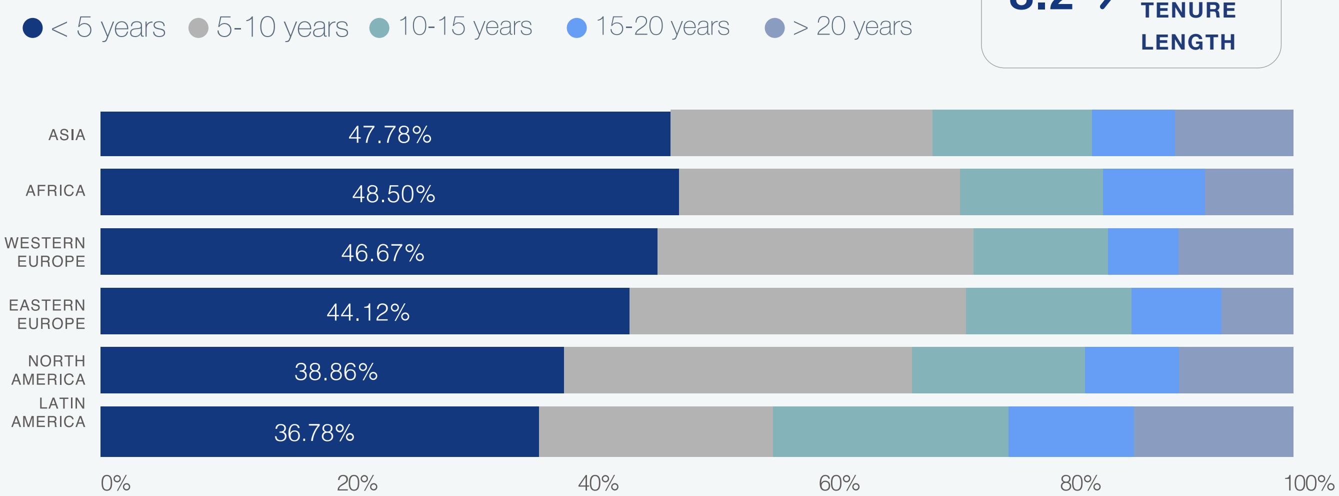
"it is all a question of balance. Older members should be valued for their experience, especially in terms of management and financial decision-making, while younger members are good with new ideas and strategies. They are complementary, even though they might not necessarily see it that way."

3. Tenure

How long do members stay on a board? Our study shows that tenure lasts an average length of 8,2 years, with considerable variation according to regions and sectors.

TENURE - BOARD MEMBERS

8.2 › AVERAGE TENURE LENGTH



Asia and Africa feature among the more “mobile” zones, with shorter tenure periods: **almost half (47.78% for Asia and 48.5% for Africa) of board members surveyed have been on the board for 5 years or less.** Northern America and Latin America show longer tenure, for legal and structural reasons.

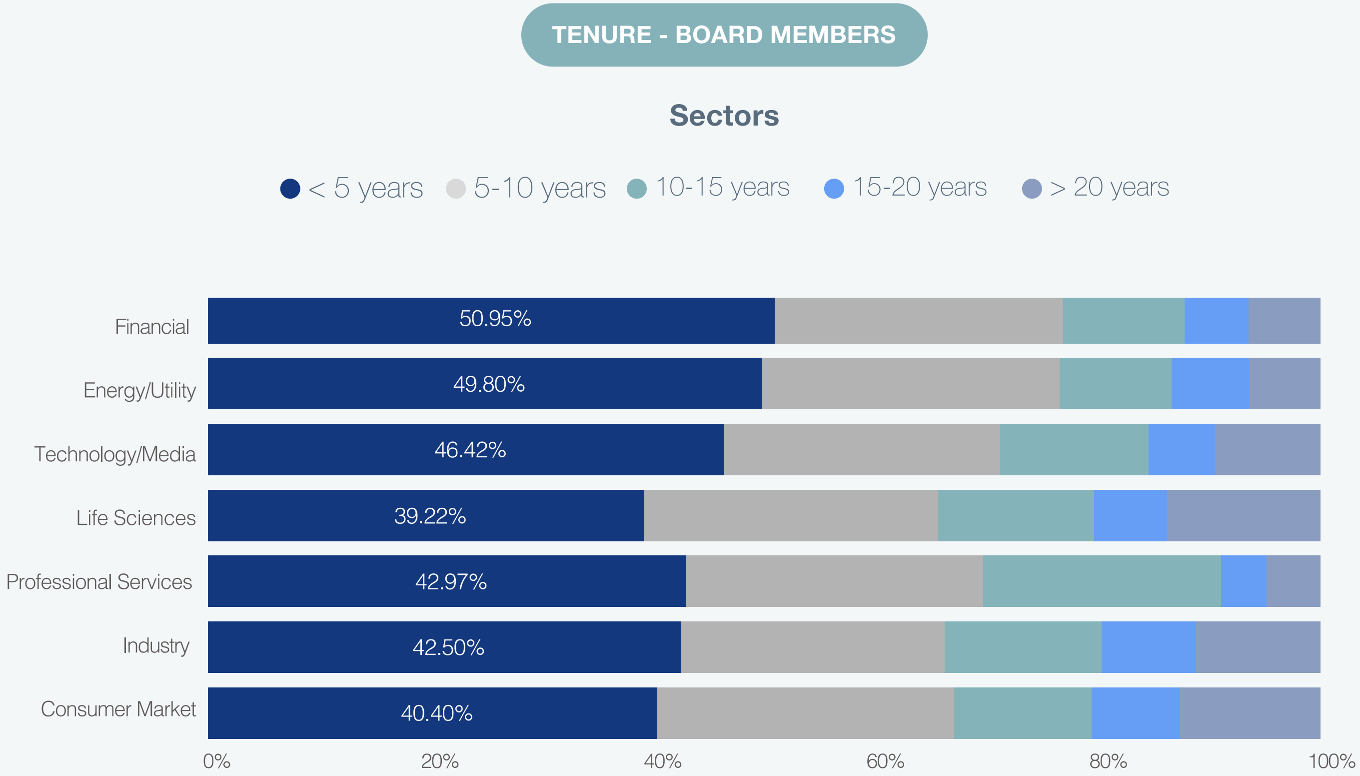
Some broad differences can be explained in terms of sector activity. For example, only 39.22% of board members in life sciences have a tenure of 5 years or less, versus 50.95% in the financial sector. As discussed by Peter Dolan, Head of Board Services Alexander Hughes:

“Longer tenures are good for business models with a 3-5 years visibility, within businesses that do not risk disruption via new competitors, technologies and skills – for instance sectors like life sciences, consumer market, industry… They are also better adapted to companies where shareholders do not expect results every quarter – e.g., family-owned businesses.”

Shorter tenure, on the other hand, is good for blue chip companies, where board members are more numerous and renewal is therefore needed more often. It is also more adapted to firms operating in sectors such as technology, finance, or energy, among others, where the business cycle is often shorter due to innovations and/or crises (geopolitical, financial, economic…).

CEO turnover also has an influence on board tenure, adds Peter Dolan:

"CEOs now have shorter tenure themselves; it makes sense, therefore, that boards should accompany the new team with new blood, while maintaining a constructive dialogue with the existing members for strategic continuity and coherence."



FOCUS

A shift to the horizontal

Today, new forms of governance fostering deeper, broader, and more varied skill sets are emerging from the old closed, vertical, hierarchical vision. Board members have a vital part to play in this shift towards a network-based management: they should seize this opportunity to make their tenure a more horizontal operation, taking full advantage of their existing contacts and ecosystems.

A quick review of management and governance literature shows that the traditional, hierarchical, "top down" approach is being challenged increasingly. Among the emerging contenders is network governance – a more horizontal form of management, relying on informal networks to mobilize and catalyze a broader range of resources.

A study by Keith G. Provan and Patrick Kenis, published in the Journal of Public Administration Research & Theory, argues that

"the advantages of network coordination in both public and private sectors are considerable, including enhanced learning, more efficient use of resources, increased capacity to plan for and address complex problems, greater competitiveness, and better services for clients and customer."

Now that companies are facing ever-greater scrutiny in an increasing number of fields requiring broader skills and knowledge (such as extra-financial vigilance, ESG challenges, responsibility, etc.), it would make sense for boards to take advantage of their own extensive networks and contacts – thus deepening their corporate pool of competence and making it more efficient, while accelerating the shift away from the current vertical approach. Tenure length has an essential role in this transformation, as it provides board members with the time to diversify and expand their networks.

As summed up in the paper "Board of Directors Network Centrality and Environmental, Social and Governance (ESG) Performance", by Marteno A. Harjoto and Yan Wang,

"board networks [...] have positive influence on firms' environmental, social and governance performance."

4. Internal Promotion

Promotion depends on many factors. Our survey shows that the situation is different for men and women, and that proportion varies widely as employees advance in age and career.

Internal talent is a major pool for promotion: 65% of leadership team members were promoted internally, proving that the internal mechanisms for advancement are indeed working.

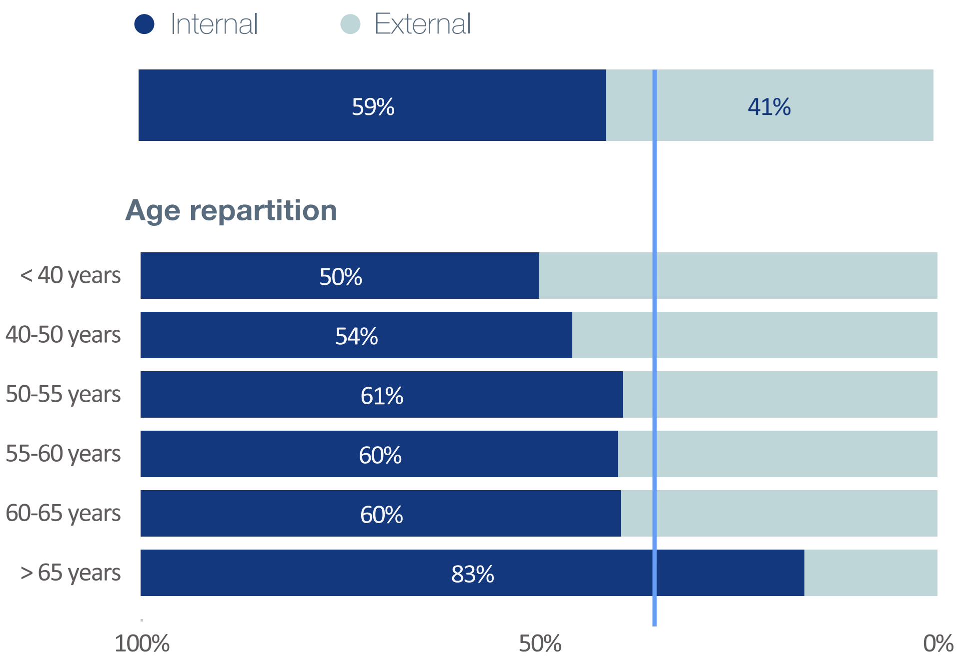
65% > EMPLOYEES PERCENTAGE PROMOTION

INTERNAL PROMOTION - LEADERSHIP TEAM

Overall, our figures show that men seem to be receiving more promotions, internally, than women (65% and 59% respectively).

This could be explained, in part, by the “broken rung theory”: contrary to the well-known “glass ceiling effect”, the “broken rung” prevents women from progressing in an organization early on. This effect is reversed once women reach 65 years: our study shows 71% of men get promoted once they reach this age, against 83% of women.

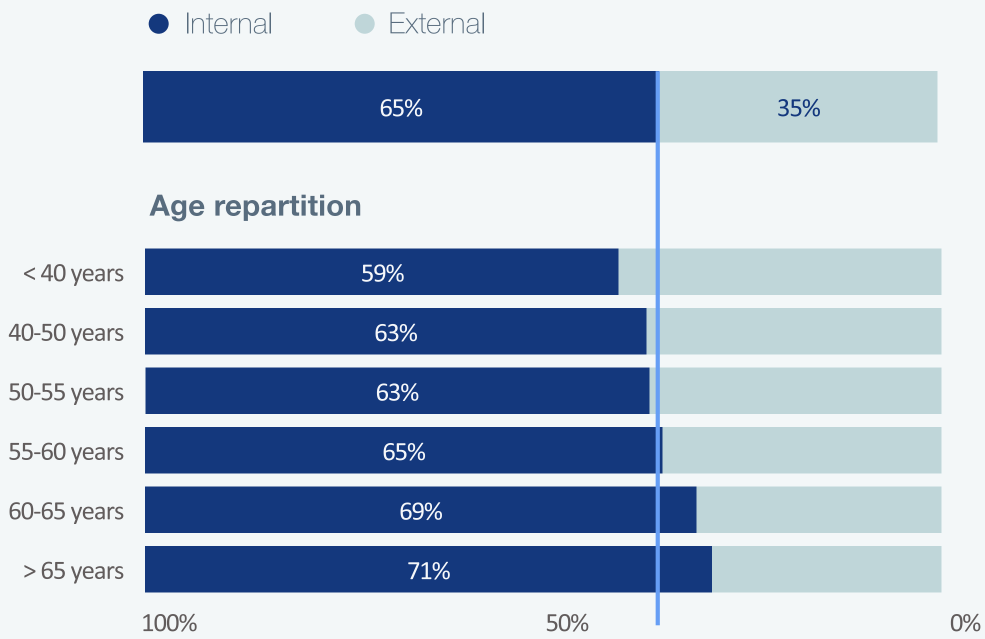
INTERNAL PROMOTION - LEADERSHIP TEAM - WOMEN



There are larger factors at play, however. Since we are, historically, in a context where women are still a minority within leadership teams, internal promotion mechanisms cannot function properly, for lack of candidates. Managers and boards are forced to looked elsewhere for feminine talent, as our figures show: 41% of women leaders come from outside the company, against 35% for men.

If the current trends towards gender equality continue to improve, however, this imbalance should, gradually, correct itself.

INTERNAL PROMOTION - LEADERSHIP TEAM - MEN



FOCUS

Diving into the talent pool

In the time of the "Great Resignation", managers have ever-greater difficulties in hiring and retaining their key employees. It is therefore essential that boards of directors start taking a deeper interest in talent management.

A survey by Allianz puts a shortage of skilled workforce among the Top 10 threats to business in 2022. Boards are traditionally in charge of hiring (and firing, when necessary) senior executives, but the "reshuffle" currently taking place in the workforce should make them rethink and readjust their human resources strategy.

In the absence of a plan to identify and develop existing talent within the firm, a company might lose the ability to evolve and innovate. Boards should therefore pay close attention to where the organization is in the business cycle, identify any areas of weakness, and help leadership consolidate these areas.

In addition to their current oversight responsibilities, boards have an important role to play in anticipating future talent needs. Their vantage position – one step removed from day-to-day operations – allows boards to pinpoint gaps that will need to be filled in the near future.

There are several steps that can be taken to make sure leadership teams build a strong and mobile talent pool within the company: reviewing the team make-up, asking the right – and sometimes difficult – questions of the HR department, making sure that leadership is constantly assessing its internal strengths and weaknesses so as to better take advantage of the former and address the latter.

All this is fully in the board's remit: after all, what use is the best business strategy in the world, if there is not enough talent to put it in place?

FOCUS

Money talks...

Inclusivity policies are necessary, but not easy to implement; they can have negative impacts, hindering companies' operation. Two methods seem efficient in offsetting these harmful consequences.

As highlighted in our first section, diversity does not just happen. Some negative effects are to be expected, with cultural issues and friction within teams.

To overcome these obstacles and ensure improved governance at all levels, the fastest, most efficient way forward seems to be the twin levers of regulation and direct incentivization. Numerous countries have imposed diversity quota to their companies, sometimes accompanied by penalties.

Under the pressure of their customers and employees, companies are also acting on their own initiative to link compensation and diversity in leadership teams, board included.

From McDonald's to Google, Apple, Microsoft and others, many firms are pegging CEO salaries to diversity goals. As explained by the magazine Fortune:

"According to proxy-vote adviser Institutional Shareholder Services, 18.9% of 6.400 public companies it studied last year worldwide (and 8.3% of 2.800 companies in the U.S.) had tied compensation to at least one environmental or social incentive. 'What gets measured gets done,' says ISS director of research Anthony Campagna."

Companies' behavior and strategies are increasingly commented, dissected and scrutinized by the general public: linking compensation to ESG goals could very well trigger a "virtuous circle" in terms of concrete action.

As key internal control mechanisms for setting CEO pay, boards must tackle these topics and build a cohesive compensation scheme that will encourage inclusiveness and help to achieve synergy at all levels.

Independence

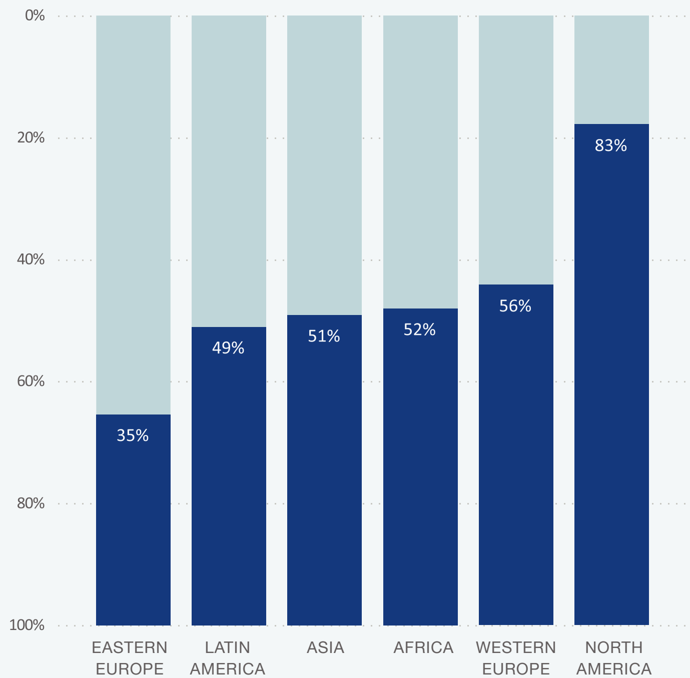
Figures show that board independence is well-established due to statutory requirements in some countries and organizations. A good thing, as independent members represent vital elements in a well-functioning and effective board.

INDEPENDENCE - BOARD MEMBERS

Regions ● Yes ● No

47%

› Highest Independence difference

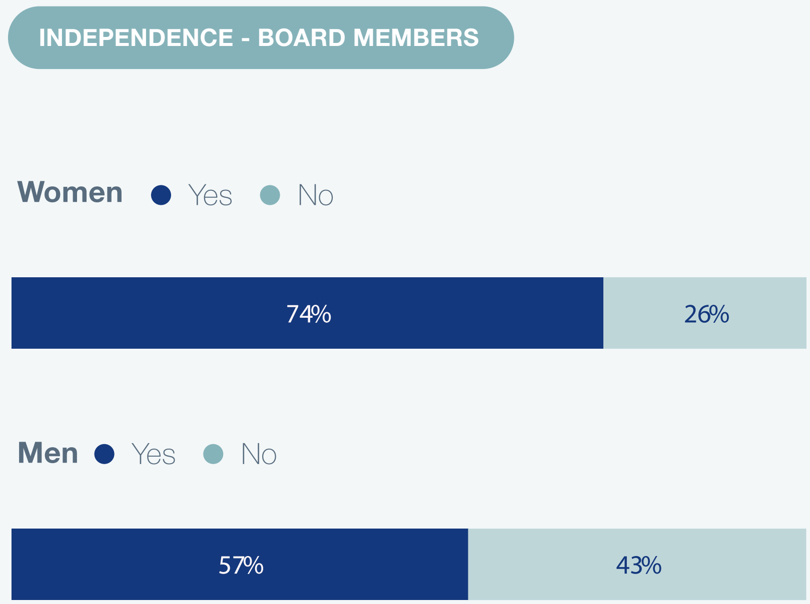


Some countries and financial bodies (such as India, the Nasdaq, Deutsche Börse in Germany or the French association for private companies, among others), demand that boards include a fixed quota of independent members – a fact that is reflected in our survey, showing board composition averaging 56% independent members (reaching as high as 83% in North America).

56% › AVERAGE INDEPENDENT MEMBERS PERCENTAGE

Female board members are likely to be considered more independent, according to our study: **74%, against 52% for men**. Such figures show that in many instances, companies have recruited board members to satisfy both legal diversity and independence constraints. Could the days of “the old boys’ club” be numbered?

More and more private-owned firms decide to appoint independent members in their board to gain knowledge and expertise from people with whom they can share perspectives, strategy and values, especially in controls, finance, marketing or human resources approach. The independent board can enhance the effectiveness of corporate governance bringing active contribution to board deliberations and to the senior management of the company.

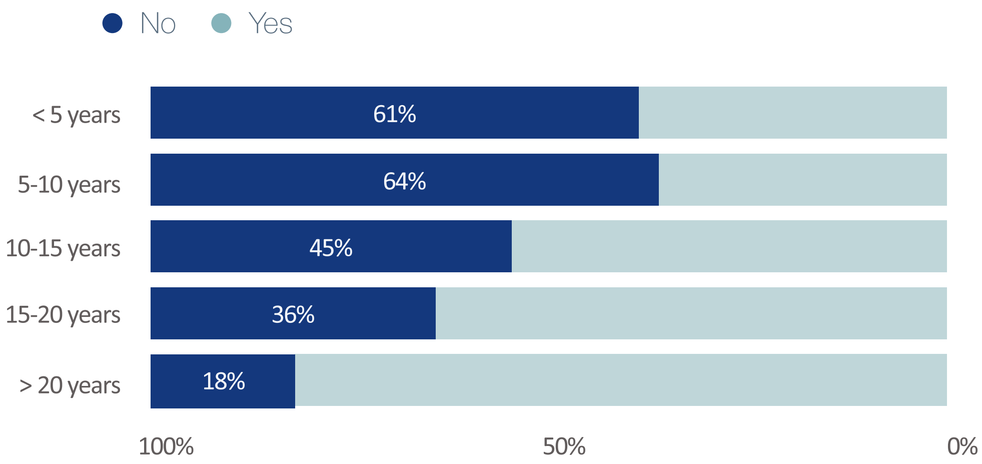


Our figures show that women are well-represented among independent board members: **74% globally.**

Experience seem to be a dominant trait among independent board members, with 74% of members being 65 years or older, and 64% with tenure of between five and 10 years. This may be explained by the idea that a period of five to 10 years hits the right balance between in-depth knowledge of the company and its processes, experience and a clear vision. After that, boards might do well to consider whether independence is still applicable to members whose tenure exceeds 10 years.

INDEPENDENCE - BOARD MEMBERS

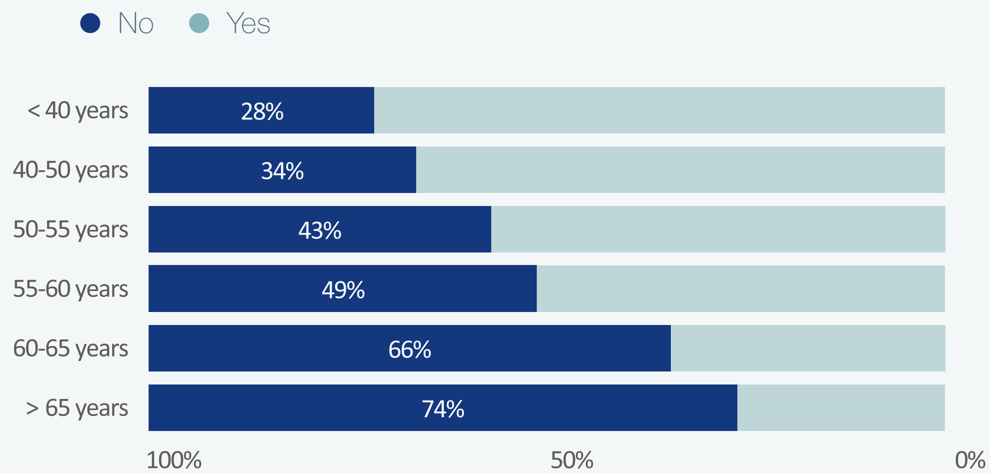
Tenure



Board members play a role in mentoring the leadership teams, helping with shareholder relationships, and overseeing financial affairs. They can also be game changers in the areas of public relations, human resources, and other less financial areas of expertise. Getting the right people, from the right background, at the right time can make a profound difference in the life of a company: experienced and independent board members are key in making that happen.

INDEPENDENCE - BOARD MEMBERS

Age



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Do you need a new declaration of independence?

Independence has always been a crucial aspect of board efficiency. With the rise of new challenges in terms of sustainability and accountability, independent members have an even greater part to play in oversight and reporting – where extra-financial factors are increasingly important.

The new directive on corporate sustainability reporting (CSRD), put in place in April 2021 in the European Union, is only one among the many new claims placed on organizations in terms of extra-financial reporting. The pressure is on, and political authorities are not the only ones applying it: stakeholder's expectations are also rising as new risks appear in the sustainability aspect of business.

Board independence is vital in addressing these challenges. As demonstrated by Eduardo Ortas, Igor Álvarez, and Eugenio Zubeltzu in their paper "Firms' Board Independence and Corporate Social Performance (CSP): A Meta-Analysis",

"the independence of a firm's board is positively connected with CSP, and the more independent the board is, the higher their levels of CSP. In line with instrumental stakeholder theory, this finding can be explained because companies with more independent boards are more likely to commit to CSR [corporate social responsibility] issues and stakeholder engagement, thus attaining a higher degree of CSP."

According to Michael Swinsburg, Managing Partner at Alexander Hughes Australia,

"There is a definite risk that the board 'drinks its own Kool-Aid' if it does not have enough independent members to challenge the general group-think, both in the board and in the executive team: this would be detrimental to all stakeholders – including small shareholders and the community at large in which the company operates."

It is also important to make sure that outsiders are properly integrated in the board.

"This can be done through well-structured onboarding and training programs across the business, exactly as a company would do with senior executives joining the organization," advises Michael Swinswburg. "A mix of formal and informal events (meetings, training sessions but also functions, dinners, etc.) helps build trust and solid relationships between all parties involved."

Independence remains as important as ever to avoid conflicts of interest, cronyism and agency problems. Beyond the usual financial oversight, independent members can bring a clearer, more objective view to the board, as well as varied profiles and skillsets, thus helping their company overcome its corporate governance issues.

Boards & CEOs relationship: an exercise in trust-building

The relationship between board and leadership is based on an imbalance: while the CEO is accountable to the board, the reverse is not entirely true. Rather than use this situation as a pretext to engage in power games, however, boards should consider it as an opportunity to help companies move forward.

According to a 2021 survey by McKinsey, this question remains open to debate: while 90% of board members think of themselves as effective, only 15% of CEOs agree with them. With such profoundly differing views, how can companies foster a fruitful and constructive relationship between executive teams and their board at a time when governance is becoming ever more complex?

First and foremost, as stated by the Institute of the Community of Directors (Australia), responsibilities must be clearly defined on each side:

"It is important that both the board and the CEO are fully aware of where their roles begin and end. If there is any confusion in an organization about roles and responsibilities, it can lead very quickly to conflict, inefficiency and low morale."

In other words, although boards' role is becoming more and more extensive, it remains advisory. CEOs, for their part, control the more managerial, hands-on aspects in their organization.

Some strong action is then required to ensure an open and productive exchange of ideas. Boards should not fear becoming more involved (even if it means longer hours at the table) or broach not only such usual subjects as oversight but also HR, digitalization, ESG, etc., in order to promote a culture of creativity and innovation.

Dialogue based on trust and openness is decisive, especially on contentious or difficult topics. Hard questions must be put to the CEO and his or her team; board members should consider it their role to challenge and question the strategies put in place by leadership. The right balance of respect and frankness takes time to achieve, but is essential for a healthy collaboration between leadership and board.

Boards are one step removed from the day-to-day operations of a company; their main function, in the end, is to leverage this vantage point to provide insights and hindsight to CEOs, thus making their company a more efficient and resilient organization, able to thrive whatever the environment.

About Alexander Hughes

Alexander Hughes is one of the few independent European Headquarter groups in executive search able to offer a globally high-end quality and commitment to the most exacting clients.

With a tradition of excellence since 1957, a global coverage of more than 50 wholly owned offices in 48 countries and a team of 130 Consultants, Alexander Hughes is dedicated to advice companies in their talent management strategy from attracting key profiles to senior executive team appraisal.

At Alexander Hughes we promote that talent strategy is crucial to performance. As a part of the governance mandate, board of directors are required to ensure talent strategy is aligned with the business objectives and companies are recruiting, promoting, and retaining talented leaders.

In 2013, Alexander Hughes signed the Diversity Charter and joined the network of signatory companies that act in favour of diversity and the fight against discrimination. In our recruitment activity, we are committed to our clients, partners, and candidates to integrate and value diversity as well as to promote equal opportunities by fighting against discrimination.

In 2018, Alexander Hughes joined the United Nations Global Compact and pledged to support actions in favour of the 10 principles concerning human rights, labour rights, environmental protection, and the fight against corruption. The aim of this initiative is to unite our employees and partners around these values and to demonstrate to our customers that we are working for them with respect for the environment and fundamental rights.

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