New Report Gauges Boardroom Diversity Nationally and Worldwide

By Bill Hayes

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Some findings raise the question of whether “diversity fatigue” is setting in.

Diligent Institute and 22 other partner organizations recently released *Board Diversity Gaps: The Global Modern Leadership Report 2022*, a report that offers a comprehensive look at corporate boardroom composition and diversity on a global scale. The findings include a detailed picture of diversity in the boardrooms of American companies as well as how they compare to their international counterparts.

Exploring the data of 3,000 public companies in the United States, the report found 24% of board seats being held by woman directors, a figure that represents a 4 percentage-point growth over the 2019 figure but is still three percentage points below the global average of 27%. Lisa Edwards, president and COO of Diligent Corporation, says that one of the factors raising the numbers globally is the regulations pushed through by countries like France, which leads the way in percentage of board seats held by female directors at 42%.

“One thing that pulls the percentage up globally are the European countries that passed targets and quotas for a specific percentage of female board members in those countries,” says Edwards. “And then this year, the European Commission finally passed their directive for boards in the EU to be at least 40% female.”

In the area of racial and ethnic diversity, the report states that 24% of seats in the Russell 3000 are held by racial/ethnic minority directors, while the S&P 500 version of the same subsection comes in at 22% according to data from research partner Spencer Stuart. In the Fortune 500, racial/ethnic minority directors claim just 18% of seats according to data from Deloitte and the Alliance for Board Diversity.

New Skills for Boards

Diligent’s report finds directors becoming more valued for backgrounds in areas like human resources, technology and ESG, with the percentage of directors holding these qualifications climbing slightly to 24%, from 23% in 2021. Meanwhile, the percentage of directors boasting traditional executive backgrounds, like CEO, CFO or COO, has dropped from 64% in 2019 to 55% in 2021. Edwards credits these numbers in part to the rise in female directors, as they are much more likely to have skills in areas such as sustainability.

“Female directors are three times as likely to have sustainability or ESG experience, which is a continuing interest for boards,” says Edwards. “Boardrooms are still overwhelmingly male, but woman directors are more likely to have some of those different areas of expertise in areas like technology, sustainability, law and HR.”

Despite trends toward globalization and international conflict wreaking havoc in areas like supply chain and cybersecurity, one skill that boards do not seem to be prioritizing is international perspective. The report found just 10% of U.S. board seats being held by directors from outside American borders. At 90%, the percentage of “local directors” makes the United States seven percentage points more likely to look in-house for directors than their global counterparts.

Are American Boards Getting “Diversity Fatigue”?

Alarming survey findings from the report found that in 2012, when asked if they believed diversity in the boardroom generally resulted in increased value for shareholders, 80% of directors said “Yes.” When asked the same question in 2022, 59% of the directors said “Yes,” which represents a stark decline. Does this mean directors are questioning the effectiveness of diversity on boards? While Edwards states that “it is hard to discern what is in people’s heads,” she believes that part of that finding could be because of the recent pushback to ESG in general.

A main reason cited by institutional shareholders voting against the implementation of ESG metrics, Edwards says, was that “it was getting overly prescriptive, or the company had already moved on it.” She adds, “I think you may see something similar here, where they say, ‘Look, having hard requirements or effectively a quota makes it more difficult for us to find the thing that our company needs the most.’”

For her part, Edwards says that “diversity fatigue” could be a good thing, in that means the topic of diversity is being regularly discussed. She says the need to increase diversity on boards is simply good business.

“I think if you step back from it and say, ‘Is it in the interest of a company to actually try to make the board of directors somewhat representative or have a voice for its customer base and its employee base?’ the answer to that would be yes,” says Edwards. “Society is getting more diverse. It’s a natural progression that employee bases are getting more diverse. When that happens, then the board reflecting those communities is a natural progression.”