

# Board Monitor

## US 2021

A notable, if not surprising, rise in the share of Black new directors added to Fortune 500 boards in 2020 is an important step forward. Boards have an opportunity to build on this positive momentum by taking a more holistic and sustained approach to adding diverse new directors.



## 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, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Mexico, the Netherlands, New Zealand, Norway, Portugal, Singapore, South Africa, Spain, Sweden, Switzerland, the United Arab Emirates, 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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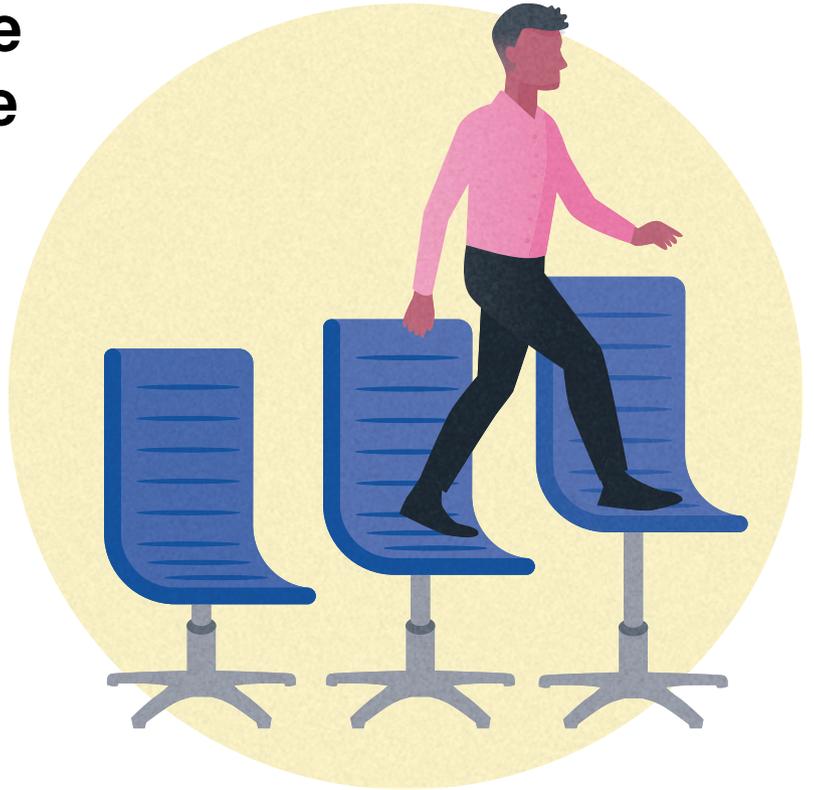


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# Notable progress for Black directors—and some indications that board refreshment strategies need to be more comprehensive



Board fundamentals—financial oversight and good governance—were crucial in 2020 as companies navigated through a global pandemic, geopolitical uncertainties, and economic recovery. Many directors found themselves working more closely than ever with executive teams to keep their companies afloat and working at a faster pace than ever before. And boards were increasingly expected to address topics as wide-ranging as community responsibility, sustainability, and diversity, not only in their own composition, but publicly. Furthermore, remote working and crisis management forced boards to operate differently, often outside their traditional schedule and agenda.

All of this, of course, affected how boards thought about the new members they added in 2020. Among the 425 seats filled

on the boards of Fortune 500 companies, we saw a notable leap in representation of Black directors, a continuation of a long-standing trend toward new directors with experience other than CEO or CFO roles, a marked rise in the share of new directors with experience in the same industry as their new board seat, and a small drop in the share of seats filled by women.

Taken together, these changes suggest that while most boards have long been committed to diversity of backgrounds and expertise, last year's societal and operational demands were a catalyst for significant progress in many areas. Boards can build on this positive momentum by taking a few simple steps to develop a holistic, long-term approach that will ensure they have the best board possible, whatever changes come next.

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# Snapshot of 2020 findings

New director seats filled



425

Average age



58

Current and former CEOs



Current and former CFOs



## Active/retired executives (%)

Active: 57

Retired: 43

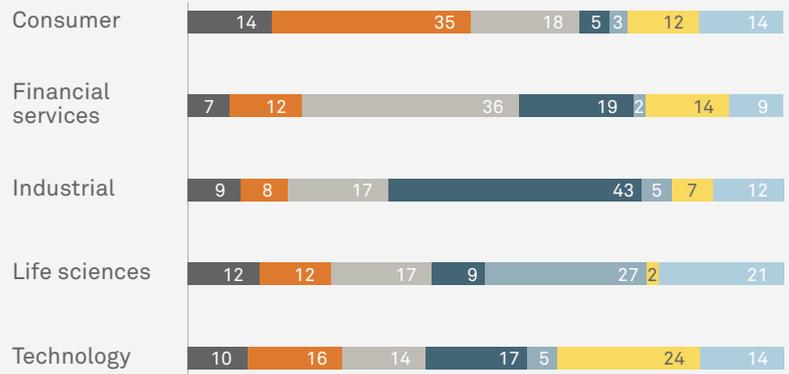


## Experience (%)



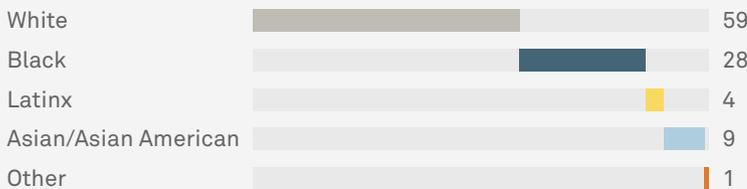
## Distribution of previous industry experience, by industry (%)

■ Business services    ■ Consumer    ■ Financial services  
■ Industrial    ■ Life sciences    ■ Technology  
■ Other



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

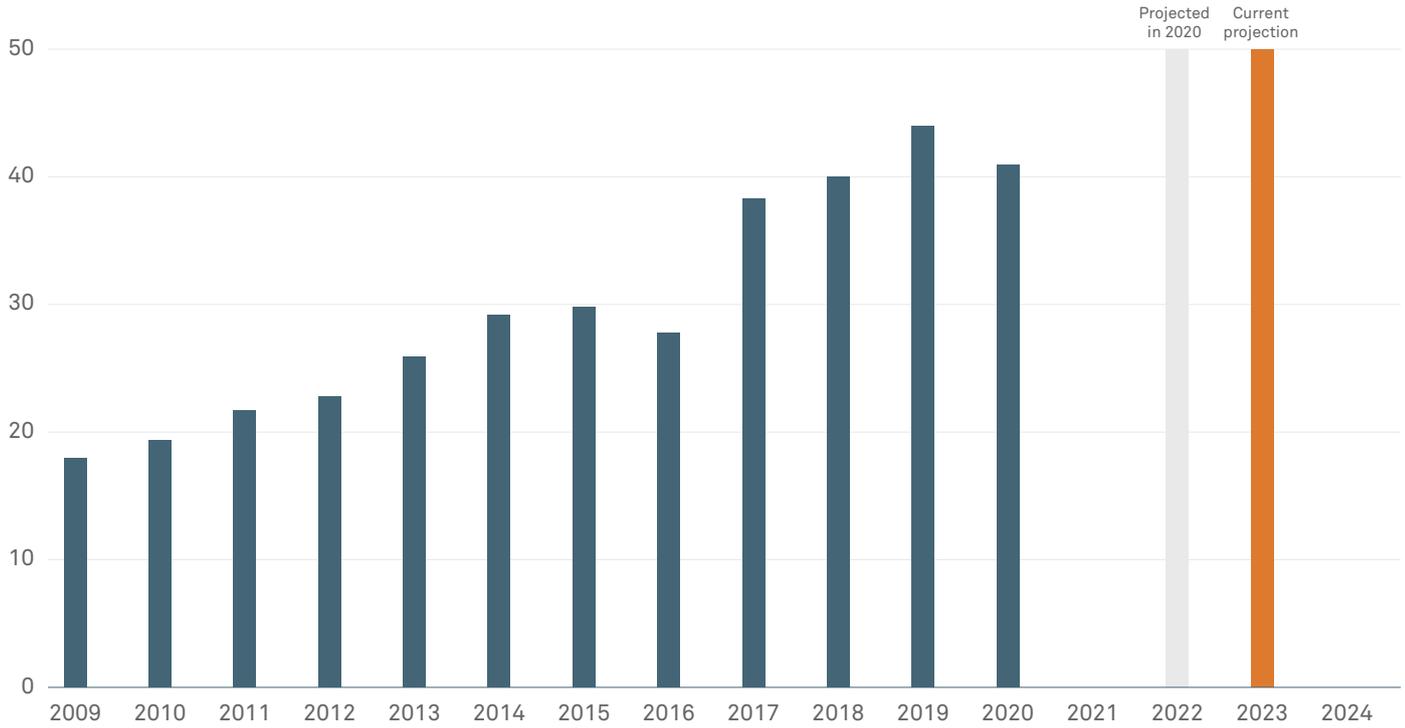
## Ethnic and racial background (%)



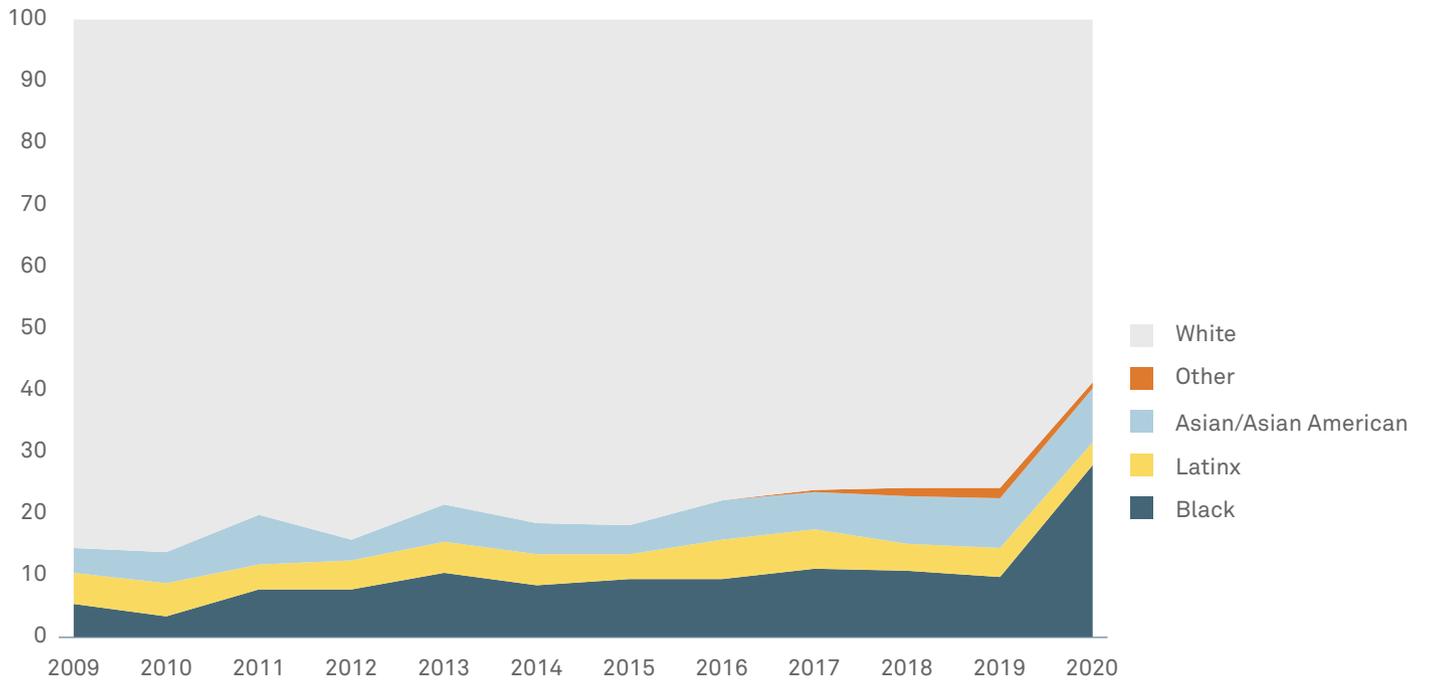
Note: Numbers may not sum to 100%, because of rounding.



### Actual versus projected share of women appointed to Fortune 500 boards (%)



### New board director appointments, by race and ethnicity, 2009–2020 (%)



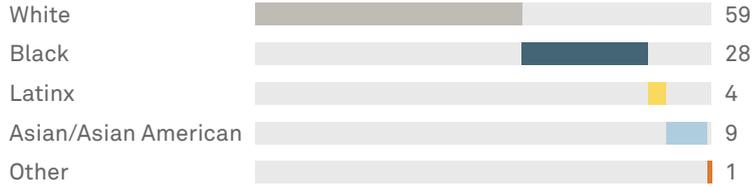
## Shifts in racial and ethnic and gender diversity

On the boards of Fortune 500 companies, the most marked change was in the share of new Black directors: 28% of the seats filled went to Black directors, up from just 10% the prior year and years of little progress before that. Just over three-quarters of those appointments were made after the murder of George Floyd, on May 25, 2020.

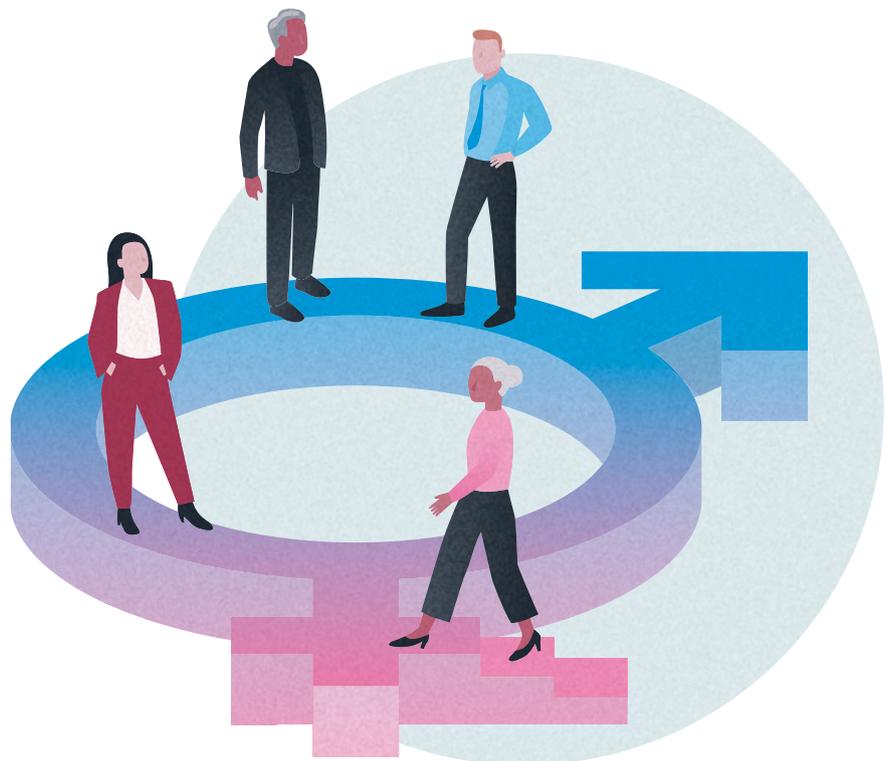
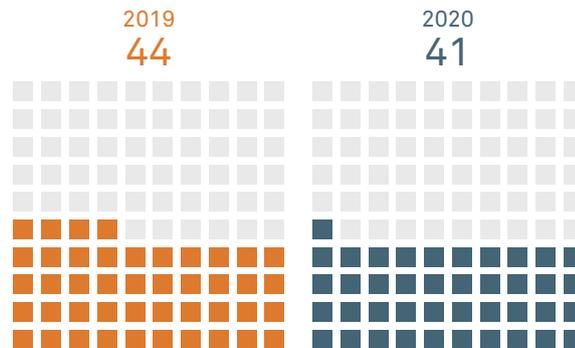
It's hardly surprising that the share of seats filled by white new directors fell 17 percentage points, almost as much as the rise in the share of seats filled by Black directors. Some smaller shifts, however, are important to note: a fall of one percentage point in the share of new seats going to Latinx directors, and a fall of three percentage points in the share of seats going to women (after three years of marked progress year over year).

Although the overall share of female appointments dropped, the share of female appointments that went to Asian American and Latinx women rose slightly in 2020, along with, of course, a sharp rise in the share of Black female appointments.

## Ethnic and racial backgrounds of new directors in 2020 (%)



## Female appointments, 2019 and 2020 (%)



These smaller shifts among various aspects of diversity suggest that, at least on the margins, some boards are making trade-offs among diverse candidates.



These smaller shifts among various aspects of diversity suggest that, at least on the margins, some boards are making trade-offs among diverse candidates based on where society is focusing in terms of diversity, rather than strategically considering what types of diversity will add the most value to the board over time. Such an approach has lasting consequences both for individual boards (which may be missing opportunities to build even greater diversity) and for overall progress toward full representation.

As an example, our annual forecast of when half of all new board seats will be filled by women has been pushed out a year, from 2022 to 2023 (as shown on page 6).

All that said, the share of individual directors taking on more than one seat in a given year, while never large, has fallen over the past three years, from 4% to just 2.4%. This drop, and our experience, indicates that boards are, on the whole, still broadening their perspectives on who can be a valuable director.

### Other sources of fresh perspective

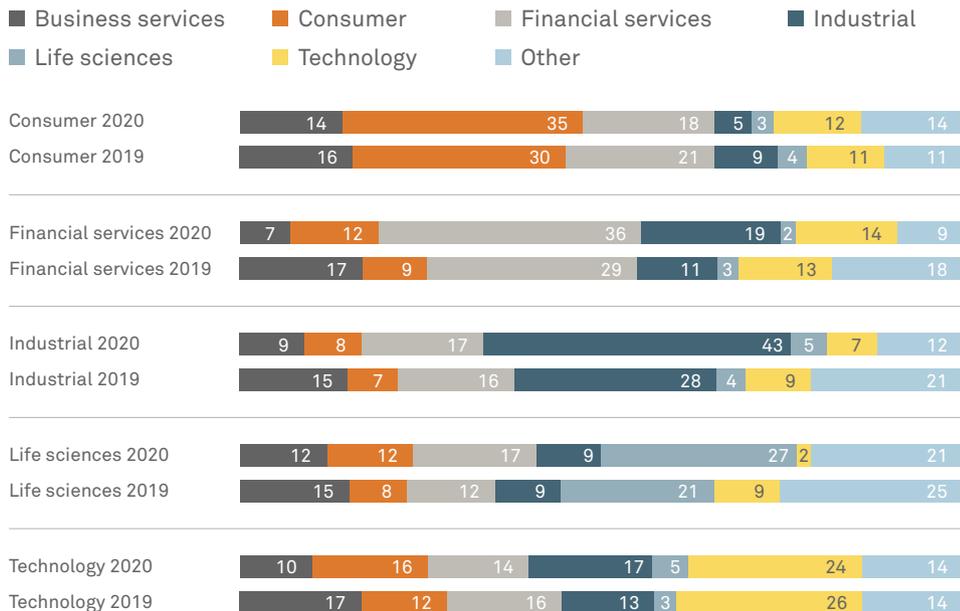
Of course, boards also seek diversity of thought and expertise beyond race and ethnicity and gender. Another notable shift among new director seats filled this year is the share going to current or former CEOs and CFOs. That share has been slowly declining for several years but in 2020 fell sharply, from 62% the prior year to 51%, the lowest we've seen in the history of this study. Instead, boards added people with experience in other areas of the C-suite, as well as people who had run P&Ls but not had a CEO title. This suggests that boards were seeking to diversify their breadth of commercial knowledge in a very uncertain year.

### Prior experience among new directors who were not former CEOs or CFOs (%)

Other C-suite leader	41
Other P&L leader	22
Divisional/regional CEO or leader	15
Military, government, or academia	11
Managing director or managing partner (Financial services)	8
Managing partner (Business & professional services)	3

It's also clear that boards were seeking deep industry operational expertise to cope with 2020's operational challenges. Compared with 2019, there were notable rises in the share of new directors from the same industry on the boards in almost every industry.

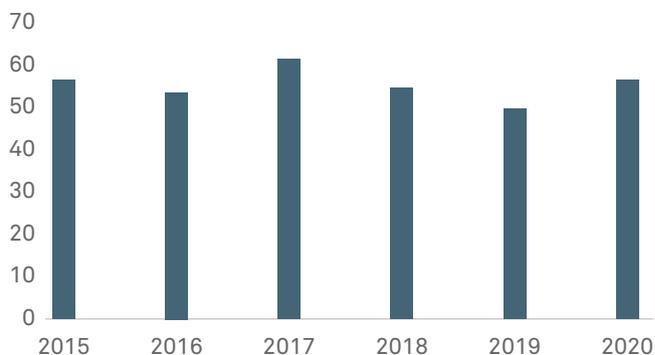
### Distribution of previous industry experience by industry, 2020 vs 2019 (%)



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

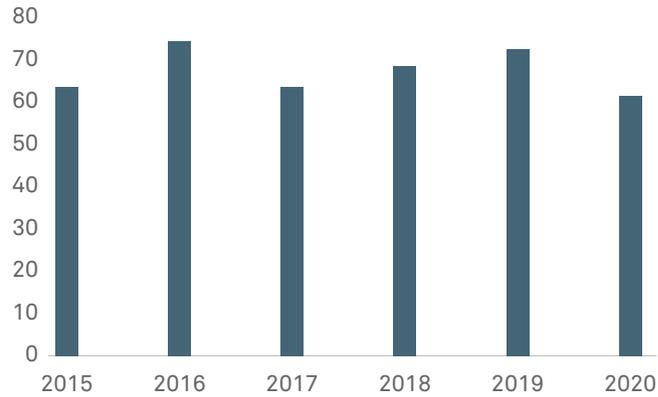
Boards were also more often seeking the knowledge of current executives in 2020, with 57% of seats filled by active executives, the highest share since 2017.

### Seats filled by people with a current executive role, 2015–2020 (%)



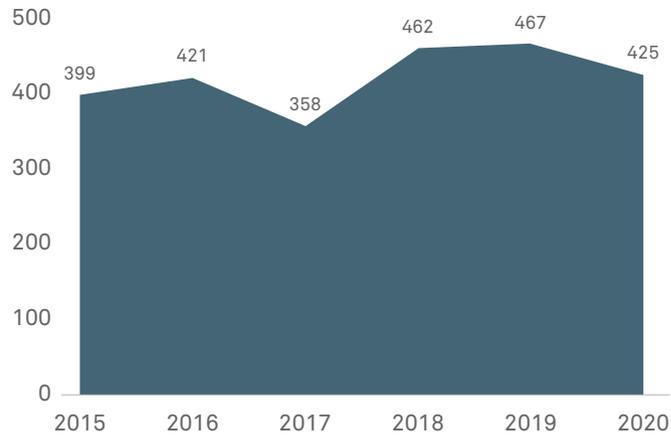
In addition, the share of seats filled by people with prior board experience hit a five-year low in 2020—though it is still 62%. Even the small drop from last year is another indicator that boards are seeking more widely for new directors.

### Seats filled by people with prior public board experience, 2015–2020 (%)



Finally, although the number of seats filled in 2020 fell from recent highs, we see an overall trend toward adding more directors each year.

### Number of seats filled, 2015–2020



# Looking ahead



Many boards found themselves at an inflection point in 2020, stepping back to reexamine their fundamental purpose by analyzing what they—and only they—could do to support their companies. Many also then found themselves reassessing what knowledge and expertise the board needed to fulfill that role.

It is encouraging to see such a large share of new Black directors. We see the trend toward diversity continuing and expanding. A next likely priority for many boards is adding Latinx directors, but others are

also actively seeking directors who are diverse in other ways, including LGBTQ directors. As this progress continues, we believe it is crucial that boards not trade off one form of diversity for another. One longtime director we know recently summed up her hope by saying, “There’s enough room in that room for all of us.”

A clear priority for boards this year is helping corporate leaders navigate a hybrid, still-uncertain return to offices, along with the economic recovery that varies notably industry to industry. We

expect to see boards adding more people with expertise in technology and HR, as well as continuing to build the wide range of commercial expertise they focused on in 2020. Finally, there may be a rise in activist activity as economies reopen, leading many boards to want to add expertise in capital allocation as well.

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## Getting from here to there

Some boards are far more strategic than others in refreshing themselves. Indeed, a recent study by the National Association of Corporate Directors showed that fewer than half of the directors they surveyed believe that aspects of board operations, including recruitment and onboarding, are important or very important. There are cases where boards will benefit significantly by literally adding a chair to the table. In our experience, expanding a board by even

one seat multiplies the options for adding diversity of background and thought alongside core governance skill sets, and eases the pressure of trade-offs.

Beyond that, we see boards’ commitment to their own effectiveness increasing every day. Effective board reviews, set in the context of strategy, will ensure boards have a good understanding of their own fitness for supporting the organization’s strategy and purpose. In that context, boards can then decide whether they would also benefit from stepping back to assess their refreshment process in

the context of today’s and tomorrow’s environments. Taking time to fully assess how they fill board seats will allow chairs and nominating committees to understand whether they need to make changes to cadence, term length, and term or age limits, as well as board size, in order to meet their goals for board composition.

We expect the directors in 2021, all in all, to be added thoughtfully and become members of boards that are more diverse, more committed, and more agile than ever.

# 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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