



# Expanding the Boardroom Brain Trust: Moving Beyond Traditional Backgrounds

Is the country from down under setting the pace for others?



# Executive Summary

Having the right individuals with the right skill sets is critical for boardroom dynamism and pivotal to every company's growth and profitability. Directors, who set the tactical tone, need to have the skills and exposure that align with the company's long-term strategy. Having a non-executive director (NED) recruitment process that incorporates diversity and fresh perspectives is an important recipe for strong financial performance.

In this report, we seek to find out if there is a strategic shift in the skill sets of new NEDs. In an earlier report published by the Diligent Institute, [Beyond the C-Suite: Trends in Director Skill Sets](#), the data suggested that there is a noticeable shift away from hiring directors with traditional CEO, CFO or COO backgrounds – particularly in Australia.

## Methodology

To better understand current practices, we worked with the research team at CGLytics, a Diligent Brand, to analyse data on public company board appointments globally. The initial analysis included 4,300 public companies headquartered in the United States (US), the United Kingdom (UK) and Australia (AUS). For this study, we have focused solely on Australia with comparative analysis against the global trends to draw some conclusions.

For the purposes of this study, NEDs with “traditional backgrounds” are defined as those appointees who have previously held any of the following roles: CEO, CFO and COO. NEDs with “non-traditional backgrounds” are defined as those appointees with other professional backgrounds, including leadership roles in technology, marketing, sales, legal, human resources (HR) or a role related to environment, social or governance (ESG), among others. Finally, we analysed the data set for any gender differences.

## Key Takeaways

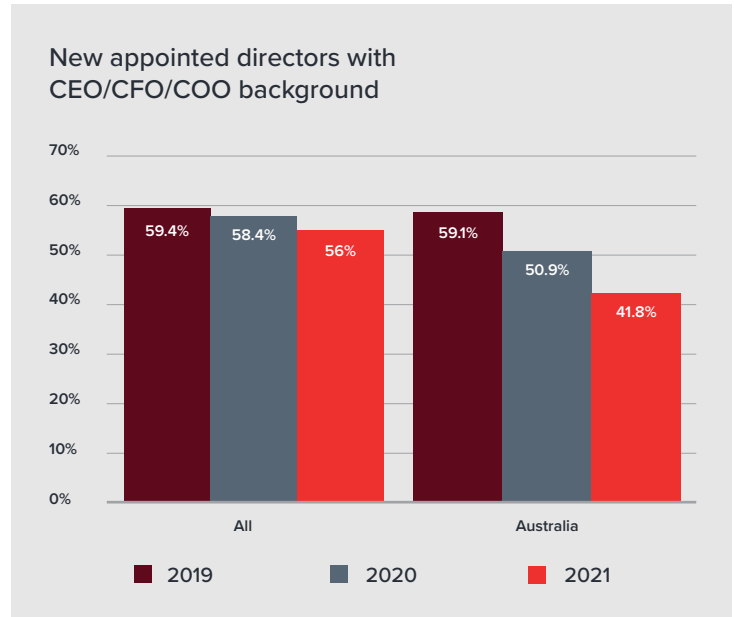
- The share of newly appointed NEDs from traditional CEO/CFO/COO backgrounds is declining faster in Australia compared to the global trend. In Australia, the proportion of directors with traditional background fell from 59% to 42% from 2019 to 2021, versus the global average which fell from 59% to 56% respectively within the same period.
- Over the same period, the share of newly appointed NEDs from non-traditional backgrounds is also increasing in Australia at a faster pace compared to the US and UK for example.
- The group of newly appointed NEDs with non-traditional backgrounds is split almost evenly along gender lines. However, newly appointed directors from CEO/CFO/COO background are twice as likely to be men.
- Women represent most of the new appointments with sales and marketing backgrounds in Australia in line with overall trend, while accounting for 100% of new NED appointments from HR and ESG backgrounds.

## Closer Look, Australia in focus

Across the three countries included in our report, the share of newly appointed NEDs with traditional backgrounds has been on a steady decline.

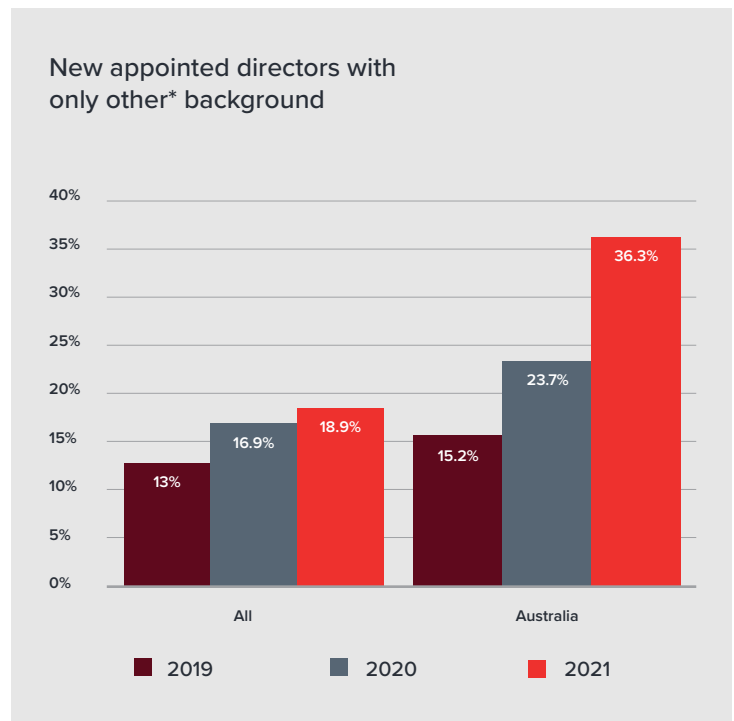
Since 2019, the number of directors who have CEO/CFO/COO experience declined from 59.4% to 56.0% of new appointments over the period. Australia seems to follow a similar trend.

There was a sharp decline in the appointments of directors with CFO/CEO/COO backgrounds from 59.1% in 2019 to 50.9% in 2020. For the first half of 2021, Directors with traditional backgrounds accounted for only 41.8%, falling short of the global average by 14.2 percentage points.

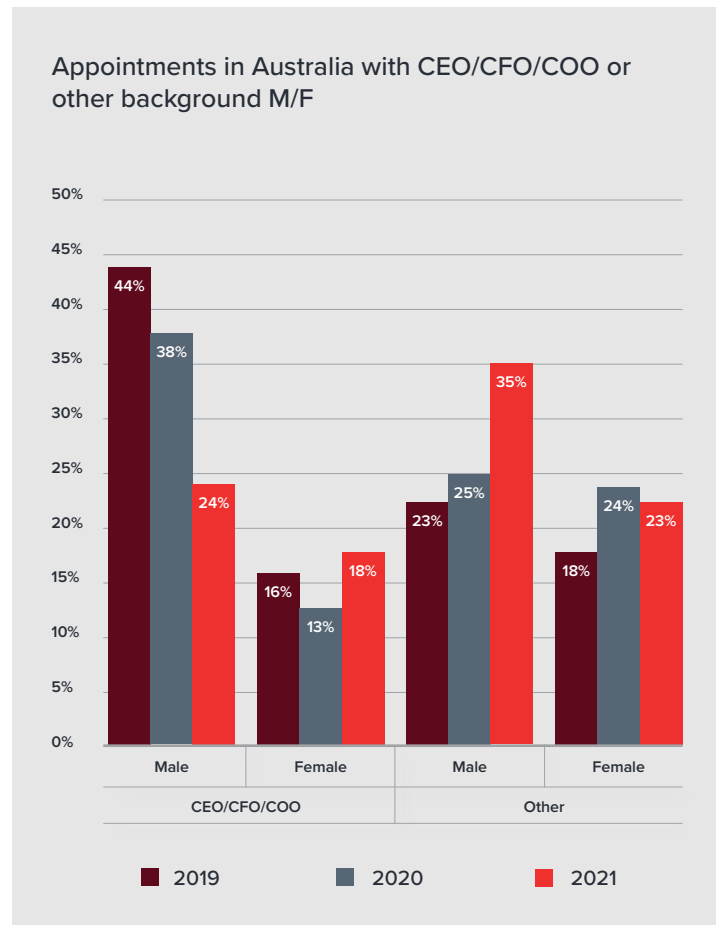
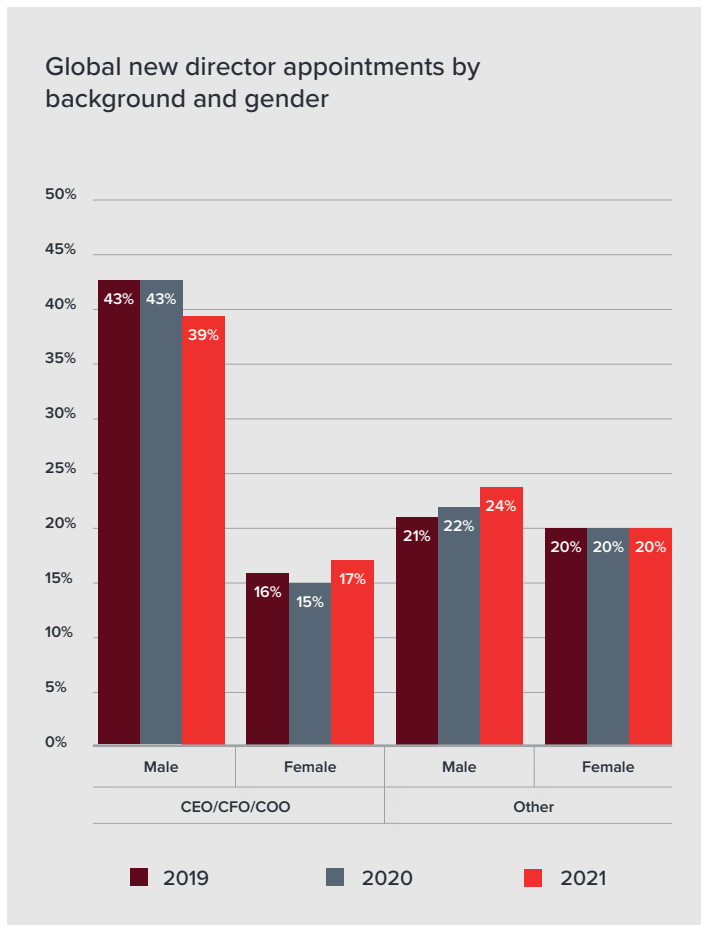


## Australia’s appointment of Directors with non-traditional backgrounds is growing faster than the global rate

As depicted in the figure on the right, NEDs with non-traditional backgrounds are being appointed at a higher rate each year. While the numbers globally are increasing only gradually, Australia is seeing a more dramatic shift: globally only 13% of director appointees in 2019 had non-traditional background, but in Australia, 15.2% of directors with non-traditional backgrounds were appointed. From 2019 to the first half of 2021, Australia recorded a growth rate of 21.1% for newly appointed directors with non-traditional backgrounds – more than three times greater than the global average.



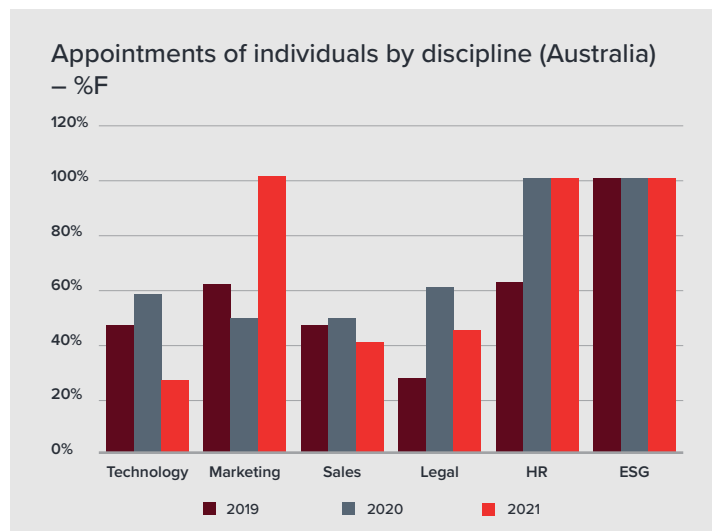
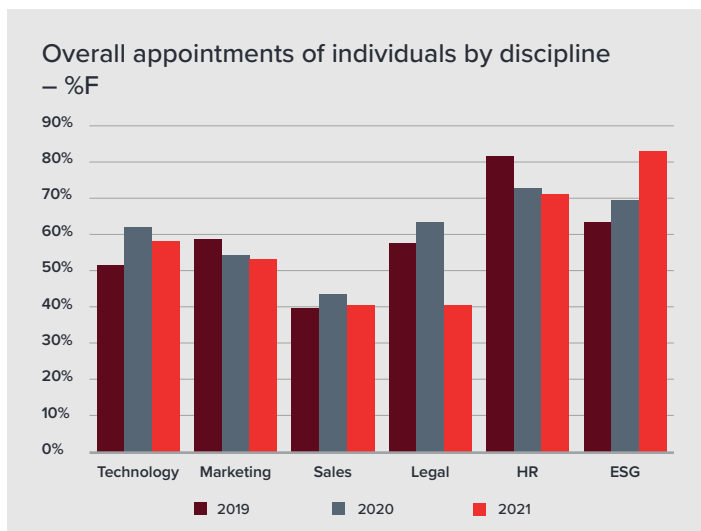
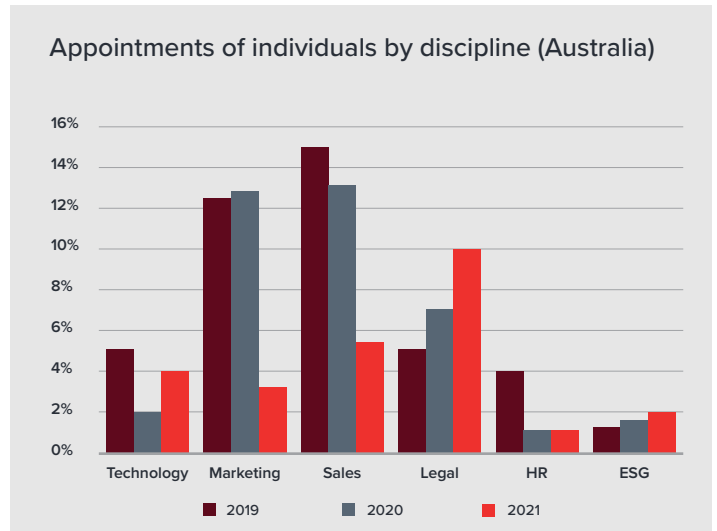
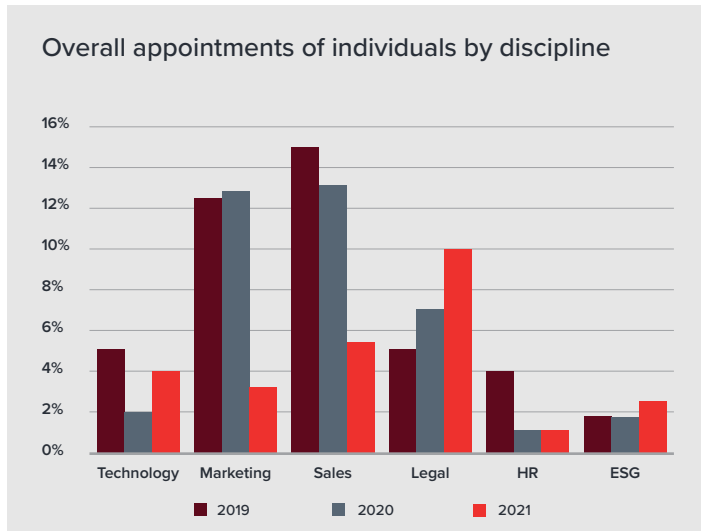
## Director Skill Sets Differ Greatly by Gender



When we break down the appointments by gender, we find that there is a general decline in the proportion male NEDs with traditional backgrounds being appointed to boards globally. In this regard, Australia again leads the trend with the appointment of male NEDs with traditional backgrounds dropping by 14% from 2020 to 2021, compared to a global decline of 4%.

While the share of female with non-traditional background in the original sample remained relatively unchanged from 2019 to 2021 at 20%, Australia shows a slight decline from 24% to 23% from 2020 to 2021.

## All appointments of Directors with ESG and HR backgrounds in Australia were women



The graphs above show the new NED appointments in each non-traditional discipline compared with the global trends. Australia is consistent with the global rise of appointing NEDs with sales and marketing backgrounds.

Australia, however, appears to lag the global average of new director appointments with a technology background. Globally, women with a technology background formed 53% of new director appointments compared with 47% in Australia. The share of women NED appointees with technology background in 2021 stand at 58% globally and 25% in Australia.

The findings suggest that women NED appointees form the higher proportion of directors with Environmental, Social and Governance (ESG) and Human Resource (HR) backgrounds. In both skills sets, Australia records higher percentages than the global sample, including that all Australian NED appointees with HR and ESG backgrounds were female in the first half of 2021.

## What does this mean for the future?

There is a growing trend in the number of people with varying skills and experience on corporate boards globally. This is, in part, a response to the scrutiny that companies are under. In Australia, the banking Royal Commission's final report in 2019 triggered new requirements for banks and other financial institutions. These requirements are only part of the increasing scrutiny that companies are under, including the 30% female director threshold. The gradual shift from directors with traditional background is perhaps necessitated by the growing desire to onboard more women as well as NEDs with different expertise.

In the past, companies and their boards might not have realised the strategic potential of onboarding NEDs with non-traditional expertise, including disciplines like HR, Marketing, ESG, Sales and Technology. Having individuals with divergent expertise and viewpoints can increase boardroom productivity and enhance corporate bottom-lines. Yet, given the choice, boards have traditionally opted for individuals with CEO, finance and operations experience because they are most alike the other board members already in the room, and fit with the notion of an 'ideal' board member. Often, when boards proactively seek out individuals with deep expertise in their industries, rather than seeking out diverse perspectives.

The findings suggest the pendulum is gradually swinging in favour of more diverse perspectives in the boardroom, and most forward-looking boards are accepting the evidence that diversity – along multiple verticals – brings results. Additionally, seeking out directors with different talents and skill sets can also accelerate other diversity variables, as so few NEDs with CEO/COO/CFO experience are women or people of colour. As investors and other stakeholders are increasingly focusing on ESG issues, appointments of directors with this background should engage the attention of corporate entities.



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