The job of the board nominating committee of large corporations just got harder. Chief executives have laid down a new marker that substantially increases the emphasis on promoting diversity in corporate boardrooms.

In the 2016 edition of its governance principles, the Business Roundtable, an influential association of chief executives of American companies, strongly endorses a link between racial and ethnic diversity in boards and board effectiveness and the creation of long-term shareholder value. In doing so, the association has made the first substantive “business case” for ethnic and gender diversity.

By correlating diverse boards with greater board effectiveness and the promotion of long-term value creation, the association’s recommendation transcends public policy debates and moral imperatives. It is the most prominent acknowledgment of diversity as a governance principle, and a standard that nominating committees are advised to adopt. It does not retreat from principles of competency-based governance as much as it recasts concepts of competency in a more inclusive manner — one that attributes new value to skills, experience and expertise that is reflective of the broader range of society. And its merits are as
applicable to private companies and large nonprofit organizations as they are to public companies.

This is a notable shift from the Business Roundtable’s previous edition in 2012, and a big step forward in the governance dialogue on diversity. The new principles call on boards to develop specific protocols aimed at identifying “appropriately diverse candidates,” which will facilitate the ability of the nominating committee to consider women, minorities and others with diverse backgrounds. This recommendation is styled as a values-based change in practice that balances the demands of the competitive business environment and broader social goals.

Calls for greater boardroom diversity are nothing new. Yet the business group’s recommendation carries special weight. This is no academic exercise; it’s the view of C-Suite leaders. The recommendation is likely to add significant momentum to the push for board diversity. It may also prompt a retooled director nomination process based on a much broader consideration of requisite backgrounds and experience.

For many nominating committees, this may require something of a “midcourse correction.” For many years, the nomination focus has been on building the competency-based board — in other words, nominating candidates with specific skills that are heavy on industry background and experience or possess backgrounds in other types of leadership positions that are directly related to the company’s business. The governance expectation was that more precise competencies would enhance the exercise of informed oversight and decision-making, in support of the long-term success of the organization. The Business Roundtable, however, adopts a much more expansive view of “competency.”

This new recommendation is grounded in three basic themes:

First, the relevant data indicates that despite recent improvements, women and minorities remain underrepresented on corporate boards, a trend that is likely to continue given the current rate of appointment. Second, there is a growing recognition that companies benefit generally from an environment that promotes diversity in backgrounds and perspectives. This, even though there is no broad agreement as to whether greater boardroom diversity directly results in improved corporate financial performance. “Differing perspectives and maintaining respect for
the individual enable Americans, as well as American corporations, to prosper.” And last, the association’s executives believe that inclusion of talented women and minorities in the boardroom and leadership team is increasingly essential to competing in a diverse global marketplace.

For some prominent companies, this is yesterday’s news. For example, General Motors recently became the first major industrial corporation to achieve an even split of men and women on its governing board. This is particularly notable given the traditional nature of the automotive industry as male-dominated. In addition, a recent study by the executive data firm Equilar tracks perceptible progress among boards of companies on the Standard & Poor’s 500-stock index in reaching gender diversity. Yet, even the most casual observer would admit that broad-based progress has been elusive. Entire forests have been cleared in support of surveys, reports, analyses and position papers criticizing the lack of ethnic and general diversity in boardrooms.

It should also be noted that the “Commonsense Corporate Governance Principles,” released this summer by a group that included Warren E. Buffett and Jamie Dimon, among other corporate chieftains, weighed in on the subject. It characterized “diversity along multiple dimensions” as essential to effective governance, and encouraged the nomination process to draw from a “rigorously diverse pool.” But the diversity references made in those principles were neither discussed, nor externally promoted, to the same extent as were those of the Business Roundtable.

The Business Roundtable’s principles contain the usual caveat that there is no “one size fits all” approach to corporate governance. Yet they clearly reflect a perspective driven by chief executives on practical, and effective, governance practices. This makes the diversity recommendation tough to ignore. Indeed, it is a valuable prompt for corporate boards to formally increase their diversity commitment, before such a commitment is mandated by state or federal regulation.

So, you want to say that your board follows “best practice?” Well, this is it.

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