

## BOARDS IN A 'NEW REALITY' WORLD: WHAT CAN DIVERSITY CONTRIBUTE?



**Marina Niforos**

**About the Author:**

*Marina Niforos is a strategy and innovation advisor to multilaterals and corporates. She is a recognized expert and author on disruptive technologies and economic development. She has held non-executive board seats on non-profits, public companies and sovereign funds and currently serves as Chair of the Governance and Nominations Committee on the Board of the Hellenic Corporation of Assets and Participations and is the INSEAD Directors Network (IDN) Ambassador for France.*

Despite decades of codes, metrics and consistent efforts to increase gender balance on boards, progress remains slow and good intentions do not always translate into action. Will the COVID-19 crisis present an opportunity for putting more women into leadership positions or will it ultimately constitute a setback?

The only certainty to emerge from the initial 'emergency phase' of the crisis is that uncertainty is the new normal and it is here to stay. The virus has made people question the fundamentals on both a professional and personal level as they confront the threat to their own well-being and the things they value most. Whether a 'grey swan' or a 'black swan', the pandemic has called into question past orthodoxies.

It is clear that we cannot solve unpredictable challenges -particularly the combination of economic recovery and social malaise- without diversity of thinking at board level. This requires a new skillset that goes beyond those of the typical profile -another CEO- that has been the candidate of choice for board seats.

Corporate governance is facing a paradox. On the one hand, boards are being thrown into a crisis-management, fire-fighting role, fostering a perception that ESG issues have become a luxury for "when times get better". On the other hand, there is increasing pressure from customers, employees, investors, regulators and the public to make these issues strategic priority as a basis on which to re-establish trust and ensure that economic recovery is equitable. Boards and companies who fail to provide credible answers and recovery scenarios will be subjected to greater public scrutiny and potentially reputational risk.



Indeed the crisis presents an opportunity to advance the diversity of boards and the companies they serve. Whether NEDs or executives, boards need to address ESG issues as a strategic medium-and long-term objective that will define competitive advantage and the resilience of recovery. The complexity of governance and social challenges and the agility required to adapt to the new reality call for a new profile - people with experience of managing stakeholders and with strong empathetic leadership credentials. This opens up an opportunity to go beyond co-opting members of traditional closed (mostly male) networks and allow eligible women with relevant expertise to enter the pipeline.

## **The Link between Diversity and Results: Impact Assessment and Transparency**

The role of boards is evolving as companies bear the brunt of the crisis and its destabilizing effects on markets and society. Boards are accountable not only to shareholders for financial results, but to the entire ecosystem of stakeholders. Grass-roots momentum is mounting as citizens show increasing concern about the future and pressurize political and corporate representatives to take issues such as diversity, inclusion and climate change more seriously.

How long the push for diversity will last after the crisis subsides remains to be seen. It will depend on what efforts boards make now to ensure that ESG strategy is aligned with business strategy, and how firmly they insist on clear and transparent metrics to gauge results. KPIs need to be linked to performance and remuneration across the organization for the impact to be streamlined. Advocacy and oversight by the board will ensure that management monitors and reports using robust metrics and that they remain accountable for results with the same vigilance as for the company's financial performance.

Corporate culture change is not a linear process and requires a strong commitment by the board. The skillset that underpins a culture of diversity and inclusion – as for an ethical culture – should form part of the continuing education of directors to signal its strategic importance and move beyond box-ticking. Boards need to “walk the talk”, keep the issue on the agenda, report on measurable results, then let the market do its work.

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*This article is based on the panel discussion organized on June 29th, 2020 by the CFA Institute and OECD on the challenges boards are facing in the aftermath of the COVID-19 crisis and on the lessons that can be learned for 'building back better'. IDN Ambassador France, Marina Niforos, participated in the roundtable.*