

# DIVERSITY AND CULTURE

ANALYSIS OF THE DIFFERENCES AND SIMILARITIES IN HOW COMPANIES APPROACH DIVERSITY AND CULTURE - AND WHY IT MATTERS

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> *While culture and diversity have moved up the agenda of the financial services industry for similar reasons, most firms treat them as distinct issues with discrete initiatives and separate reporting lines. Our analysis finds diversity and culture are closely interconnected and that a more holistic approach to both would yield better – and faster – results.*

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# INTRODUCTION

## What this report is about

A lack of diversity and poor organisational culture in the financial services industry are widely accepted to undermine performance and to pose both operational and reputational risks. In recent years, both diversity and culture have moved up the corporate agenda with growing pressure from government, regulators, investors and employees. But how are companies approaching these two themes?

Our starting point is that diversity and culture are two sides of the same coin – it is impossible to change the prevailing culture that defines how people behave at work without acknowledging the impact of an individual's background, experiences and perspectives. Equally, there is little point in creating a diverse workforce if the cultural norms, behaviours and incentives within a company do not allow them to contribute and flourish. Yet most organisations treat them as separate issues that they address with discrete initiatives and different reporting lines.

This research looks at the differences and similarities between how companies approach diversity compared to how they approach culture, in order to better understand the link between the two.

The report answers the following questions:

- What do we mean by the terms 'diversity', 'inclusion' and 'culture'?
- Why are diversity and culture important? And why now?
- What is the relationship between diversity and culture?
- Who owns diversity and culture at financial services firms?
- What do firms measure and disclose on diversity and culture?
- What are organisations doing to improve diversity and culture?
- What can diversity and culture initiatives learn from each other to accelerate progress in both?

## Methodology

New Financial conducted desk research on 30 financial services firms. All data was collected between December 2017 to March 2018 using the most recent annual reports, corporate social responsibility reports, diversity reports and corporate websites. We also conducted interviews with more than 20 market participants including corporate governance experts and practitioners across HR, diversity and inclusion, and culture.

## Acknowledgements

We are very grateful to our interviewees for their time and insight, Black Sun for providing data, our institutional members for their invaluable support, and particularly Legal and General for funding this research.



New Financial is a think tank and forum that believes Europe needs bigger and better capital markets to help drive its recovery and growth.

We believe diversity in its broadest sense is not only an essential part of running a sustainable business but a fundamental part of addressing cultural change in capital markets.

We provided data to Jayne-Anne Gadhia's government-backed review of senior women in financial services, *Empowering Productivity*, and we are working with HM Treasury to review the progress of signatories to the HMT Women in Finance Charter.

New Financial is a social enterprise that launched in September 2014. We are funded by institutional membership.

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Fig. I Why are diversity and culture important?

Top five reasons based on frequency of mentions in interviews and desk research

Top five reasons why diversity is important

- 1. To improve decision making
- 2. To attract and retain talent
- 3. To innovate and compete
- 4. To enhance financial performance
- 5. To reflect all stakeholders

Top five reasons why culture is important

- 1. To enhance financial performance
- 2. To manage and mitigate risk
- 3. To attract and retain talent
- 4. To innovate and compete
- 5. To unlock employee potential

Highlights of the report

1. **Moving up the agenda:** in recent years, both diversity and culture have moved up the financial services industry's agenda in the face of pressure from government, regulators, investors, customers and employees. While the two issues are interconnected, they are often treated separately within organisations.

2. **Accountability and ownership:** ownership of culture and diversity reveals how different organisations are tackling them. Culture tends to sit with the board and the chief executive's office, while diversity tends to be owned by the HR department, which often doesn't have a seat at the top table.

3. **Mutually reinforcing:** the financial services industry is in the early stages of drawing the links between diversity and culture, but a growing number of firms are moving towards folding their approach to diversity and culture - and responsibility for them - into one.

4. **Disclosure indicates intent:** there are stark differences in what organisations are required to and choose to disclose about diversity and culture. Disclosure on diversity is more comprehensive, but the quality of narrative disclosure about what organisations are doing to address both is patchy. We found very little public disclosure of how the two issues are linked.

5. **The measurement challenge:** the way in which firms measure and evaluate diversity and culture are very different. Diversity reporting is more clearly defined and quantified, but shortfalls in self-reporting impedes accurate measurement. Most firms see culture as something that is unique to them and more intangible, leading to a wide range in the quality and consistency of measurement across the industry.
6. **Dispersal of power:** more organisations are devolving the implementation of diversity and culture initiatives to the business units from the centre. While this gives teams more ownership of the issue and can accelerate progress, it can also lead to inconsistencies in the approach and prioritisation within an organisation.

7. **Making it happen:** diversity initiatives tend to be implemented by HR with input from representatives from across the business on diversity councils, while culture initiatives tend to be focused on conduct and sit within the risk and compliance functions.

8. **Stuck in the middle:** while the tone from the top in both diversity and culture may be clear, it can often get stuck in middle management. Without clear incentives, structures and training, middle managers will default to focusing on their day jobs and on the metrics that define their pay and career prospects.

9. **Aligning incentives:** for all of the noise about diversity and culture, there has been limited progress in aligning change with incentives. While the Women in Finance Charter has made some progress in linking diversity targets to pay, this only represents a small part of potential reward. And culture is usually only linked to pay in the form of reduced bonuses for poor conduct.

10. **Joining up the dots:** efforts have been fragmented and uneven, but the most advanced companies are starting to knit together their diversity actions as part of a more holistic approach to encouraging a broader cultural shift. Diversity and culture do overlap – each can help the other embed desired behaviours and outcomes. It is now time for firms to join the dots and accelerate change.

# SETTING THE SCENE: WHY IT MATTERS AND WHY NOW

## Our definitions

Diversity, culture and inclusion are multifaceted concepts, meaning different things to different people and organisations. For the purposes of this research and in the context of the workplace, our definitions are as follows:

**Diversity** : refers to a broad range of different types of people that work for an organisation.

The differences can be visible, such as gender, age, and race, or non-visible, such as disability, sexual orientation, education, socioeconomic background and nationality. Some organisations also talk about cognitive diversity or diversity of thought, which recognises differences in perspectives, backgrounds, experiences, skills, abilities, knowledge, attitudes, information processing styles, or a combination of these characteristics.

**Culture**: is the unique mixture of the values, attitudes and behaviours that characterise how an organisation and its staff operate and interact.

Culture varies across teams and within divisions or business lines of a company, and affects how individuals, groups and organisations relate to anyone they work with have an impact on – be it each other, customers, shareholders, suppliers, regulators or the wider community.

**Inclusion**: is where difference is not only accepted, but embraced.

An inclusive environment is one in which an individual, group or organisation not only allows but encourages everyone to be themselves at work, make a contribution and fulfil their potential.

## Why do diversity and culture matter – and why now?

The financial services industry is under pressure from all sides to address diversity and improve culture. The global financial crisis highlighted problems of the underlying culture across the industry, and the focus on both diversity and culture has really increased over the past two years.

### > Government

The UK government has identified both diversity and culture as particular problems for the financial services industry. In the UK, there have been a series of government-backed reviews into different aspects of diversity (Davies 2010, Hampton-Alexander 2016, Gadhia 2016, Parker 2017, and McGregor-Smith 2017) that have all highlighted the role of diversity and culture in reforming corporate behaviour and improving performance.

Separately, the Parliamentary Commission on Banking Standards, set up in 2012 in the wake of the financial crisis, led to the Lambert Review of Banking Standards and the creation of the Banking Standards Board. The HM Treasury Women in Finance Charter, the Treasury Select Committee's inquiry into women in finance, and the introduction of mandatory gender pay gap reporting, all reinforce the government's commitment to tackling the issue.

### > Regulators

Regulators across the world are increasing their engagement around diversity and culture. Reforms to bonuses and incentives formed part of the collective global response to the financial crisis, and supervisors in Australia, Canada, Hong Kong, the Netherlands, US, and UK have all explicitly brought culture into their day-to-day regulation and supervision of the industry. In March 2018, the UK's Financial Conduct Authority published a [discussion paper](#) on the impact of culture in the run-up to the financial crisis, and the importance of improving culture in order to rebuild trust in the financial services industry.

### > Investors

Similarly, investment managers are increasingly recognising the importance of both diversity and healthy culture in reducing risk, improving performance and running a sustainable business in their engagement and voting policies. Their clients, the asset owners, are also beginning to factor diversity and culture into how they allocate money, appoint asset managers and engagement with investee companies (see New Financial's 2017 report [Diversity from an investor's perspective](#)).

### > Corporate governance

The Financial Reporting Council's 2016 [report](#) on corporate culture and the role of boards and the [latest iteration](#) of the UK Corporate Governance Code have increased discussion of corporate culture and diversity, and on how the overall governance of a company contributes to its long-term success. In July 2018, the FRC also published its first [analysis](#) of what and how the FTSE 350 report on diversity at board and senior management levels in their annual reports; the study showed that some companies are treating culture and diversity as more integrated concepts, which is an encouraging step forward.

# SETTING THE SCENE: ACCOUNTABILITY

## Who owns diversity and culture?

Diversity and culture tend to sit in separate parts of an organisation. Typically, culture is seen as the responsibility of the board and the chief executive's office. Diversity is usually treated as an HR function, with varying levels of support and sponsorship from the top. This fractured ownership structure reveals how companies think about, approach, and prioritise the two issues.

### Culture:

This is usually owned by the board and the chief executive's office. The 2016 UK Corporate Governance Code outlines the role of the board to set the 'tone from the top' establishing a company's culture, values and ethics. This leads to an understandable tendency for boards to 'own' culture. Indeed, the Banking Standards Board regards the board as the primary determinant of the culture of an institution. This can raise the risk of a board trying to reset culture from the top down.

The chief executive's commitment to culture is vital. The FRC's 'Seven indicators of a healthy corporate culture' states that 'the CEO must embody the desired culture...they are responsible for conveying a detailed picture of the desired target culture - a picture that moves beyond vision and values statements and is concrete enough to be executed by managers.'

Implementation of culture initiatives tend to be treated as a risk, conduct or compliance function. Few firms have a designated 'head of culture' (that is widely seen as the responsibility of the chief executive), and where they do, it tends to be 'head of culture and conduct'.

### Diversity:

In contrast, ownership of diversity usually sits with the HR function, which often doesn't have a seat at the top table of management decision-making. This is mainly because diversity has traditionally been seen as a question of representation, and HR was the best-equipped department to address it by changing the recruitment, evaluation and promotion process. Virtually all large firms have a designated 'head of diversity' or 'head of diversity & inclusion'.

It is telling that research last year by the FRC into board diversity reporting found that only 9% of the FTSE 100 companies and 6% of FTSE 250 companies specified a senior person or role held accountable for the success of any diversity initiatives or objectives.

This responsibility is beginning to shift: chief executives and senior management at more and more firms are directly sponsoring diversity initiatives, and the Women in Finance Charter explicitly allocates responsibility to a named 'accountable executive': more than 90% of these accountable executives sit on the executive committee and more than 60% sit on the board. In many organisations, the implementation of diversity initiatives has been spread to different employee networks, affinity groups and diversity councils, often sponsored by senior executives. While this can help drive change more effectively than a centralised approach, it can create ambiguity over ultimate responsibility and accountability.

## Examples on culture

> **Santander:** culture is embedded into the main responsibilities of the chief executive officer, chief risk officer, chief legal and regulatory officer and chief financial officer.

> **Credit Suisse:** the UK CEO has not missed a single culture steering committee meeting since taking the role in early 2016 which sends a powerful message to other leaders.

> **Banking Standards Board:** the BSB places responsibility for culture firmly with the board and senior executives. The first question in its annual assessment is 'I believe senior leaders in my organisation believe what they say'.

> **FCA:** the senior managers and certification regime introduced in 2015 places accountability for conduct and culture firmly on the shoulders of senior executives.

## Examples on diversity

> **BNP Paribas:** has a group diversity committee comprised of 34 pairs of business and function representatives and HR. A diversity and inclusion council, consisting of senior representatives from across every business entity in the UK, provides governance and oversight.

> **Santander:** recently appointed its first head of D&I. The D&I steering committee meets every two months, is chaired by the CEO. It discusses challenges and obstacles and ways to overcome them.

> **Societe Generale:** has a diversity board, composed of executive committee and management committee members, monitors progress on diversity.

# WHAT FIRMS DISCLOSE: DIVERSITY

## Transparent reporting

The Financial Reporting Council's revised UK Corporate Governance Code, which comes into effect in January 2019, emphasises the importance of diversity and sets out the following expectations:

- Encourage boards to think broadly about diversity in its different forms, including but not limited to gender diversity, and to ensure appointment and succession planning practices are designed to promote diversity.
- Broaden the focus of the nomination committee, giving responsibility for overseeing the development of a diverse pipeline for succession to senior management.
- Encourage reporting on action taken to promote diversity and inclusion across appointments, succession planning and board evaluation, and on the outcomes in terms of progress on diversity.

## What are firms disclosing on diversity?

Transparency and disclosure are an essential part of driving change. What companies say on their websites and in their annual reports about diversity and culture provides us with some insight into the commitment of a firm to diversity and cultural change.

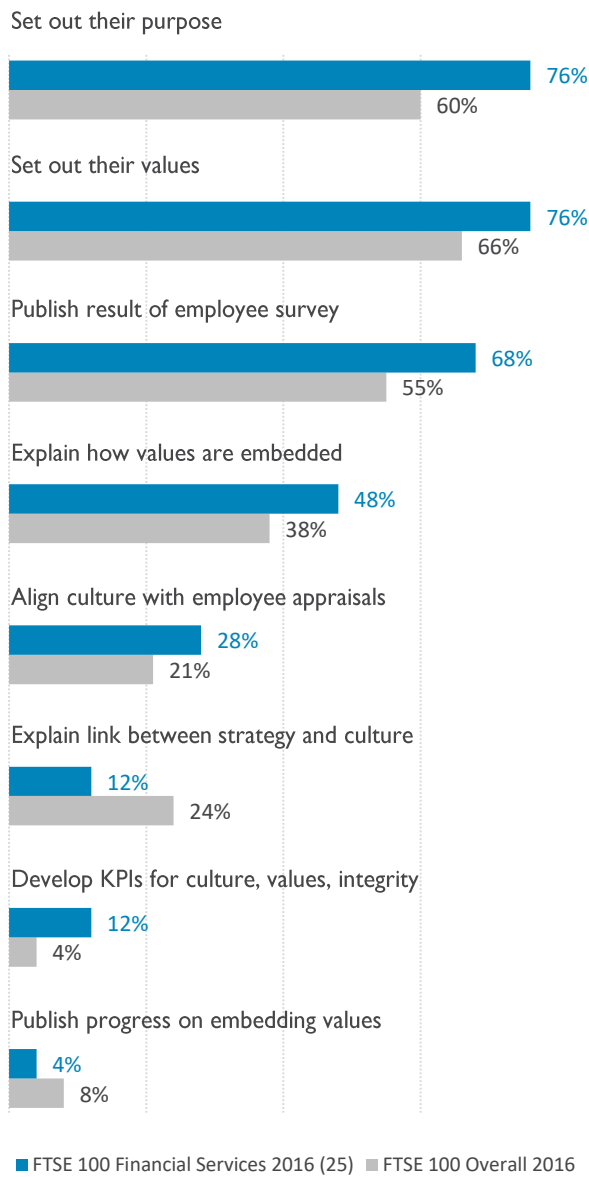
The disclosure requirements around diversity are wide-ranging and increasingly codified. The FRC's corporate governance code, the FCA's rules on listed company disclosure, and the EU's non-financial reporting directive all require organisations to disclose their diversity policies but not necessarily their numbers.

- **Female representation:** most of the mandatory and voluntary disclosure focuses on representation, particularly on gender diversity at board and senior management level. All FTSE 100 companies disclose gender balance data on their board and 99% of them do so for management. However, when we [analysed](#) disclosure by more than 100 financial services companies across Europe in 2015, we found much lower levels of gender diversity disclosure. From this year, all UK companies with more than 250 employees have to publish their gender pay gap data, which also provides an insight into level of female representation at different levels of an organisation.
- **Beyond gender:** disclosure on other aspects of diversity drops off sharply. Just 15% of FTSE 100 companies disclosed information on the ethnic diversity of their workforce, according to [research](#) by the Pensions and Lifetime Savings Association in 2017, and our own research on diversity disclosure shows reporting levels for sexuality and disability are even lower. A big challenge with diversity beyond gender is that it relies on self-reporting by employees, which can reduce comparability and the willingness of firms to publish data.
- **Context:** disclosure on the context of diversity statistics and narrative discussion of how the composition of the workforce meets the needs of the business and what organisations are doing to address it is much patchier. Gender pay gap reporting and the Women in Finance Charter have been a big step forward: with pay gap reporting, most firms included an action plan outlining how they are addressing the gap alongside their data (if only to mitigate the headline numbers).
- **Raising their game:** companies are getting better at diversity disclosure. Analysis by the FRC in 2018 of diversity reporting by boards of listed companies showed that the quality of reporting has significantly improved since requirements were first included in the combined code in 2012.
- **Benchmarking:** a growing number of firms are signing up to different initiatives that benchmark diversity across a range of factors and disclosing their scores and ranking. These include the Business Disability Forum, Business in the Community Gender / Ethnicity benchmarking, Social Mobility Index, Stonewall Workplace Equality Index, and Working Families.

# WHAT FIRMS DISCLOSE: CULTURE

Fig.2 A public commitment to cultural change?

What FTSE 100 firms disclose around culture and values %



Source: Black Sun 2017 Culture Research

## What are firms disclosing on culture?

Given the widely recognised importance of culture in driving performance and reducing risk, it is perhaps surprising how little organisations are required to disclose on culture. One challenge is that each organisation tends to define and measure culture in different ways, but there are signs that disclosure is improving.

Data provided by stakeholder communications consultancy Black Sun covering 2016 shows the wide range in disclosure around culture and suggests that financial services firms disclose more than organisations in other sectors (see Fig.2).

Our snap analysis of a selection of big listed financial services firms in the UK shows that they mention culture in their annual reports as frequently as they mention diversity. However, culture is usually mentioned in the context of risk or conduct, and firms disclose far less detail about culture than about diversity.

Unlike with diversity disclosure there are fewer frameworks for firms to follow when measuring culture. This may change with the introduction of the revised corporate governance code for UK-listed companies which takes effect from January 2019. The code includes a number of new reporting requirements across culture, diversity and stakeholder engagement, and places responsibility for them clearly with the board. This code is likely to filter down into disclosure at non-listed companies over time.

In the absence of consistent culture frameworks, what should companies disclose? The Institute of Business Ethics recommends a three step process: describe the firm's values and affirm that the senior leadership are committed to them; describe the firm's purpose and how that relates to its values; and outline what the leadership team are doing to embed these values throughout the organisation.

The Banking Standards Board has developed a framework to help assess culture within financial services firms that involves nine discrete segments: honesty, competence, reliability, responsiveness, resilience, accountability, openness respect and shared purpose. Last year 36,000 employees at 25 firms completed this assessment process. While companies are not expected to disclose their results publicly it provides a useful means of framing internal culture discussions and measuring progress.

# MEASURING DIVERSITY

## What are firms measuring?

The information that companies are disclosing on diversity and culture does not tell us the whole story. Some companies may be measuring a variety of factors in both areas but might not choose to disclose them. This section summarises the different ways in which different organisations are measuring diversity and culture - and the challenges they face.

### Diversity metrics

A summary of the most commonly measured diversity factors and how they can be segmented

#### Factors

- Gender
- Age
- Ethnicity / BAME
- Nationality
- LGBT
- Disability
- Education
- Socio-economic background
- Faith
- Caring responsibilities

#### Segmentation:

- Board / senior management
- Different levels of management
- Entire workforce
- Business area / function
- Pay and bonuses
- New hires
- Promotions
- Turnover and exit
- Graduate / associate intake
- Part-time vs full-time
- Flexible working

#### Other measures:

- Employee engagement (self-reporting and survey participation)
- Employee satisfaction and attitudes
- Diversity outcomes
- Setting targets and measuring progress towards them
- Identifying barriers to diversity and progress in overcoming them

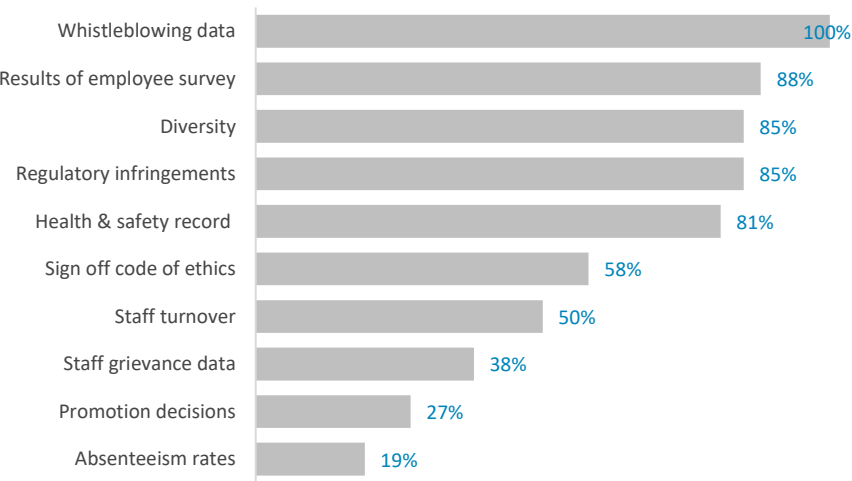
- **A focus on representation:** given the proliferation of disclosure requirements and benchmarks it is perhaps not surprising that organisations tend to focus on representation-level and measurable demographic data. While the public spotlight has been on diversity at a senior level, firms are increasingly segmenting their diversity data to the  $n^{\text{th}}$  degree and taking a more sophisticated approach to understanding the composition of their workforce.
- **A focus on gender:** the most commonly measured diversity factor is gender, not least because it is easy to observe and has been the focus of government-led initiatives to improve diversity. A growing number of organisations are collecting data on other characteristics such as age, nationality, ethnicity, sexuality and socio-economic background. One challenge here is that many of these characteristics rely on self-reporting by employees. It can take many years for employees to become comfortable with sharing their personal information, and requires organisations to develop an open and trust-based culture.
- **Leading the pack:** the more advanced organisations are moving towards in-depth and real-time trend analysis such as coupling demographic data with employee survey responses, and using artificial intelligence to spot trends and early signs of changes in employee attitudes in different areas of the business. Others are taking a cross-sectional approach and combining different characteristics: for example, the experience or promotion trends for BAME women.
- **Beyond inputs:** headline data on representation, however comprehensive it may be, is one dimensional, and may encourage the risk that organisations think about representation as an end in itself. There is far less consistency in the measurement of outputs: in other words, the impact of different diversity initiatives on the performance of the business and on how employees engage with them.
- **Changing context:** another challenge is keeping up with the ever-evolving diversity agenda and the impact this has on measurement. The best indicators of a particular diversity factor today may change tomorrow. For example, in the past few years, the government and many firms have begun to shift their focus to social mobility, which has its own unique set of indicators.
- **Measure of culture:** it's interesting to note that some organisations are beginning to use diversity metrics to help measure culture. This could be because diversity metrics are more readily available and are more consistent across the industry so can be used to benchmark activity.

## A cultural challenge

- **A wide range:** while diversity metrics are clearly-defined and largely similar, the measurement of culture varies widely between different firms and even within different divisions of the same organisation (staff in the retail division of a large bank are likely to have a very different perspective on its culture than people on the trading floor). However, there is a growing range of metrics that can be used as indicators of different aspects of culture and which can measure change over time.
- **Imperfect measurement:** culture is still widely seen as a ‘soft’ issue and many people in the financial services sectors struggle to understand something that cannot be quantified precisely. While firms can measure specifics such as breaches of conduct, fines, or high levels of voluntary staff turnover, these are not in themselves substitutes for measuring culture. Accepting that the best available measure is inherently imperfect is a challenge for senior management. One proxy for culture is the extent to which information on employees is communicated to the board, when and how (see Fig. 3).
- **A patchwork approach:** one way in which many companies address this challenge is to create dashboards that pull together a wide range of different indicators as a proxy for measuring culture. This may create a false sense of security, particularly if management start managing to the indicators themselves. While culture may be more amorphous than diversity (at least in terms of hard data) managing it requires a sophisticated understanding of the relationship between different indicators and how they impact performance. Too much information may lead to ‘analysis paralysis’ or an assumption that measurement alone will address the problem.

Fig.3 Top ten employee data commonly communicated to the board

Data on employees that is communicated directly or indirectly to the board



Source: Institute of Business Ethics ‘Understanding Corporate Behaviour’ March 2018

## Measuring engagement

One way of measuring culture is to analyse employee attitudes and engagement. While employee surveys can be of limited value if they are not constructed and used carefully, they can provide a valuable indicator of culture. Some examples are:

> **Bank of America Merrill Lynch:** after each employee engagement survey, the management team, as well as every line of business, reviews the results to evaluate ongoing efforts to improve the employee experience. Employee satisfaction action teams are formed to gain a deeper understanding of the survey results, prioritise issues and concerns, and develop solutions.

> **HSBC:** runs monthly employee surveys which contribute to the dashboard, reviewed by external consultant who works on culture.

> **Allianz:** has developed an Inclusive Meritocracy Index that it uses as a significant indicator to help it understand the progress it is making towards developing a culture where people and performance matter. In the past year the index increased by 2% to 72%.

> **The Banking Standards Board:** has developed the most comprehensive model for measuring culture and behaviour in financial services. It includes 36 questions across nine discrete segments: honesty, competence, reliability, responsiveness, resilience, accountability, openness respect and shared purpose. Last year 36,000 employees at 25 firms completed this assessment process.

# WHAT FIRMS ARE DOING ABOUT IT - IMPLEMENTATION

## Putting words into action

In this section we examine what organisations across the industry are doing in practical terms to drive greater diversity and better culture. We have looked at four main areas: implementation; diversity and culture training; incentives and appraisals; and flexible working and communications. In each area, we have provided a selection of initiatives by individual firms drawn from their annual reports, websites or interviews. These are not intended to be exhaustive.

### Driving change

While the tone and direction of an organisation's approach to diversity and culture is set from the top down, there is a clear trend across the industry towards decentralising the implementation of different initiatives.

At most firms, the responsibility for implementing changes in diversity and culture has been pushed out to individual business areas and regions, which often involves the creation of a series of networks and councils that involve staff and management working in partnership with HR or compliance.

Academic [research](#) suggests that firms which adopt a top down approach have a culture that is associated with control, uniformity and structure, while those firms that run programmes that engage the middle and grassroots of an organisation have a more open culture and are more successful with their initiatives. The risk of this decentralised approach is that it can lead to a scattergun approach, mixed messages and inconsistent implementation if it is not carefully managed.

There are several key differences in the implementation of diversity and culture initiatives. Culture programmes tend to be implemented by the compliance and risk functions, which can lead to front office functions outsourcing their responsibility. And diversity initiatives are implemented by the HR department through a wide range of diversity groups, councils and affiliation networks. This can generate greater buy in.

### Implementation

- **Bank of America Merrill Lynch:** the chief executive chairs the global diversity and inclusion council. In EMEA the D&I council is sponsored by the regional president and includes senior executives from all lines of business and support functions who are accountable for driving the D&I strategy across their business. Every quarter, the group and regional D&I councils receive an updated dashboard on progress.
- **BNP Paribas:** has a group diversity committee comprised of 34 pairs of business line / function representatives and human resources that meets twice a year. A diversity and inclusion council, consisting of senior representatives from every business entity and function in the UK provides governance and oversight.
- **Credit Suisse:** has created a series of 'conduct and ethics boards' at group, divisional and functional level. The UK conduct and ethics board includes 15 senior individuals and meets at least monthly. It has also created a series of steering committees and workstreams in different functions such as communications and HR processes.

### A focus on middle management

In any firmwide initiative in diversity or culture, successfully engaging 'middle management' is vital. Many middle managers have spent much of their career at an organisation operating under a different culture or set of values. They are also likely to have specific business-related incentives and may be suspicious of new initiatives from head office that add to their workload with no obvious gain. Ultimately, middle managers do the implementation of any initiative on the ground. Their behaviour sets an example to staff below them, and can act as a block on any initiative spreading throughout an organisation.

Changing the attitudes of middle management - or melting the permafrost - is hard. It involves a combination of clear and consistent messaging; structured training; explaining the business benefits of any particular initiative; ensuring that they are given clear incentives; and, perhaps most importantly, ensuring that any diversity and culture initiatives are built into their day job.

# WHAT FIRMS ARE DOING ABOUT IT - TRAINING

## Embedding change

The tone from the top may be vital when it comes to diversity and culture, but without clear and structured training it will achieve little on its own in terms of the changing the mindsets and behaviours of employees at firms with many thousands of staff.

To help embed diversity at every level, a growing number of organisations are integrating diversity and inclusion into management targets and training, and in some cases treating it as essential part of any senior or high potential manager's required skillset.

The majority of organisations in the financial services industry have drawn up new or revised codes of conduct and sets of corporate values since the financial crisis, and many firms have launched different culture programmes and initiatives - but there is a wide range in application.

At many firms, the code of conduct is compliance based and is treated as part of the staff handbook. Other firms have taken this approach a step further and tried to embed values and culture into their day-to-day business by linking it to a firm's core business or an individual's core job. In some cases, the responsibility for spreading and applying values is shared from the top down through management reporting lines.

At the same time, many firms are adopting a wider approach to training and development to ensure that their employees have access to the right skills, development and management training. Allianz has launched an in-house university called AllianzU, Aviva has launched a training portal called Grow, AXA has increased its training budget by 25%, and BNP Paribas has set up a digital school.

## Diversity training

- **JP Morgan:** designed a *Blueprint for Managers on Diversity* that encourages managers at all levels to make diversity a business priority, expand their scope in sourcing and attracting talent, create a more inclusive work environment to empower employees, and foster a workplace that is 'respectful and inclusive of differences'.
- **BlackRock:** has made inclusive leadership and management a core leadership competency, with training programmes and tools to create more diverse and inclusive teams designed to embed those expectations in talent processes.
- **Citi:** has developed 'leadership standards' that set expectations for all senior managers that linked to its director and MD promotion criteria, our performance management process and our recruitment efforts. 'By integrating these standards into our everyday practices, we continue to foster a culture of diverse and inclusive leadership.'
- **Bank of England:** all new managers attend an interactive session on how to create a supportive, inclusive culture as part of their induction.

## Culture and conduct training

- **Bank of America Merrill Lynch:** all employees around the world are required to take part in annual training on the code of conduct, which outlines business practices and professional and personal conduct that employees are expected to follow.
- **Credit Suisse:** 88% of managing directors took part in an exercise help the firm define the attributes of its target culture, and they then ran face-to-face sessions with 86% of the firm's directors to communicate the firm's culture goals, who in turn are responsible for sharing these attributes with all remaining employees.
- **Santander:** developed a revised set of values called 'The Santander Way' that has three elements (simple, personal and fair) across four main groups (people, customers, shareholders and communities) and includes nine behaviours.
- **Societe Generale:** updated its code of conduct in 2016 and implemented it worldwide. Available in 22 languages, it defines what the group expects of all its employees and provides the information and resources required to manage its activities ethically.
- **Virgin Money:** every new employee attends a two day programme at the bank's Newcastle headquarters called 'Arrivals' that provides a consistent introduction to the firm's values, purpose and culture.

# WHAT FIRMS ARE DOING ABOUT IT - INCENTIVES

## Incentives

- **UBS Investment Bank:** incorporates behaviours as part of the balanced scorecard for the group executive board and senior management. It has also overhauled the compensation model to support the firm's strategy by promoting and rewarding behaviour. The annual performance review looks not just at goal and revenue achievements but also at the behaviours used to achieve them.
- **BlackRock:** 'All of our leaders are accountable... and our managers have diversity and inclusion objectives. This year, for the first time, we are looking at a separate bonus for those who go above and beyond.'
- **Allianz:** 'Our remuneration system is based on the following principles: provide a transparent, fair and integrated offering to attract, motivate and retain highly qualified employees; deliver total rewards that are competitive in the relevant markets; align remuneration with the performance of the individual and the achievement of Allianz's financial and strategic goal.'
- **Bank of America Merrill Lynch:** from the chief executive CEO down, every manager has diversity and inclusion objectives incorporated into their business goals which contribute to year-end performance management discussions and decisions.
- **Virgin Money** has incorporated a gender analysis tool into its annual pay process that enables managers to see the impact of salary and bonus decisions on the gender pay gap for their team.

## Appraisals

- **Credit Suisse:** introduced a new 360 review mechanism for all managing directors and directors that feeds directly into year-end performance management and compensation processes. The UK conduct and ethics board uses this framework to identify and reward 'culture carriers'.
- **Santander UK:** embedded gender targets for its senior female management population into the annual performance objectives of the executive committee.
- **BlackRock:** all managers are evaluated against inclusive leadership and management objectives in the annual performance review process.
- **BNP Paribas:** has incorporated diversity and inclusion targets into all manager appraisals.
- **AXA:** management board members have a specific performance objective on diversity and inclusion to ensure delivery.

## Follow the money

In financial services - perhaps more so than in other industries - employees tend to respond to the often very large financial incentives in front of them. Unless specific targets and behaviours around diversity and culture are incorporated into pay and bonuses substantive change is unlikely to happen on its own. A growing number of firms are using different types of incentives to encourage changes in behaviour. Most obviously, the reforms to pay and bonuses over the past decade were designed to address the bonus- and risk-culture that played a big role in causing the financial crisis.

More firms are setting direct links to diversity as part of the pay and bonuses for managers, and linking part of pay to diversity targets is one of the main elements of the Women in Finance Charter. However, at most firms this link is indirect and usually as part of a range of non-financial factors that typically account for less than 20% of an individual's potential bonus. As a result, so far the link represents only a small part of the potential bonus.

More companies are embedding diversity and culture into the staff appraisal and evaluation process, particularly for managers. We found at many firms that senior executives now have a specific performance objectives on diversity and inclusion.

The link between pay and culture is less direct, more compliance-focused and is often based on reducing potential bonuses in response to undesirable conduct rather than increasing them as a result of positive conduct. Ultimately, however, without a fundamental rethink of the role of bonuses in banking and finance, linking pay to diversity and culture is unlikely to have a big impact.

# WHAT FIRMS ARE DOING ABOUT IT - OTHER

## A flexible approach

In many sectors of the financial services industry, long and often unpredictable hours are taken as a given. These demands can take a huge toll on individuals, limit the career prospects of people who need more flexible hours, and create a culture based on inputs and presenteeism rather than performance.

Many firms are experimenting with flexible working arrangements to increase employee trust, engagement, empowerment, work-life balance and productivity. These programmes range from guaranteeing a minimum amount of time off to senior managers embracing flexible working.

Firms are formalising and making these working options more transparent and widely available but many firms struggle to integrate flexible working into their business. Very few senior executives have publicly embraced flexible working in their own jobs, as many firms and executives assume that certain roles must involve long and fixed hours or that most meetings need to be face-to-face.

## A question of communication

Communication and awareness campaigns are common to both diversity and culture: multiple channels are being used to set expectations and inform employees. A combination of awareness events, townhall meetings, open mic Q&As with senior management and campaigns based on role models are common to both areas, and firms are stepping up their use of social media for both internal and external communications. It is unclear, however, if communications departments are adequately weaving diversity and culture into core messages. And some firms are concerned about 'diversity and culture fatigue' and so deliberately avoid using these terms in their programmes.

## Flexible working

- **AXA:** in 2015, AXA developed and formalised an agility charter and an agility toolkit at Group level, describing the principles of agile working. By the end of 2016, 30% of AXA's employees were working in an agile working environment.
- **Citi:** nearly one-third of Citi employees use formal or informal flexible work arrangements. Its formal flexible work programme, Citi Work Strategies, has more than 17,000 employees enrolled and includes options for part-time work and job-sharing.
- **UBS:** launched *Take 2* to encourage more flexibility in working hours with the opportunity to take 2 hours a week for something personal ensuring coverage of work and clients through team collaboration.
- **BlackRock:** instead of being held to a fixed number of paid days off per year, all employees can opt for 'flexible time off' (FTO), giving people the flexibility to take as much time off as they need with approval from their manager. This approach is (as far as we are aware) unique in banking and finance.
- **Aviva:** operates an extensive job sharing programme open to a wide range of employees. For example, the firm's co-heads of public policy and sustainability - both men - share their job and each work three days a week.

## Communications

- **Bank of England:** the Bank organised an Inclusion Fortnight which included over 20 events over 10 days at four different sites. The events were attended by nearly 1,700 people including the governor and deputy governors.
- **BlackRock:** launched a programme called the Jam, an online chatroom event over three days in which senior management hosted conversation and ran real-time chats with employees around the world. It generated more than 11,000 comments.
- **Aviva:** runs a programme called #Uncut in which senior managers are filmed answering any question without any warning as part of its aim to build a culture in which people have open, transparent and challenging conversations. The video is streamed live on the firm's intranet and there's an app for people to watch it on their phones.
- **Social media:** in the past year there has been a noticeable increase in the number of female senior executives featuring in talking heads videos on social media on anything but diversity: from the future of M&A to the outlook for the Chinese economy. More firms are using this approach to change perceptions about diversity without mentioning diversity.

# CONCLUSIONS: JOINING UP THE DOTS

## Mutually reinforcing

So far, this report shows that in terms of ownership, measurement, disclosure, and implementation, there are clear differences in how companies address diversity and culture. However, there is a growing awareness of how diversity and culture are interconnected and can be mutually reinforcing. They both feed into how companies behave, think and perform.

Diversity can help support many of the measures that firms are taking to improve their culture, such as more openness and more effective challenge of dominant points of views, better decision making and less groupthink, and a wider sense among employees that their views, experience and contributions matter. At the same time, some of the accepted cultural norms in the financial services industry, such as the bonus culture, 'always on' long-hours, and testosterone-fuelled competitiveness that have actively reduced diversity are now being challenged and re-evaluated by many firms.

Diversity should not be used as a proxy for culture (and vice versa), and there are inevitable differences in measurement and disclosure. But some firms are beginning to take a more holistic approach to addressing diversity and culture, and using their experience of addressing each issue to help inform how to tackle the other. In time this may lead to the consolidation of ownership, accountability and implementation of diversity and culture initiatives.

Below is a selection of comments from supervisors and industry participants on the link between diversity and culture:

*'A culture that pursues diversity and equal opportunities is one that will have much wider benefits for an organisation. It suggests a culture that is open-minded, tolerant, aspiring to improve and considerate. When I look back at the cultures that I have seen where things have gone wrong, those are not descriptive terms that I would employ.'*

**Andrew Bailey - chief executive, FCA**

*'Meaningful and sustained improvements in diversity and inclusion can help to improve the safety and soundness of financial services firms and contribute to the restoration of trust in the financial system in Ireland.'*

**Ed Sibley - deputy governor, Central Bank of Ireland**

*'We want to raise the management of culture within firms, as a leadership discipline, to meet the level of rigour and importance as risk management and strategic planning. Prominent in this conversation is the pursuit of diversity in the workplace. A culture that pursues diversity is one that will have wider benefits for an organisation. A culture that is open minded, tolerant, considerate, and importantly, aspiring to improve.'*

**Megan Butler - director of supervision, FCA**

*'The culture of organisations is led from the top and is embedded by individuals on the ground who manage their teams. The biggest step forward that could be made in relation to that is wider diversity within middle management and senior management roles, because those microcultures really make up the overall culture of the organisation.'*

**Jon Terry, UK diversity & inclusion consulting lead PwC**

*'Too few women get to the top and there is a permafrost in the mid-tier where women do not progress, or they leave the sector. This is not just about childcare. Overwhelmingly, women said the reason we do not want to get involved in financial services at senior levels is because of the culture.'*

**Jayne-Anne Gadhia – chief executive of Virgin Money and author of the Gadhia Review on women in finance**

*'While senior leaders undoubtedly play a key role in influencing culture and should be held to account for cultural failings, everyone influences the cultures they're in, from middle management to the most junior employee.'*

**David Blunt - head of conduct & supervision division, FCA**

# CONCLUSIONS: DIFFERENCES & SIMILARITIES

## What conclusions can we draw?

This report shows that, despite some important differences, there is a clear connection between culture and diversity. This section summarises the differences and similarities between them, and the tactics that each can learn from the other to improve performance.

### Differences

- **Ownership:** diversity and culture are owned by different areas of the business with different reporting lines and accountability. Culture tends to sit with the board and the chief executive's office, while diversity usually sits within HR.
- **Implementation:** there are differences in who implements diversity and culture programmes. Diversity is implemented by HR and a dispersed network of diversity councils and affiliation groups. Responsibility for implementing cultural change tends to rest with compliance, risk and sometimes HR on behalf of the board and senior management.
- **Risk:** both culture and diversity are related to risk but in different ways. Culture tends to be associated with conduct risk and operational risk, while diversity has traditionally been seen as a reputational risk. However there is growing awareness of how diversity can reduce operational risk and how both can reduce the far bigger risk of underperformance.
- **Definition:** many years of pressure from government, regulators and wider society on diversity has led to a clearer definition of the problem and how to address it. While culture has long been seen by individual firms as vital to their success, the pressure for change is more recent and work in this area is less clearly-defined.
- **Metrics:** diversity metrics are far more uniform for measuring diversity than they are for culture (though this can lead to too much focus on representation as an end in itself). There is still a lack of consistency how to effectively measure culture.

### Similarities

- **Responsibility:** ultimately both diversity and culture are the responsibility of the board and senior management. While they intersect most obviously at the top of organisations (for example board effectiveness, improved decision making and constructive challenge) efforts need to be cascaded throughout the organisation to effect sustained change.
- **External pressure:** the focus on diversity and culture is not going to go away anytime soon. If anything, the pressure is likely to increase as governments, regulators, investors, customers and employees demand more disclosure and more evidence of change in more areas.
- **A new narrative:** the numbers on diversity representation only tell half the story. While the pressure for more quantitative disclosure in both diversity and culture is unlikely to go away, organisations will need to develop a more sophisticated qualitative and narrative approach to disclosure, and a better understanding of how different factors relate to each other.
- **A common aim:** efforts to increase diversity and improve culture have the same aim: to improve decision-making, reduce groupthink, to attract and retain the best staff, and – ultimately – to improve performance.

# POINTS FOR DISCUSSION: COMMON CHALLENGES

*'You would be hard pressed to find any evidence that argues that diversity and culture are not ultimately the same thing.'*

Karen Dennehy Head of HR for EMEA, Blackrock

## The common challenges ahead

1. **Tone from the top:** without a clear and consistent tone from the top and an effective accountability framework to support different initiatives, diversity and culture efforts will continue to generate more noise and activity than real change.
2. **Shared ownership:** organisations are pushing responsibility for diversity and culture initiatives out from the centre to business divisions to accelerate change. While this should help change the way people think across an organisation, this can be painful for centrally-managed functions, and without careful attention can lead to inconsistent implementation.
3. **Fragmentation:** many efforts to address diversity and culture have to date been fragmented and disjointed. The most advanced companies are starting to knit together their diversity actions as part of a more holistic approach to a broader cultural shift.
4. **Melting the permafrost:** there is a recognition that the permafrost layer of middle-management is where efforts to improve culture and increase diversity often stall. While most senior executives get it - or are at least incentivised to say they do - many middle managers have diversity and culture fatigue, and often are not given the explicit permission, time or incentives to incorporate culture and diversity into their job.
5. **No magic wand:** there is no magic wand that organisations can wave to solve the challenges they face with diversity and culture. Many firms have been chipping away at diversity for decades with little to show for it in terms of concrete change. There are, however, many small practical changes that firms can take, which can quickly add up.
6. **A long-term game:** addressing diversity and culture involves a fundamental overhaul of the way the industry thinks and operates and will require concerted effort over an extended period of time. This will be a hard slog, with uncomfortable conversations to challenge the status quo and the occasional leap of faith to unpick deeply-rooted behaviours.
7. **Better management:** one of the biggest challenges in improving diversity and culture is that they both require a better and more sophisticated approach to management. Managing people with a wider range of perspectives and backgrounds is harder than managing a homogenous team (that's one of the reasons why it can be so beneficial). Managers at all levels in the industry will need more support and training to make it work.
8. **Culture:** initiatives can learn from how collecting and reporting diversity metrics has significantly moved the diversity debate forward. Gender pay gap reporting, for example, has encouraged firms to shift their focus from data collection to narrative discussions on why diversity is important to them and what they are doing about it.
9. **Diversity:** initiatives can learn from how culture has been woven into risk frameworks, encouraging managers to consider culture as a core part of their business responsibilities. There is an opportunity for diversity to be positioned as a risk issue in its own right by avoiding group think and creating an environment where people feel it is safe to speak up.
10. **Joining up the dots:** diversity and culture are interconnected. They feed each other and help firms embed different behaviours and achieve different outcomes. We think it's time for the financial services industry to join up the dots and accelerate change.