Time to get serious: If diversity is a business imperative, treat it like one

Diversity and inclusion in investment management

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DIVERSITY PROJECT

Time to get serious

If diversity is a business imperative, treat it like one

Gender pay reporting has brought the lack of diversity within the investment management industry into sharp focus and added weight to the voices calling for faster change. Yet there is little evidence of progress.

Of the five sectors reporting the biggest gender pay gaps in 2018, only investment management failed to record an overall improvement. This raises questions about whether the industry is really taking the issue seriously.

With an increasing threat of disruption across multiple fronts, the business case for a genuinely inclusive, more diverse investment industry has never been stronger. As the sector comes under the spotlight, it faces mounting commercial, regulatory and reputational risks if the issue is not prioritised. The evidence suggests that in most firms, attention and intention still aren't translating into concerted, decisive action and results. Diversity and inclusion are often still being treated as second order priorities and, for some, a tick-box exercise. Others are genuinely committed to improvement, but are unsure how to achieve real results.

Although the investment industry is lagging other sectors, there are signs of 'diversity fatigue' and push back. Business leaders may be convinced of the need to act, but too many investment professionals perceive the issue to be more about political correctness than a driver of investment performance or the long-term success of their firm. There is resentment about special programmes designed to foster diverse talent, even where the motivation is to create the best investment teams.

At this point, the frustration is palpable. Yet any significant change – particularly when it involves a change in culture – is inevitably fraught, involving lurches both forwards and backwards before the direction is set and the goal achieved.

It's time for the investment industry to treat inclusion just like other strategic priorities. Given the risk/reward trade-off (something that the industry prides itself on managing) a disproportionate effort is now required to progress and realise the diversity dividend. That does not mean doubling down on special initiatives. It means resetting the diversity and inclusion agenda, to focus on the future of the industry, the talent it attracts and develops, its culture and therefore the results it generates for clients, employees and shareholders.

Encouragingly, there is widespread evidence of a desire to collaborate more intensively to break the logjam. The Diversity Project has seen both a broadening of commitment and increasing demand for tougher action and a holistic approach. What's missing is consistency of commitment and behaviour.

Drawing on analysis of the gender pay disclosures and extensive interviews, including senior executives from across the investment management sector, this report provides a snapshot of an industry at an inflection point. After a slow, late start, it's time for the industry to get serious, to prioritise the issue at every level, to drive modern behaviour, working practices and cultures. The prize? Better results for customers, greater opportunities for diverse talent and more resilient firms.

> Diversity of thought is a driver of the best investment thinking.

Helena Morrissey, Chair of the Diversity Project and Head of Personal Investing at Legal & General

> There is a commercial imperative here. More diverse organisations perform better.

Rose Thomson, Chief People Officer, Standard Life Aberdeen

> The expectations of our clients and our future employees are changing dramatically – if we don't also change over the next 5 to 10 years, our clients will stop employing us and we won't be able to attract the right talent to make our firm a success. This is a great industry to work, but we need to be much more open and accessible or people won't know that.

Mark Burgess, Chief Investment Officer, EMEA and Deputy Global Chief Investment Officer, Columbia Threadneedle

Foreword

Dame Helena Morrissey
Chair of the Diversity Project and Head of Personal Investing at Legal & General Investment Management

The investment industry's gender pay gap data is both depressing and galvanising.

For me, it captures the challenge we face in making progress around broader diversity.

The good news is that over the past few years there's been a step change in the level of commitment at the top and a new sense of urgency around the issue. I've seen a real willingness to collaborate, along with the recognition that the current relative lack of diversity is a business and client issue, linked to culture and the long-term success of the investment industry. The many quotes from senior leaders in this report reflect this attention and intention.

It's also wonderful to see the amazing – and relentless - energy of so many 'in the front line', often diverse talent, giving considerable time and effort to the Diversity Project's work in so many areas. We're starting to see some breakthroughs. The Talk about Black campaign is gaining real traction, LGBT Great is encouraging more people to be openly out at work and we're making progress around returnship programmes and smart working. Thank you!

But I see two major outstanding problems.

The first is the proverbial 'chicken and egg'; young women are discouraged from even considering a career in fund management when they see our wide gender pay gaps and learn that just 4% of money managed in the UK is run exclusively by women. There's a similar lack of role models for ethnic minorities and those from disadvantaged socio-economic backgrounds. We have to take a much bolder approach if we're going to attract the very best talent, along with making sure that diverse entrants have a great experience when they join us.

And the second is that in all honesty, we still have a problem convincing many mainstream fund managers that diversity is a business issue, rather than political correctness. There are relatively few who speak up on the issue, who participate in the efforts, who demonstrate commitment through their actions or even pay attention to the evidence that suggests diverse teams perform better. This key group is of course the lifeblood of the industry and significant influencers when it comes to culture – sometimes even more so than the CEO.

No amount of talk will convince this group – in fact, it is likely to be counterproductive. Instead, diversity and inclusion needs to be treated just like any other business issue, featured on every strategy day agenda, in every performance review, every hiring, promotion and reward decision, every risk and culture assessment.

If we want to attract the best and the brightest and to future proof our industry, it really is time to get serious.

Jon Terry

Global Financial Services HR Consulting Leader, PwC UK

Investment firms are facing mounting pressure to create more diverse teams and inclusive workplaces.

Diversity and inclusion are increasingly becoming a more prominent part of investor's, regulator's and consultant's focus on investment firms. They're also a major factor for whether or not to work for a firm among the talent the industry needs to sustain success. And now we have the intense scrutiny of gender pay reporting, which has increased the reputational issue in the eyes of both consumers and talent.

When faced with such intensifying pressure, it would be tempting to see diversity and inclusion as a problem to solve – let's do what we have to do to keep us out of the headlines. There may even be some fatigue or belief that what benefits some sections of the workforce comes at the cost of others.

Seeing diversity and inclusion as peripheral issues or a zero-sum game are a huge missed opportunity. In my work with clients and here at PwC, I see first-hand how more diverse workforces and inclusive workplaces make businesses stronger – bringing fresh ideas into decision making, enabling organisations to better reflect and connect with their customers, and creating a more vibrant and attractive environment to work in. For investment firms, diversity of thought is especially critical in making the best investment decisions and ensuring the breadth of perspective that can help foster innovation and challenge groupthink.

If diversity and inclusion are part of the solution for creating a successful business rather than a problem to solve, they should be treated like any other pressing strategic priority and embedded into the business fundamentals at all levels of the organisation. That means board leadership in setting objectives and having direct accountability for achieving them. It also means obtaining and analysing regularly updated data to identify hot spots in need of intervention, create clear action plans and gauge progress.

At PwC, we know that we also have some way to go to create a workforce that better represents our clients and society, but believe that by being open about the issues, clear about how we're going to tackle them and ensuring senior management are directly accountable for delivering change, we can get where we want to be.

I would like to thank our partners in the Diversity Project for their insight and leadership. I would also like to thank all those who kindly shared their experiences and ideas on how to make diversity and inclusion a reality within investment management. Their passion for change shows that progress is possible and can bring immense benefits to the industry.

1. Disruption, reputation and generational change: Why diversity and inclusion should be top of the agenda

The already strong business case for diversity and inclusion is heightened by industry disruption and changing workforce, investor, consultant and regulatory expectations. Can the industry afford not to prioritise the issue?

Many investment management firms get it; others are yet to be convinced. “There is a polarisation in the industry between those who want to make a difference on diversity and inclusion and those that don’t,” says Richard Charnock, CEO of Aberdeen Standard Capital.

Those making the case for change highlight the extent to which senior leadership and investment management roles are still dominated by white, middle class, straight men. In an Investment Association survey of 3,755 investment management staff, only 2% were from African or Caribbean backgrounds[1].

Among the 650 investment managers featured in the research, this ethnic group accounted for less than 1%. A 2018 report by New Financial identified just 12 black fund managers in London – the major centre of the UK fund management industry[2]. This looks even more unrepresentative when set against the fact that more than 13% of the city’s population identifies as black. Representation of women isn’t much better. The same New Financial report revealed that only 4% of UK fund assets are managed exclusively by women, compared to 85% run by men[3].

> “We provide services to people across all demographics; why would we not want that reflected in our Board meetings and services?
>
> **Julian Mund, CEO, Pension and Lifetime Saving Association**

[1] Black Voices: Building black representation in investment management, The Investment Association, June 2019
[2] Report: diversity in portfolio management by Olivia Seddon-Daines & Yasmine Chinwala, New Financial, September 2018
[3] Report: diversity in portfolio management by Olivia Seddon-Daines & Yasmine Chinwala, New

This lack of diversity is clearly difficult to justify from a moral or equal opportunity perspective. At the very least, there is an expectation that investment managers should reflect the clients they serve and provide opportunities for all sections of the population. In an era characterised by profound societal distrust, the industry's already fragile reputation is further exposed to charges of elitism. Ultimately, key mandates may be at risk unless there is a greater effort to be more representative of society[4].

There is, however, a 'chicken and egg' problem around achieving such an outcome. The current lack of diversity deters key talent from joining the industry. Successful initiatives such as Investment2020 offer apprenticeships to attract candidates from diverse backgrounds, but there is a great deal more to do, particularly when it comes to encouraging such talent to apply for key 'front office' (fund management) roles. "Based on a lot of research I've seen, the industry often comes across as very male-dominated and macho, and that these men are generally from private schools and studied economics or maths. Whilst these are generalisations, it really puts many women off and I don't think they consider asset management as a profession," says Jane Welsh, Project Manager at the Diversity Project.

Changing attitudes

The result is a much narrower than necessary or desirable pool for firms to recruit from. And it's not just specific groups that have traditionally been underrepresented within the industry that can be put off. The generations coming into the workforce and moving into management want to work for inclusive organisations – a survey of millennials (people born between 1980 and 1995) found that nearly three-quarters of men as well as women feel that an employer's policy on diversity, equality and workforce inclusion is an important factor when deciding whether or not to work for them[5].

Missing the mark

This image problem fails to reflect the extent to which investment management suits people with a diverse range of backgrounds and capabilities. This includes the attributes that have traditionally been associated with women such as empathy, communication and other forms of emotional intelligence, though the industry has some way to go to recognise the value of these skills. "We value intellect, which is good, but we don't value emotional intelligence as much. I think this imbalance is something that we really struggle with and needs addressing," says Andy Clark, CEO of HSBC Global Asset Management.

Cognitive diversity

Beyond tapping into underutilised talent pools is the need for a breadth of perspective and experience – 'cognitive diversity' – in a sector facing the disruptive impact of technology, pressure on fees and increased demands for environmental and socially-conscious investing. Cognitive diversity not only helps organisations to avoid the dangers of 'group think', it also introduces innovative new ideas and a better understanding of new and untapped markets. "Cognitive diversity provides the best solutions for us and our clients," says Emma Holden, Global Head of HR at Schroders. Following the increase in diversity at Board-level within Schroders, Emma believes that the company has been having "the best board discussion we've had in recent times. It was a constructive and challenging debate, in part due to the diversity around the table."

> "Young people expect a different environment to the one that operates at the moment. They expect to see a firm's values aligned with their own. They expect an inclusive environment and value a work-life balance.
>
> **Helena Morrissey, Chair of The Diversity Project and Head of Personal Investing at Legal & General Investment Management**

> "I think there is a big misconception about investment management. It's an amazing place for women to work. People think it's like Wolf of Wall Street where we all sit around with ten screens, shouting at each other. In reality, our work is thoughtful, quiet and calm.
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> **Karoline Rosenberg, Fund Manager, Fidelity International**

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[4] Understanding diversity and inclusion in the investment management industry, The Diversity Project and PwC, March 2018
[5] The female millennial: A new era of talent, PwC, February 2015

Gaining an edge: Research demonstrates why diverse and inclusive businesses perform better

Diverse businesses create better outcomes.

Diverse businesses create better business returns.

Diverse teams are more innovative and create more value.

Diverse businesses are more attractive to potential and existing employees.

Firms where diversity and inclusion are a business priority improve their reputation and brand.

Source: Diversity is the solution, not a problem to solve, PwC, 2018

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If you don’t see the true purpose of diversity and inclusion, you’re likely to see this as a tick-box exercise. But you need to take this issue seriously…business-wise and economy-wise, if you truly understand why diversity and inclusion are central to our future, there would be no fatigue.

Mark Burgess, Chief Investment Officer, EMEA and Deputy Global Chief Investment Officer, Columbia Threadneedle

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My work is very difficult and you are often only right about 55% of the time. I think women are more perfectionists than men. Typically, a woman wouldn’t satisfy herself with a 55% success rate and this might play a role. Another part of the job is having the confidence that you are buying something almost against the rest of the world. This is a very male way of thinking and women don’t seem to have the same amount of self-confidence.

Victoire de Trogoff, Portfolio Manager, Fidelity International

Countering fatigue

Belief in the business benefits of diversity and inclusion isn't universally shared. Some of the professionals within traditionally favoured demographic groups see diversity as a zero-sum game, in which other people's gains leave fewer opportunities for them. They can't yet see that more diverse and innovative investment teams could expand opportunities and 'grow the pie' for everyone.

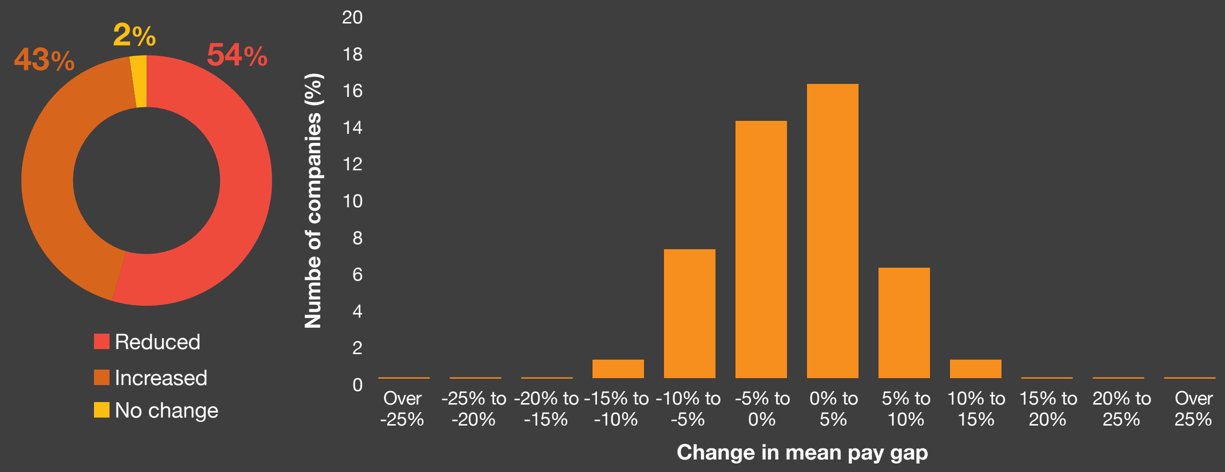
Sean Hagerty, Managing Director of Vanguard, Europe, recognises we still have a lot of work to do to achieve true diversity and inclusion. "We're unapologetic that we need a disproportionate effort to overcome the structural barriers to solve these issues in the industry. Where we've made a disproportionate effort, we've tried to do this positively. You have to believe that for you to win somebody else doesn't have to lose; the more people we bring along the more prosperous society will be," he says.

Others might think that they have more pressing priorities, with volatile markets, liquidity concerns and fee pressures preoccupying attention. They don't yet see diversity – which can foster more creative thinking – as part of the solution to these and other challenges. There may also be an element of diversity and inclusion fatigue creeping in. This may make management less inclined to push for wholesale cultural change, delegating instead to HR, and in effect treating the issue as a tick-box exercise, or even ignoring it altogether.

> "We make better decisions when we have a diversity lens – otherwise you just encourage a group think mentality.
>
> **Shruti Khandekar, Credit Analyst in Fixed Income, HSBC Global Asset Management**

At a time when the "DNA of investment management is in question and very senior people are losing their jobs as a result", Richard Charnock of Aberdeen Standard Capital acknowledges that some leaders "don't see diversity and inclusion as strategic issues" or believe that "they have more important things to think about". In his view, however, diversity and inclusion are central to the long-term solution. "Whatever commercial decisions we make, we need to see diversity and inclusion as part of that priority," he says.

Slow or no progress: Year-on-year change in the investment management gender pay gap



Source: Diversity is the solution, not a problem to solve, PwC, 2018

Catalyst for change

Now in the third year of disclosures, mandatory gender pay reporting has put the lack of diversity within investment management under a harsh spotlight and is heightening the urgent need for change.

Of the five sectors with the biggest gender pay gaps in 2018 – banking, investment management, insurance, real estate and travel – all but one, investment management, reported an improvement this year from last[6]. The average mean pay gap for investment management is now at 31%, only topped by banking.

Whilst just over half of investment managers reported a year-on-year reduction in their gender pay gap, the majority of these firms saw an improvement of less than 5%. There is a real danger that both existing staff and potential recruits are going to be deterred by the slow and even no progress within many parts of the industry. The main reason for the gap, the disproportionate number of men in the highest paid roles, is common across all financial services sectors. However, investment management has the lowest percentage of high paid women (just 23.2% of the upper quartile, compared to banking at 24.9% and insurance at 31.5%).

Gender pay reporting is not without its drawbacks – for example, one of the reasons why more than 40% of investment managers reported a year-on-year rise is an increase in female recruitment within entry-level roles. But the overall message is difficult to ignore.

“I think there have been issues with misinterpretation of the gender pay gap in the press as many readers do not fully understand it and why it is different to equal pay – perhaps the media could do a better job of analysing the metric to make this clearer.

However, I don’t think it’s a surprise that we have one of the worst gaps given there are so few women at the top and in investment roles. While we knew it was a problem. it is good that a light is being shone on the issue and how we can tackle it,” says Cosmo Elms, Head of ETF Business Development at Legal & General Investment Management. Jane Welsh of the Diversity Project believes that the “gap has left a lot of women in the industry feeling pretty angry and demotivated as it can’t be easily explained. From a talent management perspective, and talent recruitment perspective, it’s really important to take this seriously. Look at it from an external perspective, it really perpetuates the public’s view of the industry and can harm its reputation.”

And this is only the beginning. At present, mandatory gender pay gap reporting covers businesses with over 250 UK employees. Most investment management firms are therefore excluded. However, there are moves within Parliament to reduce the threshold to 50 employees. It’s also likely that ethnicity pay gap reporting will soon become a legal requirement and further highlight the lack of broader diversity across the industry.

[6] Promise, progress or failure to prioritise: What we learned from the 2019 gender pay gap reports, PwC, May 2019

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The gender pay gap is real and we can’t shy away from solving it.

Andy Clark, CEO, HSBC Global Asset Management

2. Biases, barriers and inertia: Where are we now and what's holding us back?

The dial on diversity and inclusion in investment management is moving, but nowhere near quickly enough to shift the negative perceptions of the industry, overcome the frustrations of people held back and foster the breadth of thinking needed to steer through disruption. So, what's standing in the way and can these barriers be overcome?

It's encouraging to see the large number of investment management firms now represented as signatories to HM Treasury's Women in Finance Charter[7]. The charter commits financial services businesses to accelerate the progression of women into senior roles. However, while this commitment is a great start, it's no guarantee of results.

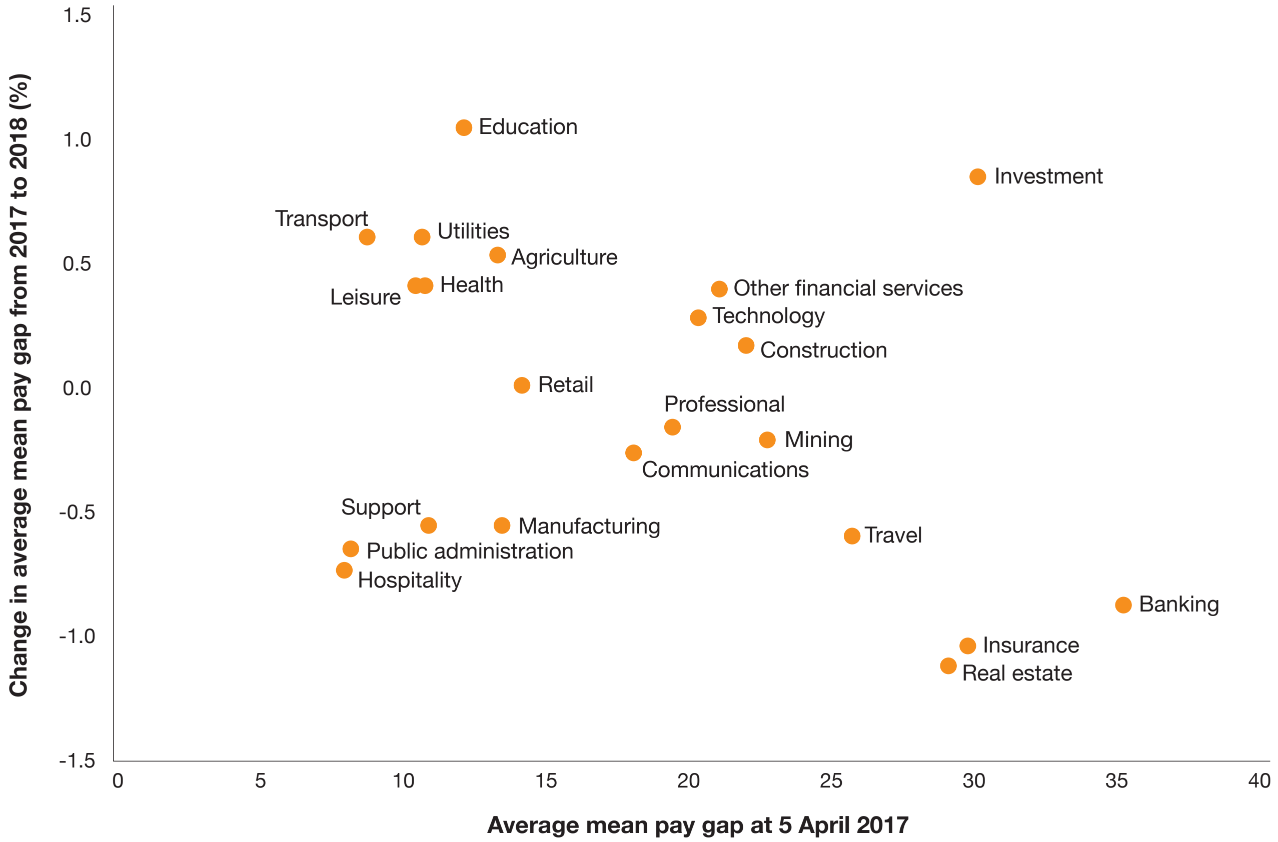
The interviews carried out for this report further highlight the growing commitment within many parts of the industry. It's clear that a large number of firms have taken actions aimed at addressing the issues, such as requiring diverse shortlists and setting up mentoring and sponsorship programmes to help people from underrepresented talent groups realise their potential.

They're also taking active steps to identify and overcome unconscious biases, though many are still relying on basic, compulsory training, which can often prove counter-productive[8].

Nonetheless, the gender pay gap reporting reflects the realities of an industry in which change is happening slowly at best. Investment management is behind most other sectors in progress on gender pay – and the starting point is worse, too.

[7] HM Treasury Women in Finance Charter, updated 18 July 2019
[8] Why diversity programs fail, Frank Dobbin and Alexandra Kalev, Harvard Business Review, July-August 2016

Investment management lags other sectors in progress on gender pay



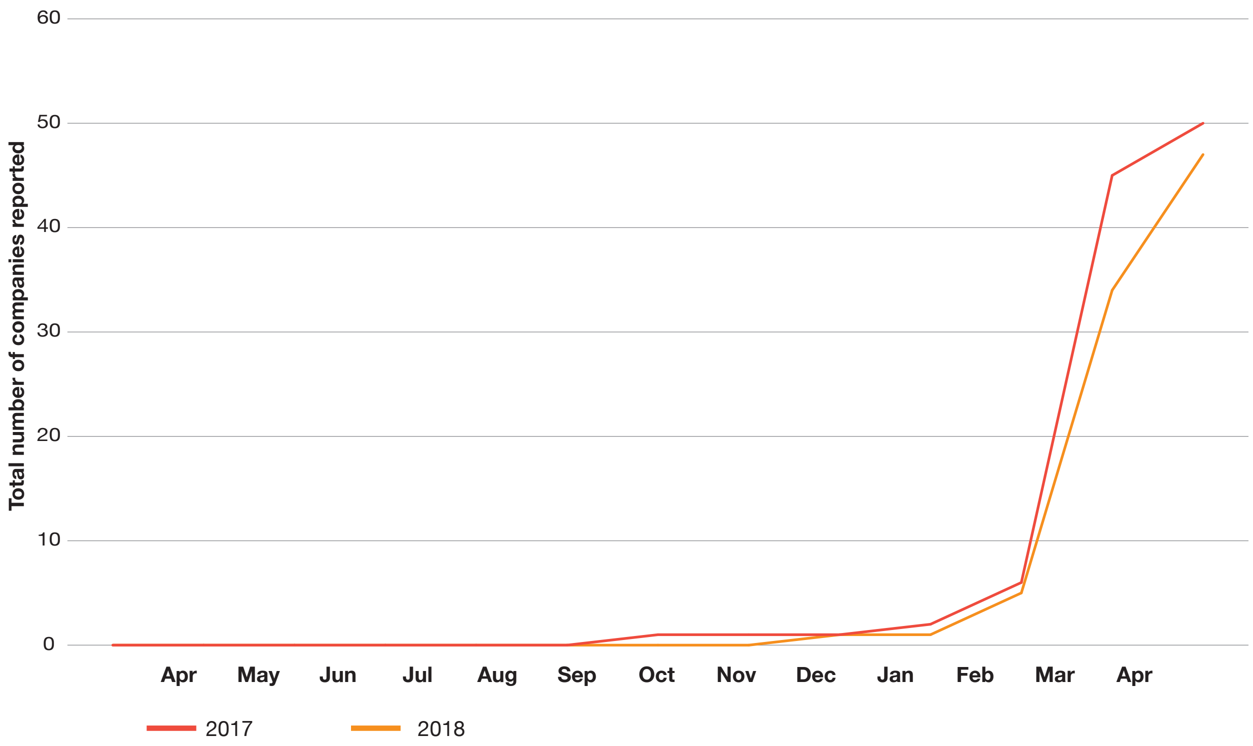
Source: PwC analysis

Further signs of possible inertia include most investment management firms' decision to wait until the gender pay gap reporting deadline was looming before releasing their disclosures. Although this may be because they didn't want to draw attention to relatively poor numbers by reporting early, our analysis reveals little correlation between the submission date and the size of an individual firm's pay gap. Instead, the lateness of disclosure could suggest that many firms simply don't regard the reporting as a priority.

The fact that so many investment management firms provide little or no additional explanation in their gender pay reporting reinforces the notion that the industry isn't placing a high enough priority on addressing the gender equality issues.

> I think the pace on addressing gender pay will continue to be glacial until businesses fully accept the business need – the drivers are not just employee expectations but also customer's expectations that such fair practices should be the norm for those they entrust with their business.
>
> **Stephanie Bruce, CFO, Standard Life Aberdeen plc**

Timing of gender pay gap reporting



Source: PwC analysis

Off the strategic radar

So why is there a lack of impetus? Diversity and inclusion can often be seen as nice-to-haves or matters for HR to deal with, rather than a top line Board-level priority. A clear sign of this is how little data there is driving decisions on what diversity policies to pursue or whether they're making a difference. It's certainly surprising that while there would be data and analytics covering areas such as investment performance, there is limited or even no data and analytics in the area of diversity and inclusion within many firms. Too often, there appears to be a belief that isolated initiatives can solve the problems, rather than seeking to identify and address the fundamental reasons why change is so slow.

"Sponsoring an event is only part of the solution, diversity and inclusion aren't actually being discussed in enough meetings. Senior leaders need to champion this issue internally," says Cosmo Elms of Legal & General Investment Management. With middle management taking their cue from senior leaders, it then becomes more difficult to change attitudes within the business and reshape ways of working. "When middle management doesn't lead by example, who will influence and inspire more junior employees who will go on to shape our industry in the future?" asks Cosmo Elms.

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Diversity and inclusion have not been seen as strategic imperatives in many parts of the industry.

Fiona Melville, Global Head of Investment Oversight at Aberdeen Standard

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Middle management buy-in is critical for change to be effective.

Shruti Khandekar, Credit Analyst in Fixed Income, HSBC Global Asset Management

Stigma over flexible working

Attitudes to flexible working demonstrate the challenges of driving real movement on the ground when there is limited middle management buy-in. Many investment management firms offer some form of flexible working. However, research has found that most women aged 28-40 working in investment management and other areas of financial services believe that flexibility still carries the stigma that they are less committed than colleagues and it could therefore harm their careers[9].

This reluctance to embrace flexible working is doubly damaging as this isn't just an option for today's mothers, but the way the generations coming into the workforce want to work. "Society is changing and technology is turning our working lives on its heads. We work much more fluidly now. We should embrace this evolution, but finance is inherently conservative and nervous about change," says Mark Burgess of Columbia Threadneedle.

Limited movement at the top

While this lack of strategic focus could describe many industries, investment management has faced the specific challenge of clients' and regulators' traditional demand for stability and consistency in money managers. This not only means that turnover among senior fund managers is often limited, it also makes it difficult for senior people to take or come back from extended career breaks, including parental leave.

"Asset Managers are very reluctant to make changes to their teams, because it plays badly with clients and consultants," says Jane Welsh of the Diversity Project. "In discussions with asset owners and consultants, they admit that they like stability in their fund management team, but on the other hand they also want diversity. They can't have both…we need to have a re-think, it's not just asset managers that need to change, but also regulators, asset owners and consultants."

Is this need for stability an insurmountable barrier to accelerating progress on diversity? Not to the extent it's often portrayed. There may be a single named fund manager on a mandate, but the investment decisions (and the analysis behind those decisions) will typically be made by a broader team. Pension fund consultants, clients and regulators will also want to see succession plans, and increasingly, they expect these to include a more diverse pipeline. There therefore appears to be an opportunity for the industry to create more diversity in investment teams within the current construct.

Moreover, the traditional fund management business model is changing as customers look more holistically at funds, rather than at individual fund managers. The industry is increasingly moving from a "one-man-show" to a more collaborative way of working, including utilising technology platforms. Recent well-publicised difficulties encountered by star managers are only likely to accelerate this trend. This change in approach provides even greater opportunities to put diversity at the centre of the change.

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Looking at our data, women take a little bit longer to get to the managing money stage, but the reason why is difficult to pinpoint. There are unintentional biases in fund management teams (male talent tends to be a bit louder in terms of ambitions) – we need to put the processes in place to counter that inherent bias.

Emma Holden, Global Head of HR, Schroders

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Our industry is becoming much more of a team sport. A fund manager used to be an individual contributor, however now we're increasingly seeing that these roles aren't as clearly defined.

Paras Anand, Head of Asset Management, APAC, Fidelity International

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[9] Seeing is believing: Clearing the barriers to women's progress in financial services, PwC, September 2018

Narrow career paths

This lack of movement at the top can be compounded by a standard, and some would argue narrow, career model within investment teams, where recruits join as graduate analysts and work their way up to be a specialised fund manager, with little deviation into business management or leadership.

The industry is potentially at risk of losing key talent who want a broader, more varied role. This pipeline may also be channelling people in the wrong direction. "The industry has historically promoted people from technical jobs (who are very technically-minded) into leadership roles and I'm not sure this always works," says Rose Thomson of Standard Life Aberdeen. Paras Anand of Fidelity International believes that the industry "should recruit for the attitude and train for the skills. Recruiters should be looking at intellectually curious people who are quick to learn on the job rather than screening CVs for a particular degree or university. Individuals who have a broader political, geopolitical and financial background will bring more to our industry."

The key test of change is the make-up of the talent pipeline rather than the people holding the lead positions. How objective is selection – are closed and self-perpetuating networks still the main route to success? Does the pipeline reflect the shifts in the market and client demand?

One of the approaches we're seeing as firms look to create a more objective and up-to-date selection process is the use of anonymised CVs. "Firms too often think 'how can we quickly fill this role and avoid having to go through hundreds of CVs' and consider picking out people with particular grades or university background an easy option. But how do we know that these people have the skills, potential and core values we're looking for?" says Sabrina Summers, Emerging Talent and Inclusion Lead at Jupiter Asset Management. "Last year we trialled anonymised applications within our selection process and subsequently implemented the approach this year. This removes the candidate's name, grade and university. Having reviewed the applications, we narrowed them down to a shortlist. Our focus was on how candidates answered our application questions. The recruiting manager then asked to see all people who applied and obtained a first class degree, but didn't get on the shortlist. When we did this, the recruiting manager found only two additional candidates that could have potentially been considered for the shortlist, which means that candidates with firsts weren't necessarily the right people for the role."

Cultural shift

To what extent are these barriers the result of ingrained cultural issues? There was certainly a lot of discussion of this in the interviews. "The financial services culture still doesn't know how to value difference and different ways of thinking," says Rose Thomson of Standard Life Aberdeen, though she believes that necessary conversations at Board-level are beginning. "Culture is the most important thing – if you're able to change the culture, by consequence everything else will begin to solve itself," says Shruti Khandekar of HSBC Global Asset Management, though in common with other interviewees, she recognises the scale of the challenge.

Experience of sectors that are further along the diversity journey confirms that it can take many years to reshape a culture. But cultures aren't fixed in stone. Indeed, Paras Anand recalls a time before the culture we take as the norm, and the shared assumptions that underpin it, evolved. "I found that the industry was much more diverse when it was in its inaugural phase; there were no professional qualifications to be a fund manager, no specific degrees required.

It became such a desirable place to work that over the years it has professionalised and a particular qualification or degree became the requirement. In that process we have lost a lot of diversity, favouring finance degrees, MBAs – some of that cognitive diversity is getting chipped away," he says.

And while cultures are difficult to change, you can still shift behaviour in a relatively short space of time by challenging assumptions and reshaping objectives. As we explore in the coming section, the key to this is ensuring diversity and inclusion are seen as business imperatives with a direct impact on enterprise performance.

> "The promotions process in this industry is quite opaque and it's not obvious what gets you to the next level.
>
> **Jane Welsh, Project Manager, Diversity Project**

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As an industry, we operate in a culture that hasn't achieved diversity…But what I've noticed in the last two years is that without prompting, in a voluntary unsolicited way, all these agenda items relating to diversity and inclusion are being raised – the penny has dropped.

Richard Charnock, CEO, Aberdeen Standard Capital

Pressure from regulators and consultants

Moreover, we're now seeing a significant change in focus from both consultants and regulators. From the consultancy side, Willis Towers Watson (WTW) has included a 'culture assessment' of investment managers in its rating in recent years, with gauging the relative diversity of leadership teams and fund managers being a key part of this.

"Diversity of views is hugely important for robust decision making. As assessors of asset managers, our process has been evolving for 27 years. Diversity has always been embedded in our assessment process – we hope that the key decision maker has someone who can challenge them and can provide a different perspective. In the last 3-5 years the focus has been on gender and ethnicity, so we've started to try and collect this data," says Luba Nikulina, Global Head of Research at WTW. "We review firms through a 'cultural assessment' and diversity and inclusion are integral elements of it, not only from an employee value proposition perspective, but also where firms create an environment in which everyone is included, for their employees, clients and society. That gives us more comfort that these firms can be sustainable in the longer term."

Luba Nikulina is positive about the growing focus on diversity and inclusion within the industry and the shift in culture that underlies this. Nonetheless, she believes that more urgency is essential and would consider downgrading a firm if it doesn't demonstrate sufficient progress over the next two to three years. "We don't expect investment managers to change things overnight, but we want to see that there is an understanding of the benefits of diversity and inclusion and we want to hear that over time there is some positive action. As part of our monitoring of the preferred ratings, we look at the composition of the senior team, we discuss their thinking about involving diversity and inclusion in their leadership team and approach to retaining key talent. If we don't see a positive change, we would be prepared to downgrade, as it is our firm belief that our clients benefit from diversity and inclusion within their investment managers," she says.

The Financial Conduct Authority (FCA) sees diversity as one of the positive outcomes it's keen to promote. The fact that the FCA doesn't have specific rules on diversity isn't an oversight as it believes these would be inappropriate. Being an outcomes-focused regulator, the FCA uses whatever tools can help it to reach the desired objective. Sometimes it's rules, sometimes it's clear messaging on expectations. Diversity is more about the latter to the FCA.

One of the key drivers is recognition that diverse organisations tend to make better decisions than ones that aren't. "The FCA has been outspoken on the importance of real diversity across financial services. This is not just because it is the right thing to do but because it is integral to business success. Diverse cultures promote different ways of approaching issues. Robust challenge and the identification and escalation of risks are key pieces of evidence the regulator uses to assess firms and their governance," says Nick Miller, FCA Head of Asset Management Supervision. "A vibrant and productive investment sector should have diversity at its core: diverse business models, products and strategies. A key part of the investment sector's purpose is the diversification and mutualisation of risk, whereby investors share risks and are treated fairly. And the industry's success depends on its ability to attract capital from investors of all backgrounds and income levels. Surely if one sector should be a leader in its approach to the diversity of its leadership, employees and cultures, it should be the investment management sector," he continues.

Julia Hoggett, FCA Director, Market Oversight division, highlights the importance of a holistic rather than tick-box view. “We have two different kinds of organisation, one that says, ‘what do I need to do to get past this process and the other that says, ‘what do I need to do to solve and understand this process’ and for me the latter is always better,” she says. “We need to understand that management is taking the issue seriously and that it’s not just a fire drill because that’s what the law tells them to do,” says Nick Miller.

And if they take diversity and inclusion seriously, they’ll have data to back this up. “I believe that every firm knows they have challenges with diversity and inclusion and knows it’s something they need to be worried about. They’re not, however, doing the painstaking work to understand their culture, their conflicts, and their dominant portfolio managers on the floor. What does it feel like if you’re a young black graduate going onto the floor on your first day? – I don’t see them trying to collect this kind of data or information,” says Nick Miller.

So, who is responsible? As in all conduct risk and cultural issues, it’s everyone’s responsibility, and the tone is set by the CEO and management team. “You don’t change how diverse a firm is from their compliance department. It’s with the first line of defence. Fundamentally, if you look at an organisation where they’ve moved the dial by having genuine senior leadership interest and putting this on the agenda; that’s where the power is,” says Julia Hoggett.

It is clear that the FCA doesn’t expect things to change overnight. However, it does want firms to be able to demonstrate positive change in the areas that matter most. Could we see greater regulatory focus in future? While acknowledging that there has been progress, the FCA believes that the pace needs to be accelerated. “We need to keep up the pressure on creating change,” said Megan Butler, FCA Director of Supervision - Investment, Wholesale and Specialists, in a speech in 2018 . If change is too slow, she believes that “targets on gender diversity are an option for firms to consider”.

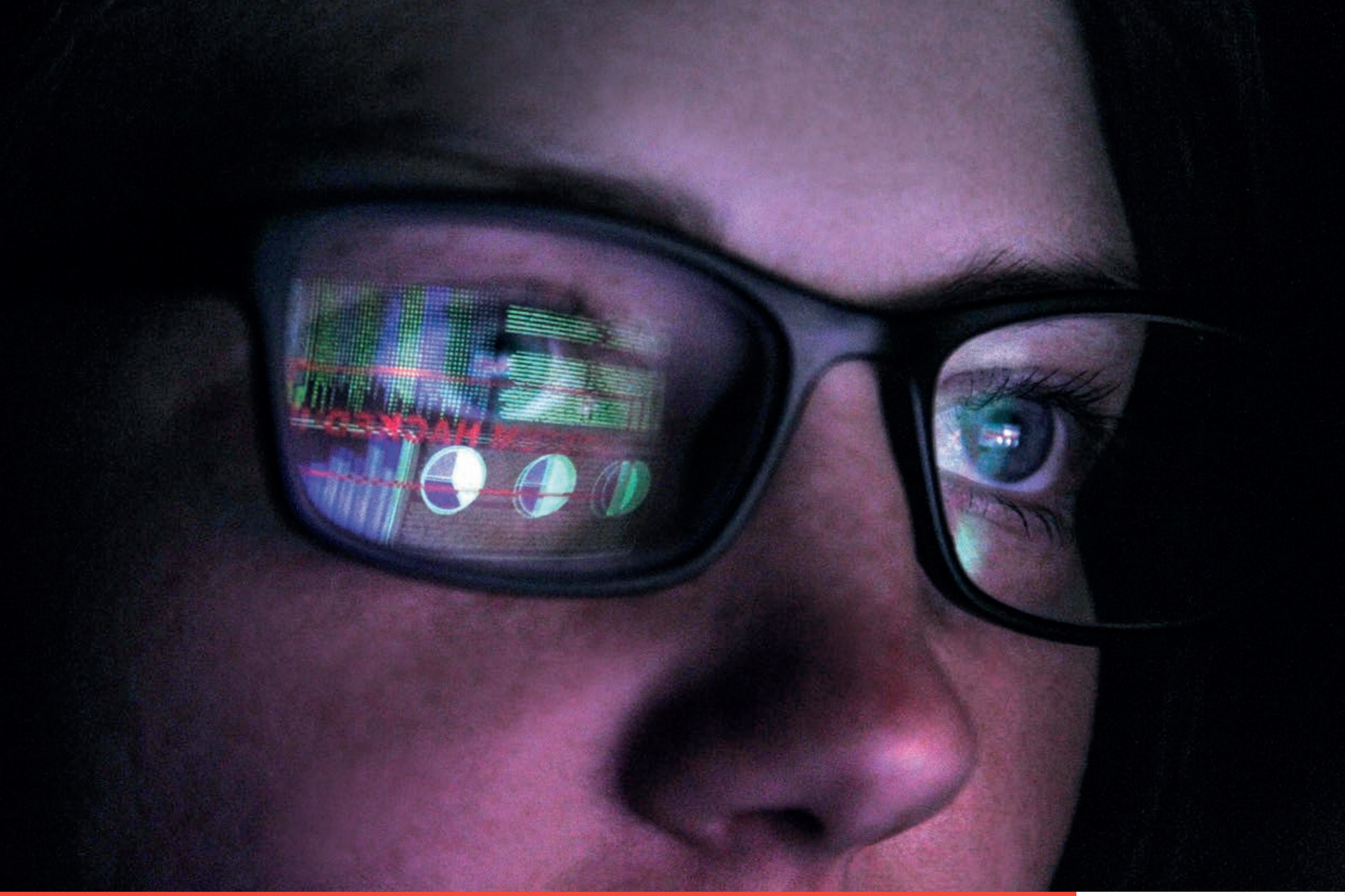
3-5 years

In the last 3-5 years the focus has been on gender and ethnicity

Diverse organisations

A vibrant and productive investment sector should have diversity at its core: diverse business models, products and strategies

[10] Women in finance: keeping up the pressure for progress, speech given by Megan Butler, Director of Supervision – Investment, Wholesale and Specialists, Women in Finance Summit, London, 22 March 2018



3. Accelerating progress

Until diversity and inclusion are recognised as central to the future of the business in the same way as investment strategy and client mandates, buy-in will only ever be skin-deep and progress painfully slow. And as the industry considers a number of threats, the risks of business-as-usual just might persuade those who have not been swayed by the moral arguments.

We believe the industry needs to build diversity and inclusion deep into the fundamentals of strategy, performance management, objectives, incentives and transparency. Firms need to acknowledge the reality of the position today, reset the agenda and make a disproportionate effort to achieve a breakthrough.

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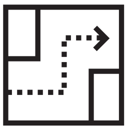
Firms need to understand that this isn’t just an initiative for HR. It is a strategic priority and a financial priority.

Jane Welsh, Project Manager, Diversity Project



1. Align diversity with your business strategy

Align the strategy for promoting diversity and inclusion with business priorities and articulate how steps to improve diversity and inclusion can help your organisation to meet key strategic objectives, such as attracting hard-to-secure talent and dealing with disruption. The issue should be included on every strategy day agenda, at every key Board meeting and in the reviews of all personnel.

Your organisation may come up against entrenched attitudes – cultural change takes time. But when diversity and inclusion are recognised as strategic imperatives, people at all levels of your organisation will know that they need to get behind change and play their part in moving the business forward.

2. Reinforce accountability from the top and address reticence among middle managers

Senior leadership continues to need to take the lead in showing just how important this issue is to the future success of the business. "Senior leadership buy-in can really help drive change within a firm. If you have this, everyone in the firm starts to think about it," says Shruti Khandekar of HSBC Global Asset Management.

Leadership requires more than just statements of intent – fine words need to be followed through with deeds and the right behaviour. It's important to ensure that everyone within the leadership team is given the job of promoting diversity, and held to account – not just a token sole executive. For example, all senior leaders and portfolio managers could have a mentor within either their own firm or through a cross-company scheme such as the 30% Club. The feedback from male mentors who have taken part in that scheme is that the experience 'opens their eyes' as to the issues that women in their organisation are likely to be experiencing. This can be supported by building diversity and inclusion metrics into individual performance objectives and incentives as part of an organisation-wide accountability framework that reaches from the leadership into the heart of middle and portfolio management. "We need to make firm commitments, for example incorporating appropriate diversity and inclusion KPIs into senior leadership scorecards. This starts at the top and should have a bearing on compensation and our KPIs should be explicit in the annual reports. Until we make that link, we will struggle to resolve the issue," says Richard Charnock of Aberdeen Standard Capital.

3. Set clear, specific objectives and a plan to achieve them

Translate the headline objective of improving diversity and inclusion into an action plan that sets out measurable goals and how they will be achieved in practice. Treat the issue just like any other strategic imperative with reviews and course corrections.

If you've identified unconscious bias as a barrier to recruitment, for example, the resulting action plan might include steps such as reviewing job descriptions to ensure the language is inclusive, removing the applicant name and gender before screening, and providing training for interviewers. Think about what might work specifically for your own firm and who the interviewers are, rather than copycat programmes.

> "Diversity demands buy-in from the senior leadership team and decisive action now – not the usual drip-drip practice of introducing objectives that take ten to fifteen years to realise. Revolutionary change means implementing an accelerated timescale and prioritising inclusion at the top table. Management must therefore see diversity as central to their mission.
>
> **Cuan Coulter, Executive Vice President and Head of EMEA at State Street Global Advisors**

> "To get diversity higher up the business strategy, it must be embedded in the business focus. It cannot be standalone. My role as CEO is to drive this embedding, so diversity is an integral part of business discussions on a day-to-day basis, rather than a separate set of issues. As a leader, my role is also to challenge conventional thinking and intervene where necessary. This includes asking important questions such as why a white man with some experience is taking on the role rather than say a woman with perhaps less experience but a wider and different skillset.
>
> **Euan Munro, CEO, Aviva Investors**

4. Use data: What gets measured gets done

Use data and analytics tools to measure progress and return on investment, and target problem areas for intervention and drive accountability. An increase in the use of data analytics can help to develop a better understanding of patterns and risk areas, and engage the business in the process. Examples include the proportion of women moving from lower to higher pay bands. If most of the promotions are still going to men, why is this and what can be done to promote balance? Or if your firm struggles to attract ethnic minorities, review the recruitment practices.

Are you (inadvertently) limiting the entry pool through standardised recruitment criteria, off-putting language or processes that filter too narrowly? If the HR team is sifting applications based on exam grades or subjects studied at university, the shortlist will inevitably be restricted even if that wasn't the hiring manager's original intention. You may need to specifically instruct a 50:50 rough split, for example, between science, technology, engineering and mathematics (STEM) and humanities graduates to overcome a bias towards quantitative subjects.

5. Address scepticism head on

The lifeblood of investment firms is the fund management team. The nature of investment firms also means that portfolio managers strongly influence the culture of the firm (sometimes more so than the executive team). No amount of encouragement will persuade them to change exclusionary attitudes unless they see the benefits of behaving differently. Encourage everyone (not just diverse talent) to speak up when they witness poor behaviours.

If the poor behaviours are endemic, design changes in areas such as reviews, pay decisions and promotion processes will be needed. Encourage those who feel resentful about diversity programmes to speak freely, in a safe space, so their issues can be addressed. If people can start to see that more diverse teams are more successful teams, they will become supportive – so rephrase the issue entirely in terms of collective intelligence, client demand and profitability.

> We have moved on from the time when it was HR's role to shine a light on diversity issues, to one where the Leadership is now fully engaged. Our new CEO has brought authenticity and greater boldness in talking about both diversity and inclusion, by being a role model and openly demonstrating that she cares. It's now clear throughout leadership, middle management and all staff that creating a more diverse and inclusive workplace is a major business opportunity and a priority within our organisation.

Belinda Regan, International Head of HR, Investment Management, Fidelity

> It is about action, breaking things down into specific work streams. This makes it more palatable and definitely gets more traction. For example, when we have our huddles and we mention diversity and inclusion, it doesn't always fully resonate with everyone, but if we mention flexibility the room is full.

Andy Clark, CEO, HSBC Global Asset Management

6. Be honest: Tell it as it is

Statements of intent on diversity and inclusion and a few sporadic initiatives aren't enough to convince women and other underrepresented groups that an organisation is serious about diversity, especially if their own experiences are discouraging. It's not enough to be slightly better than competitors now that broader, comparative information is readily available and the failings of businesses that fall short are actively shared on social media.

Openness, dialogue and honesty in giving people confidence in their prospects is vital. "Driving inclusion really starts from knowing your people and having conversations with them, showing an interest and knowing their potential," says Fiona Melville of Aberdeen Standard. This should also be supported by clear definitions of organisational roles, career paths and promotion criteria to help employees understand what is expected of them to reach the next level for promotion.

In turn, clear and honest communication about your plans for boosting diversity and inclusion and progress against them can help demonstrate real commitment. Your business may be wary of drawing attention to shortcomings. Yet even if you're behind the curve on diversity and inclusion now, there are opportunities to get on the front foot by acknowledging that there are barriers that need to be cleared away and setting out plans for accelerating progress. Such openness will be well-received and help create a necessary sense of urgency.

Increased analysis and explanation within gender pay gap reporting are likely to be an important part of this. It's therefore important to look at how to make the numbers more reflective of the realities within the business. This includes explaining where the gaps exist and the reasons for them (not simply stating the obvious under representation of women in senior roles) and, critically, what are the firm's plans to address the underlying issues. Assessing progress against these plans each year is important, along with adjusting course where efforts miss their mark.

> I'd like to see firms forensically analyse their data. For example, we know graduate programmes have roughly equal split of males/females and we have pay equity as an important principle, but we don't see a lot of evidence on forensically analysing the data, where is it all going wrong.
>
> **Helena Morrissey, Chair of the Diversity Project and Head of Personal Investing, Legal & General Investment Management**

> The gender pay gap is a hugely emotive issue for our investment talent. To address that we should be more transparent about our data, we should look at the gender split by teams and by desks. We should share internally with our people. We should also make managers feel accountable and shine a light on them.
>
> **Emma Holden, Global Head of HR, Schroders**

Contacts

Helena Morrissey
Diversity Project Chair
E: helena.morrissey@lgim.com

Jon Terry
Global Financial Services HR Consulting Leader, PwC UK
E: jon.p.terry@pwc.com

Holly Fraser
Diversity and Inclusion Consulting Manager, PwC UK
E: holly.fraser@pwc.com

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