PIMFA

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strategic advisors

BEST PRACTICES FOR
A MORE INCLUSIVE AND DIVERSE INDUSTRY

May 2022

FOREWORD

D&I is an issue that PIMFA has identified in our Members Manifesto as a key area to address, and the recent 2022 strategy refresh with members confirmed it as a top priority for firms. PIMFA are a signatory of HM Treasury's Women in Finance Charter. After signing up to the Charter with 40% female representation in November 2017, our senior management team is now 60% female. At an industry-wide level the charter has also led to significant improvements. Since its introduction in 2016, the proportion of females on the board at 200 of Britain's top financial firms has risen to 32% from 23%. But while great strides have been made, there is still a long way to go.

PIMFA has undertaken a pilot with The Brokerage on the Social Mobility Challenge, an initiative which supports disadvantaged young people to achieve their career potential. As a champion for D&I in the Wealth Management and Financial Advice profession, we aim to encourage and facilitate the conversation that will be essential for improvement across our industry. We continue to enable the personal savings and investment community to learn from each other's experiences, through both our annual D&I awards and Wealth of Diversity Conference, both of which we hope push forward progress across the industry.

Firms are at different stages in their implementation of D&I throughout their business operations and strategy. However, with regulation looking increasingly certain in 2022, it will not be long before all firms must make this transition. While incorporating D&I is not a one size fits all approach, our aim with this report is to provide an overview, based on the submissions we received for our annual D&I awards in 2021, of the best practices that personal investment services and financial advice firms can and should use to develop, promote, and establish an effective D&I strategy for their firms.

PIMFA's recent publication, 'The Regulatory Case for a More Diverse and Inclusive Industry', demonstrates that Diversity and Inclusion (D&I) is a matter of increasing relevance to the regulator. 2021 saw UK regulators shift into gear and take an active interest in D&I. Most notably, the Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA) and Bank of England published a joint Discussion Paper (DP21/2)[1] calling for firms in the financial services sector to improve D&I within their organisation, and the FCA launched their own consultation (CP21/24)[2] into improving transparency for investors on the diversity of listed company boards and their executive management teams.

To effectively identify and address barriers to D&I, organisations must develop a realistic, forward-looking plan, supported and overseen by senior leadership. Organisations must promote open discussion of D&I issues, so that the entire workforce feels a personal responsibility to address the gaps that exclude under-represented groups.

D&I is a key driver of innovation, inspiring alternative views acquired from different life experiences. This facilitates more innovative thinking and informed decision marking, which in turn leads to new ideas about products and services that better serve the needs of all consumers. Ultimately, this helps firms to grow their customer base and business. The FCA and PRA explain in their joint discussion paper, DP21/2:

> "An inclusive culture in which all staff can speak up allows the benefits of diversity to flourish. Together, diversity and inclusion can reduce groupthink, encourage debate and innovation, and thereby improve outcomes for consumers and across markets, supporting financial stability. [3]

FCA, DP21/2: Diversity and inclusion in the financial sector – working together to drive change, July 2021
FCA, CP21/24: Diversity and inclusion on company boards and executive committees, July 2021
FCA, DP21/2, Diversity and inclusion in the financial sector – working together to drive change, July 2021

STAGE 1: DIAGNOSIS

Firms seeking to establish D&I throughout their organisation and within its culture must first **understand their current shortcomings** in relation to D&I, assessing the existing barriers that employees and customers with different characteristics may face, and ultimately the areas in which progress must be made. To be adequately addressed, the internal and external root of any problem must be fully understood.

In conducting internal research, organisations will be able to gain insight into the lived experience of their employees, and in particular, the relationship between the 'D' and the 'I', whether diverse employees feel included in company culture. A culture that complements both components of D&I is fundamental; diversity cannot be sustained without inclusion.

Data should, where possible, be collected on **key diversity metrics**. Most organisations evaluate diversity measurements for which data is readily available, such as gender, age, and in some cases, ethnicity. However, organisations should not limit its metrics based on data already captured but seek to expand their diversity measurements to other dimensions, such as educational attainment, age, disability, sexual orientation, parental status, and religion, depending on what is relevant to the organisation. Amongst our sector, for example, women are typically underrepresented. Many firms measure this data, actively acknowledge, and respond to it. However, women can intersect other diversity metrics, such as race, parental status, and age. Data collection on more diversity dimensions will allow firms to more fully access barriers to D&I within their organisation.

That being said, all organisations must be **fully transparent with their employees on what data they are collecting and why and how it is being used.** Similarly, processes must also be in place to ensure that data remains protected and anonymous. This is particularly true when it relates to voluntary self-reported data, such as sexual orientation. Firms will have to accept that self-reported data, in particular, will always be potentially flawed – in that employees must be under no obligation to provide that data. For example, only a small proportion of LGBT employees report as such in their workplace. Ultimately, over time firms should see a virtuous circle where a strong culture of D&I leads to employees being more comfortable in providing personal data.

While this additional data will demonstrate the key gaps in diversity across the company, this will not demonstrate the areas which deter inclusion. **Qualitative research,** such as employee surveys, confidential one-to-one interviews, focus groups and exit-interviews, will produce more nuanced responses and examples of exclusion from company culture. To ensure a comparison between the experience of the diverse workforce and the non-diverse workforce, qualitative research should be conducted across the entire range of groups and demographics.

This will highlight the key areas in which different groups are excluded, and the impact this has on themselves, their work, and their willingness to remain an employee of the organisation. Ultimately, this information will demonstrate how areas in which D&I are lacking can impact employee retention and corporate performance.

This quantitative and qualitative research will diagnose the organisation's gaps in diversity and cultural barriers to D&I, so to inform the direction of its future D&I strategy. Furthermore, repeating this research regularly will provide a benchmark for the organisation to assess where they have improved, and where additional or different support is necessary. Requesting and collecting this data will, however, also put the onus on firms to report back to their employees on what the data is telling them and how they plan to act as a result. **Visibility is vital.**

STAGE 2: STRATEGY

Effectively diagnosing any D&I issues within the organisation will assist with the development of a robust D&I strategy. Based on the diagnosis, organisations should develop a 'culture plan'. For larger corporations, an external D&I strategy agency may help to ensure that the whole business is aligned. The plan should set **realistic targets**, designate **adequate resources** to achieve these targets, and assign a **colleague-led taskforce** to oversee the delivery timeline for the targets and to monitor progress. The primary role of the taskforce should be to hold the company and its workforce accountable, to ensure improved D&I. Additionally, to maintain transparency, the taskforce should regularly update the senior leadership team (SLT) and wider organisation of the improvements made to D&I.

These unique D&I committees should be made up of employees at all levels of the organisation, with a lead, or dedicated person to focus on D&I, that reports to the C-Suite. It is important that the SLT actively participates in the taskforce. **Effective leadership** is paramount to engender an inclusive corporate environment, and business managers should be particularly responsible for incorporating D&I throughout the organisation. D&I councils ensure grass-roots participation in D&I and facilitate a two-way conversation between senior management and its people.

CASE STUDY: A financial services firm with a D&I committee.

A financial services firm developed a core team of individuals to make up their D&I committee. The committee seeks to build out the D&I initiative into the daily operations of the organisation. The committee has developed short, medium and long-term realistic objectives spanning 24 months, with workstreams related to gender, race, HR and training, and events and awareness. Each workstream targets specific problem areas that have been identified, developing, and implementing D&I initiatives across the firm.

CASE STUDY: A financial advice organisation's inclusion council brings together colleagues from across the business to create positive change within their workplace and wider industry.

The council works with colleagues, industry partners and subject matter experts to deliver the tools, resources, and support that the workforce needs to be their true selves within the organisation. The council is split into a number of workstreams, each member focused on the issue most pertinent to them: Race, Religion & Ethnicity, Gender, Sexual Orientation, Parents & Carers, Disability.

The council's remit is to bring colleague and adviser questions and concerns in relation to D&I to attention, identify opportunities to improve policies, processes, attitudes, and awareness of D&I issues, promote education and awareness on D&I, and obtain internal feedback.

The council's 18 members meet regularly. Executive representation feeds back the matters discussed to the Board, so as to embed D&I at the heart of the organisation's overall business strategy.

An organisation which is actively advocating for D&I within its business and holding itself accountable for its shortcomings has taken the initial step to create a more inclusive culture. This open discussion of D&I among the workforce and senior management will accelerate change within the organisation. Colleagues from underrepresented groups can provide insight when given opportunities to join executive meetings to share their diversity of thought. This will not only encourage D&I but facilitate the innovative thinking necessary to better serve the consumer.

Furthermore, **internal networks and forums** allow colleagues of different diverse groups to form a community, share knowledge and experience, and provide a resource for different demographics to learn and support diversity within the organisation. These groups can create educational initiatives and pitch for change, providing the workforce with a platform to be heard. The format of these internal networks can vary but should be actively encouraged by senior leadership.

CASE STUDY: An investment Services organisation with diverse employee-led networks.

The organisation has several employee-led networks in which different diverse groups are represented, including women, LGBTQ+, social mobility, and BAME. Everyone is welcome to join any group, and each network offers an opportunity to discuss the issues which are important to them, highlight challenges that they face, and support diversity.

These internal networks encourage cross-organisational participation in D&I, collaboration, and open-dialogue. However, organisations should also foster **confidential ways for its workforce to communicate D&I matters.** A group of trained staff should be on hand to offer a confidential means for colleagues to share concerns about any inappropriate behaviour or the culture within the organisation. These trained colleagues can discuss next steps and point people to the most appropriate support.

CASE STUDY: An investment services firm offering confidential means to highlight exclusion and wider misconduct.

Among the organisation's workforce are trained staff to whom colleagues can confidentially share concerns about unsuitable behaviour and the organisation's workplace culture. The trained individuals guide people to the most appropriate channel for support and explore further possible action. Additionally, the organisation offers access to a free independent and confidential whistleblowing service to report wrongdoing and support services for all aspects of wellbeing.

Education must take place at every level of the organisation. Employees should be encouraged to upskill their knowledge on relevant D&I topics and understand where the barriers to progress are occurring, so that they are better equipped to eliminate exclusion in their own teams and throughout the wider organisation. Moreover, employees should understand the business case for D&I, and the indirect adverse consequences that a lack of diversity and an exclusive culture has on the business, the consumer, and themselves. This education can take place in many forms, including compulsory management training, interview training on inclusive recruiting approaches, as well as internal events and campaigns that foster unity.

CASE STUDY: An investment services firm with a reverse mentoring programme.

The reverse mentoring programme sees members of the organisation's D&I council mentored by associates from across the organisation. This allows the associates to openly share their perspectives and experiences, feedback, and give input into D&I topics. In doing so, they influence the company's future direction and aid the evolution of the culture across the organisation.
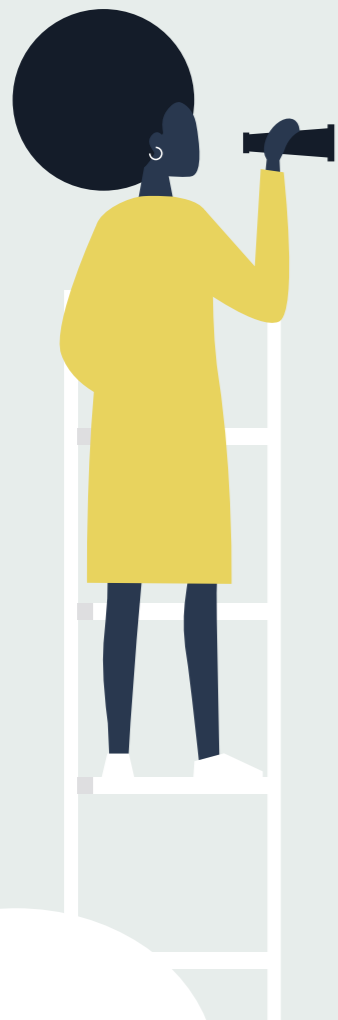
As the workforce becomes better educated on the importance of D&I, individuals should and will increasingly take **personal responsibility** for establishing an inclusive culture. This is of particular importance at board level and the C-suite. Individuals should create personal plans for how they will contribute positively to the changes that facilitate better D&I. This will encourage them to hold themselves, and others, **accountable**, and in doing so accelerate progress.

Organisations should also **contribute to a more D&I driven society**. Hosting events, social media campaigns, and supporting D&I initiatives that serve to improve D&I in the workplace and wider society. This promotion of D&I values externally will serve to educate other businesses in the sector. However, most importantly an organisation that promotes diversity with an inclusive culture will appeal to new generations from diverse backgrounds. This will encourage the flow of diversity through the business, aiding the promotion of diverse individuals into more senior positions.

CASE STUDY: Investment services firm supports community initiatives to address the root cause of the lack of diversity within the financial services industry.

Workforce feedback highlighted that the industry cannot change without directly addressing the societal issues that act as a barrier to better D&I. Therefore, a key element of this investment firm's D&I strategy is to engage with community initiatives, such as events in local schools, career advice, panel discussions, and virtual interview training, to create greater opportunities for underrepresented groups and ensure long-term progress.

With comparatively few diverse role models in senior leadership positions, diverse employees often have difficulty envisioning themselves in these positions. Organisations should coach diverse staff to build a bigger vision for their career aspirations, to increase the **confidence** of the individual, and publicise the work of the diverse, promoting their expertise and demonstrating that it is valued. New generations entering the workforce will have more confidence and set higher personal aspirations, as diverse individuals which they relate to reach senior corporate positions more frequently.
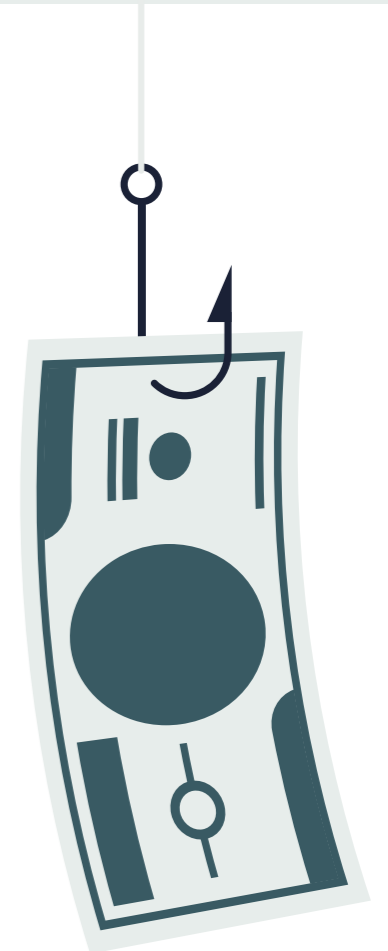
CASE STUDY: A financial advisory group offering a programme to increase confidence in underrepresented groups.

This financial advisory group operates an initiative focused on increasing self-belief and confidence, in which participants are challenged and coached to build a larger vision and plan for their career and personal aspirations.

While increasing regulatory scrutiny around D&I can be viewed as an administrative burden, particular on smaller firms, D&I offers an opportunity for small firms to differentiate themselves from their competition and appeal to investors with a growing ESG agenda. Smaller firms can take a more hands-on approach when embedding D&I throughout their business and should take advantage of this with an ambitious and innovative approach to D&I. Furthermore, smaller firms can more easily shift the mindset of their workforce to champion inclusion, this will take far longer amongst larger corporates, requiring greater effort and resource.

CASE STUDY: A small financial advice and investment services firm taking an authentic approach to D&I.

With 57 employees, this relatively small business can be more innovative and ambitious in its D&I strategy than larger organisations. The firm take an atypical approach to education through the implementation of a cultural intelligence (CQ) programme. The workforce uses the CQ programme to explore how to develop their CQ in order to culturally connect with diverse teams and customers and mitigate any personal or organisational bias.

Additionally, employees are encouraged to personally assist the business to progress its planned D&I objectives, each creating their own personal action plan to inspire conscious decision-making at both a strategic and operational level. Fewer employees in the organisation means that individuals feel a greater responsibility to action wider organisational change.
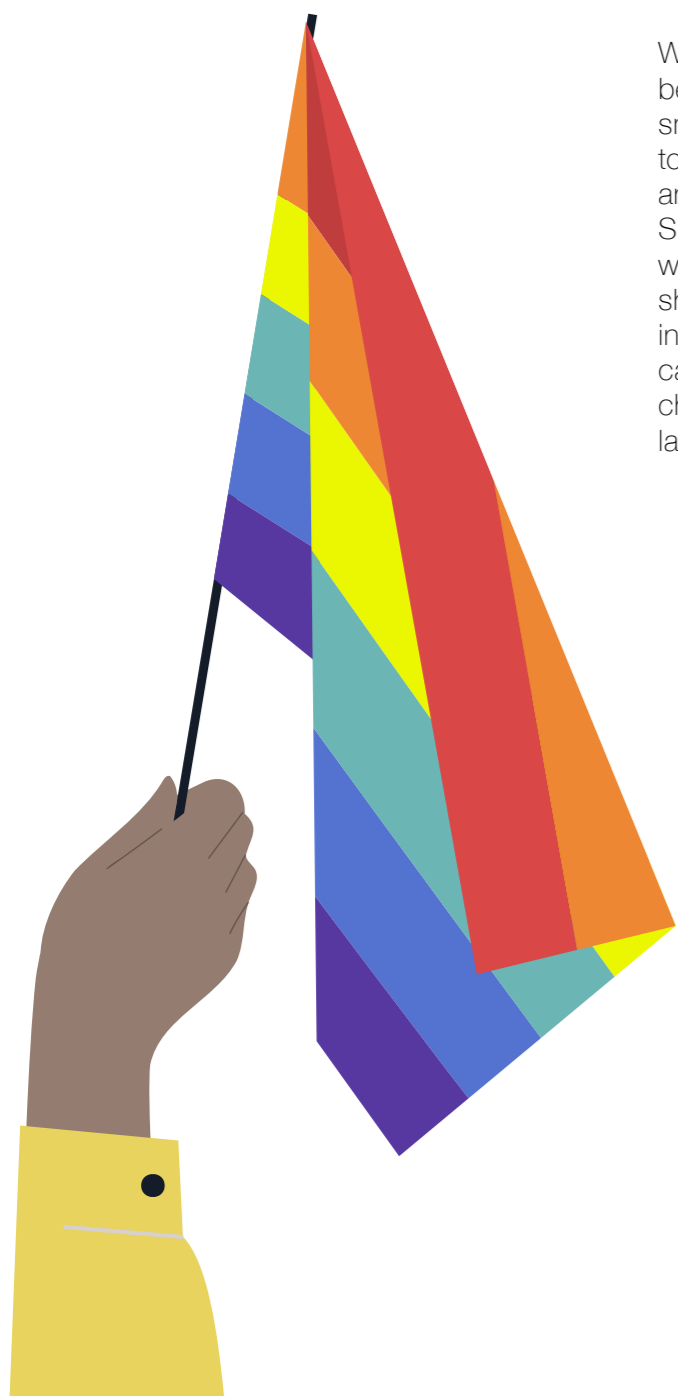
STAGE 3:
MEASURING SUCCESS

Organisations must measure their progress and celebrate success in D&I. While achieving the initial milestones and targets set in the organisation's 'culture plan' is perhaps the ultimate success metric, firms should remember that addressing D&I within their organisation is a journey – and likely a journey that never ends. Similarly, a failure to achieve any targets should always be used as an opportunity to better refine the steps the organisation is undertaking to improve its D&I.

However, success can also be determined through less tangible metrics, such as wider behavioural change in the organisation, greater participation in D&I initiatives, greater active engagement from senior management, and the prevalence of more innovative ideas and solutions. Equally, repeating the qualitative research processes undertaken to inform the organisation's D&I strategy in the initial phase will provide a comparison between where the organisation started and where it has made progress, but most valuably, where further progress is required. **D&I strategy must be maintained and updated,** even when diversity targets have been achieved, to reflect the organisation's changing goals and challenges and ensure an inclusive culture remains.

Following the completion of relevant milestones, the leadership team or unique D&I committee should take a retrospective look at the success of the specific initiative and establish any lessons learned that need to be incorporated into future D&I initiatives. Internal and external feedback can also enable the oversight group to assess next steps and areas of improvement.

As stated previously, there is not a one size fits all approach to D&I. Therefore, it should not be considered a failure if the organisation's initial D&I targets are not met as expected. These targets may need to evolve through the strategy stage, and so it is often the case that timelines will also change. However, firms must be transparent as to why they have not met their initial targets and adapt their strategy in the places it has not been effective so that progress is ultimately made.

SUMMARY

Diagnosis

- Undertake internal audit – including data collection of key D&I metrics
- Ensure transparency with employees on data being collected, and why
- Identify gaps and weaknesses in both approach and performance

Strategy

- Set realistic targets
- Designate adequate resources – including employee education
- Colleague-led taskforce
- Assign responsibility to all levels of seniority
- Ensure leadership involvement
- Welcome open discussion
- Consider internal networks & forums
- Offer confidential platforms to communicate D&I matters
- Involvement in industry-wide D&I initiatives

Measuring Success

- Ongoing measurement of progress
- Celebrate success
- Ensure transparency of reporting with employees

Constant cycle of refinement and improvement