

Realising the power and potential of a changing workforce.

Diversity in all its forms is a vital element of the changing talent focus within financial services. Is your organisation doing enough to support diversity and inclusion in all the milestones of your employees' career, from recruitment, development opportunities to promotion?

Making diversity a reality





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Introduction: Words are not enough

The nature of the talent needed to sustain success in financial services (FS) is changing and the competition to recruit and retain people with the right capabilities is increasing. FS organisations aren't just looking to attract seasoned FS professionals, but also the more diverse and hybrid types of talent demanded in a sector facing the disruptive impact of new technology, ever more complex regulation and increasing competition from new entrants.

Diversity in all its forms – from gender, generation, ethnicity, sexuality and disability to people with a broader range of skills, experiences and industry backgrounds – is a vital element of the changing talent focus within FS. As a matter of fact, our research suggests that diversity is moving up the boardroom agenda – nearly three-quarters of the FS industry leaders taking part in PwC's 18th Annual global CEO survey have a strategy to promote diversity and inclusiveness (59%) or plan to adopt one (14%).¹

The problem is that these high-level intentions aren't being translated into real improvements in the prospects for people from underrepresented groups within many FS organisations. If we look at the status of women, for example, half of the some 600 female millennials (women born between 1980 and 1995) working in FS who took part in a global survey carried out by PwC in 2015 believe that promotion is biased towards men.² More than 70% believe that organisations talk about diversity,

but opportunities are not equal for all.³ If people believe that their aspirations won't be met, they will simply choose other organisations or industries.

So why do the barriers still exist? Many of the biases that hold people back are actually unconscious. By their very nature, these blind spots can't be tackled by statements of intent alone. As we outline in this paper, it is important to identify where, how and why these biases materialise and develop systematic strategies to tackle them. To create the buy-in and momentum within the organisation needed to make diversity a reality, it's important for the board to articulate why it's a vital competitive issue and reinforce this by how they behave within the leadership team. Get this right, and your business will not only be in a better position to attract and retain top talent, but also enhance innovation, customer satisfaction and overall business performance.

73% of female millennials working in FS believe that their organisations talk about diversity, but opportunities are not equal for all³



¹ 410 financial services CEOs in 62 countries were interviewed for PwC's 18th Annual Global CEO Survey (<http://www.pwc.com/gx/en/financial-services/publications/a-new-take-on-talent.jhtml>)

² & 3 398 millennials working in banking and capital markets, 115 in insurance and 83 in asset management interviewed for PwC's female millennial survey (2015)

Diversity: A growing priority

A marketplace in transformation demands new capabilities and a more diverse workforce.

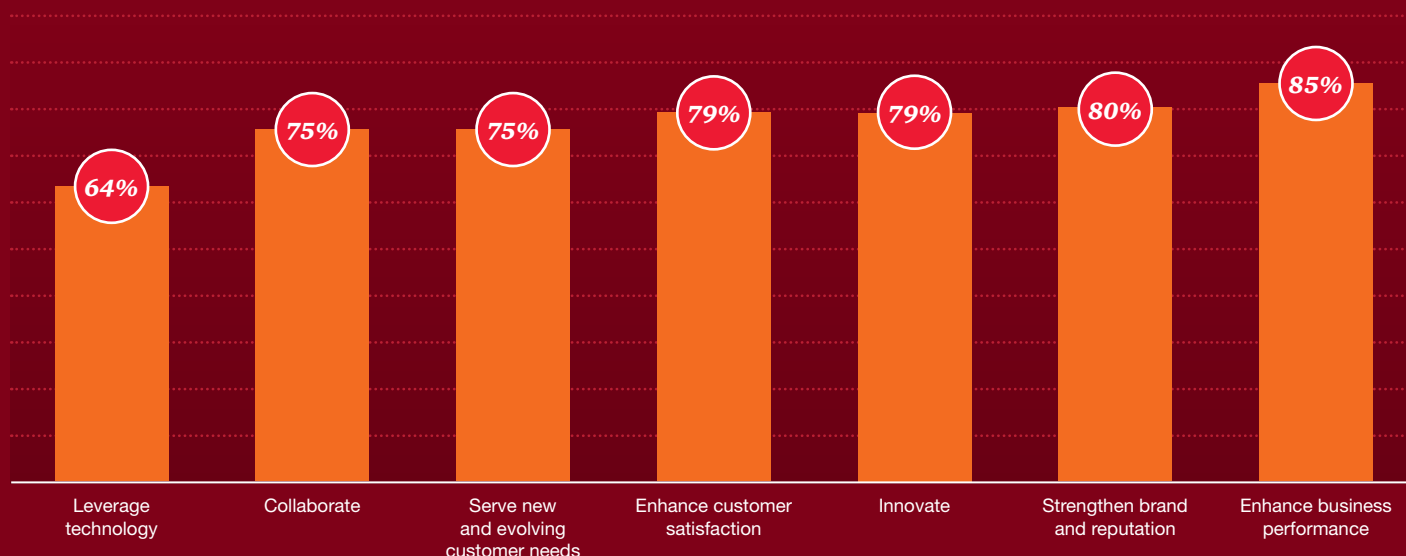
Many FS organisations are moving back into hiring mode. But the type of people they need are changing as they grapple with the impact of new technology, new regulation, changing customer expectations and shifts in global economic power. Nearly 80% of the FS industry leaders who took part in our latest global CEO survey are looking for a broader range of skills when recruiting than in the past.⁴

Encouraging greater diversity and inclusion is a critical part of meeting these new talent demands. Nearly three-quarters of FS CEOs have a strategy to promote diversity and inclusiveness or plan to adopt one, though that does of course leave a significant proportion who don't. It would appear that around one in five FS organisations don't believe that they need a broader skillset or that a strategy for diversity is necessary. Could this leave them on the back foot competitively?

So why is diversity moving up the boardroom agenda in most FS organisations? The short answer is that it makes business sense. As Figure 1 highlights, more than 75% of the FS CEOs who have adopted a strategy to promote diversity believe it is helping them to enhance innovation, customer satisfaction and overall business performance.

Figure 1: The benefits of diversity

Having a strategy to promote diversity and inclusion helps FS organisations



Source: 410 financial services CEOs in 62 countries interviewed for PwC's 18th Annual Global CEO Survey

⁴ 410 financial services CEOs in 62 countries were interviewed for PwC's 18th Annual Global CEO Survey (<http://www.pwc.com/gx/en/financial-services/publications/a-new-take-on-talent.jhtml>)

In the past, many FS organisations might have seen broadening diversity as primarily a matter of brand and reputation rather than a key way to bridge skills gaps. When PwC surveyed CEOs in 2010, barely 40% were taking active steps to attract more women, younger or older people. But with 70% of FS CEOs now saying that they see the limited availability of key skills as a threat to their growth prospects, industry leaders are coming to recognise that they can no longer rely on what has often been a fairly narrow talent pool. Indeed, diversity doesn't just broaden the talent pool, it also creates a positive impression of the organisation that is attractive to people from all sections of the population – 90% of FS CEOs who have a strategy to promote diversity believe it helps them to attract talent.

Diversity promotes customer-centricity

Yet bridging skills gaps is only part of the story. In a sector facing relentless and often disruptive change, boards want people with fresh approaches and ideas – if everybody thinks the same, this can limit growth and increase risk. The pursuit of diversity as a commercial priority also reflects the recognition that a customer-centric business needs people with a real sense of what customers are thinking and experiencing. This might be ensuring that the make-up of the workforce reflects an increasingly diverse customer base. It might also include bringing in people from customer-centric industries to ensure a better understanding of their needs and how to deliver the right outcomes.

Diversity, decision-making and the bottom line

Research shows that firms that embrace diversity have a higher market share.⁵ Interestingly, they may also make better decisions. A study in the US took a set of traders and compared how accurately they priced stocks in comparison to the fundamentals of the business. The more diverse set of traders in this experiment were more than 50% more likely to set accurate prices than a homogenous group. Overpricing was also higher and traders' errors more correlated among the homogenous set of traders than their more diverse counterparts.⁶



⁵ CTI Research: How diversity can drive innovation

⁶ Ethnic diversity deflates price bubbles, Proceedings of the National Academy of Sciences, 21 October 2014



Reflecting an increasingly globalised industry

As the FS sectors within South America, Asia, Africa and the Middle East (at PwC, we refer to these fast growth regions by the acronym ‘SAAAME’), continue to expand and the capital flows between them grow, the importance of broader cross-cultural diversity is increasing. SAAAME institutions are following their own growth path and, in many cases (such as mobile banking), leapfrogging developments in Japan, Europe and North America.

As developed market businesses seek to expand their global footprint, the days of simply parachuting in technical experts and senior staff are declining – it’s too expensive and makes less and less business sense. As their workforces and customer bases become more diverse, it’s important that the senior management reflects this diversity. For international organisations looking to build up their business in SAAAME regions, promoting greater diversity within the management of the organisation would send a clear message that advancement is open to all, rather than just those from the home market.

Regulatory spotlight

Alongside business leaders, governments, regulators and other bodies are putting more focus on diversity and inclusion. Global initiatives include the UN’s ‘He for She’ campaign, which gives men an opportunity to stand up and oppose the inequalities faced by women. Notable examples within FS include the specifications within the Dodd-Frank Act that require regulatory agencies, including the SEC, to set up an office of minority and women inclusion and to assess the diversity policies and practices of the companies they regulate.⁷

Questions for your organisation

- *How well placed is your organisation to find, attract and retain tomorrow’s workforce?*
- *What are you doing to make your workforce more diverse and how are you utilising the benefits?*
- *Do you have the talent structures in place to enable a more diverse workforce to thrive?*

⁷ Section 342 of the Dodd-Frank Act (http://www.frbsf.org/our-district/about/office-minority-women-inclusion/supplier-diversity/supplier-information-procurement/Dodd_Frank_Act_Section_342.pdf)

Are expectations on diversity being met?

While most FS organisations now have strategies in place to promote diversity and inclusiveness, the reality for many women and people from other underrepresented groups may not reflect the publicly-stated aims of their employers.

Earlier in 2015, PwC carried out a survey of more than 8,000 female millennials (women born between 1980 and 1995) from around the world, of which nearly 600 are working in FS. The findings provide valuable insights into the perceptions, aspirations and characteristics of women in FS and hence help your business to define and refine strategies for recruitment, retention and career development.⁸ The findings can also provide a useful indication of the effectiveness of broader diversity policies.

The findings suggest that more work is needed to make diversity a reality within many organisations. Nearly three-quarters of the female millennials working in FS believe that their organisations talk about diversity, but opportunities are not equal for all. Half believe that promotion is biased towards men (see Figure 2). Barely a third (35%) feel they can rise to senior levels within their current organisation, compared to 49% among women across all industries.

It's especially worrying that these perceptions of bias increase as women progress in their careers. In an industry in which women still only make up a small proportion of board members, it's also telling that nearly 30% of female millennials working in FS don't feel that there are senior female role models that resonate with them within their organisation. There's clearly a danger that if women's expectations aren't met, they will be put off joining or leave, and that would be a terrible loss of talent and potential for a business.

And the unequal challenges facing women in reaching the top of their organisations are replicated among other underrepresented groups. In the US, for example, African-American people make up some 14% of the population, yet hold less than 3% of senior positions in FS organisations. Representation of people with disabilities within the FS workforce also lags behind other industries.¹⁰



Only 17% of board members in Fortune 500 companies are women⁹

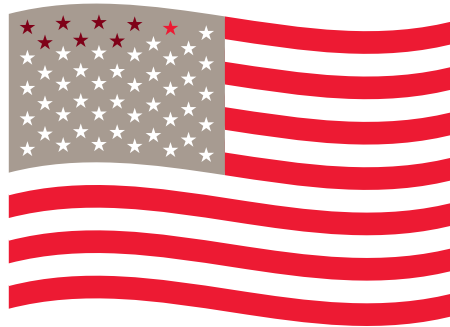
⁸ To find out more please see Female millennials in financial services: Strategies for a new era of talent (http://www.pwc.com/en_GX/gx/financial-services/publications/assets/pwc-female-millennial-report-v2.pdf)

⁹ Fortune, 14 November 2014

¹⁰ In the UK, for example, a National Institute of Economic and Social Research report ('Employment and earnings in the finance sector'), published in 2009, found that 6% of workers in the FS sector had a disability, compared to 11% in all industries

This underrepresentation can not only deter talented people from seeking careers in FS, it could also be a missed commercial opportunity. Globally, for example, 1.3 billion people with disabilities (a market the size of China) and their families control some \$8 trillion in disposable income.¹¹ Greater representation of people with disabilities within the FS workforce would surely help businesses to engage with this powerful consumer group.

However, there are many FS organisations that are making important strides in promoting diversity and inclusion, and reaping the resulting benefits. In the next section, we look at how your business can accelerate making diversity a reality.

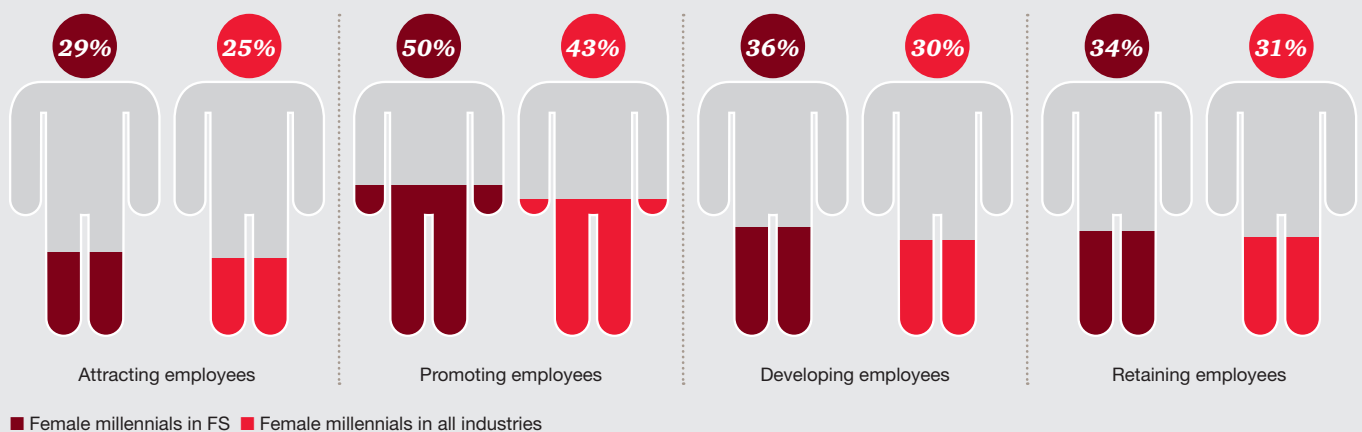


African-Americans make up some 14% of the US population, but hold less than 3% of senior positions in financial services¹²

Questions for your organisation

- What is the representation of women and other groups in senior management positions?
- How do you deliver visible diversity action and results?
- What are you doing to engage new generations in shaping your diversity strategy?

Figure 2: Female millennials in FS and all industries believe their employers are biased towards men in...



Source: PwC The female millennial (Survey) 2015

¹¹ Sustainable value creation through disability, Fifth Quadrant Analytics, 2013

¹² Forbes, 5 November 2013



What can your business do to make diversity a reality?

Through an employee's career, there are milestones during which an employer's interaction with them is vital in fostering a culture of diversity (see Figure 3). Here we look at the enablers of change through this career journey and how you can make a real difference within your business.

1: Leadership and tone from the top

Leaders set the tone for the organisation as a whole. Clear articulation and consistent support for your diversity and inclusion policies from your leadership team is the surest way to foster the organisation-wide buy-in for diversity and the culture and behaviour you want to promote.

A key part of the board-level direction is developing a compelling business case for diversity and inclusiveness that articulates the bottom line benefits and ensures management at all levels of the organisation understand and promote the objectives and associated policies. You can then provide momentum for the realisation of these objectives by setting targets for diversity and tracking them against internal goals and peer organisations.¹¹

Practical examples of the right tone from the top include a readiness to see things from different perspectives – a diverse leadership takes time to understand each other's values and thought processes. To help leaders get a better idea of what life is like from a different perspective, some businesses are creating opportunities for senior management to be mentored by junior staff, from either a different gender or ethnic background.

It's important to promote senior role models, who can encourage their younger counterparts to aspire to greater heights professionally and help give them confidence that their ambitions can be realised within the organisation.

¹¹ We look more closely at opportunities for promoting diversity and how to track them in 'Unleashing human potential: A fresh approach to diversity, talent and inclusion'.

Figure 3: The interactions that shape diversity

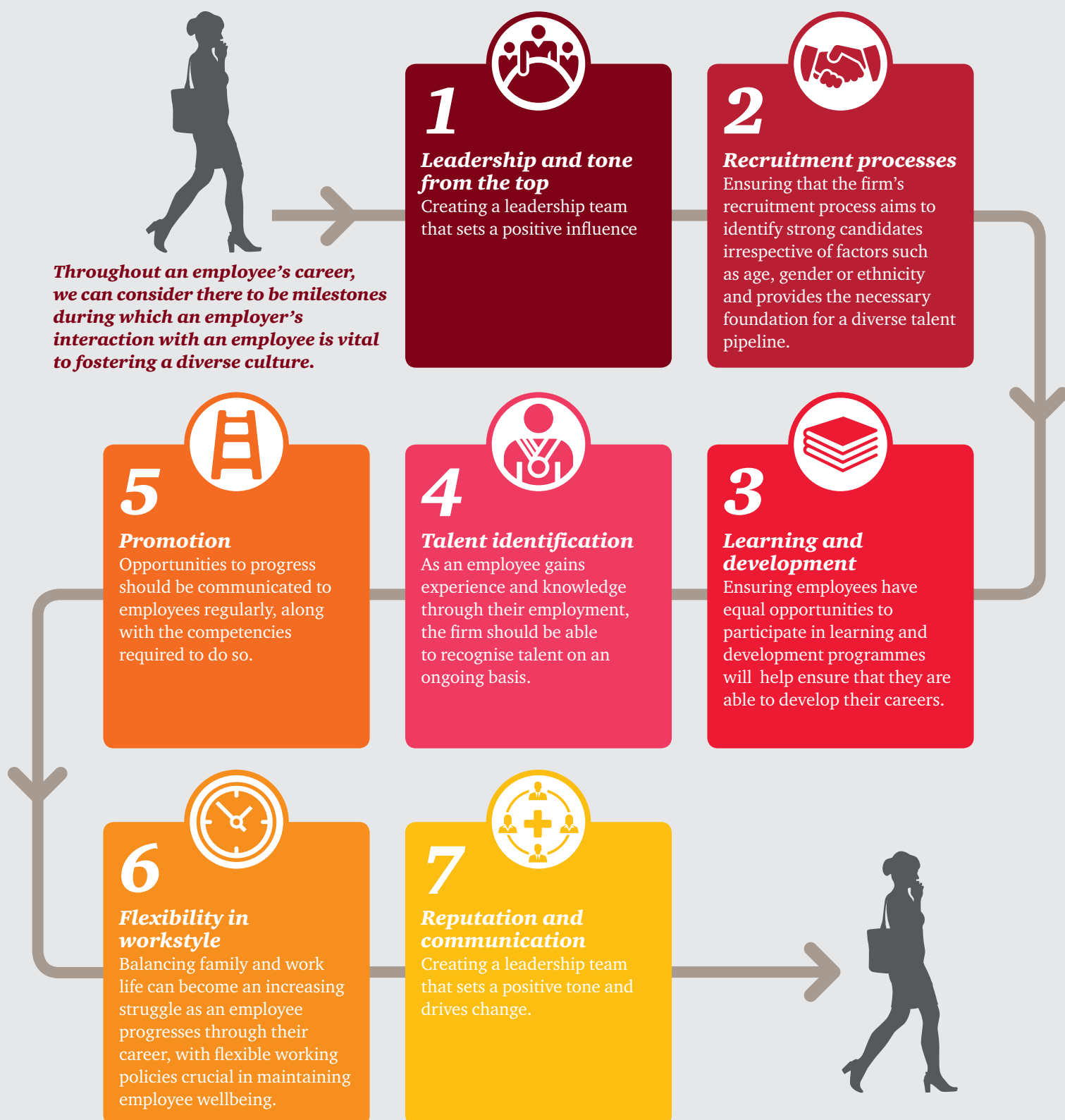
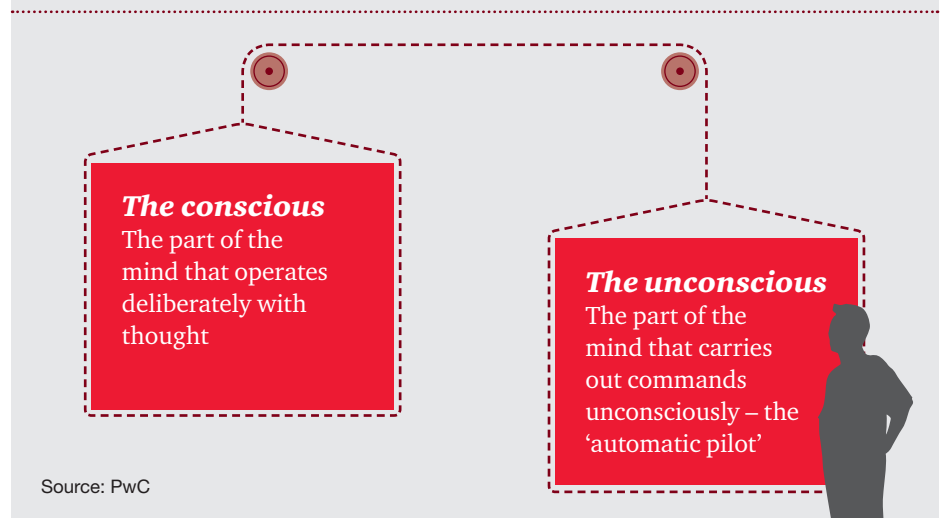


Figure 4: Our brain operates on two levels



2 and 5: Recruitment processes and promotion

Our brains naturally make short cuts when presented with information when we are required to make decisions (see Figure 4). Some of these short cuts manifest themselves in unconscious biases. First impressions do indeed have a disproportionate influence on our decisions, for example. We're also more likely to trust and favour people of a similar age and background to ourselves.

Many of the biases that hold women and other underrepresented groups back are unconscious. There may be a tendency among senior managers to hire or promote people like themselves or who have similar strengths, for example. It's therefore important to track whether hiring and promotion are equal and, if not, identify what biases may be at play. We refer to this process of tracking, identification and plans for remediation as 'creating tension in the system'. If 70% of promotions are going to men, for example, why is this, can it be justified and, if not, how can career advancement be put on a more equal level?

Open mind training

One way to identify and overcome unconscious biases is open mind training, which helps people to become mindful of these potential blind spots in their thinking and the impact on their decisions.



3 and 4: Learning, development and talent identification

Access to effective learning and development opportunities is important in the development of leadership. Regular reviews of who is taking part in learning and development and the criteria for selection can help to ensure that access to such opportunities is fair.

Performance management and the resulting criteria for identifying people with leadership potential can be subject to unconscious bias. It's therefore important to ensure appraisals are genuinely relevant and objective. In our experience, this is most successful when it looks at what people do and how they do it, rather than just performance against financial goals.

In the same way as it's important to compare promotion rates, it can be useful to monitor appraisal scores for potential bias. For example, academic studies have found that men routinely

underscore women for their vision capabilities, but other women don't. This stems from differing notions of what constitutes vision and how it's formulated.¹² You can't root out such biases entirely, but you can make people aware of them and develop goals and measures to mitigate them. In this case, this would involve emphasising the objective of developing winning strategies over the more subjective notion of vision.

In a marketplace facing unprecedented change, these evaluations can provide a valuable catalyst for determining what behaviours and capabilities are needed across the workforce and how to promote them. This includes dealings with customers and colleagues, the relevance of performance measures and who is picked out for mentoring and leadership.

Talent watcher

One way to promote fairer identification of people with leadership potential is to appoint a dedicated 'talent watcher' from within the executive team, who has the influence to ensure that the people being watched have access to appropriate assignments and barriers to progression are removed. The talent watcher should also take the lead in investigating why a high-potential employee might choose to leave the organisation and addressing the underlying issues.



¹² Women and the vision thing, Harvard Business Review, January 2009



6: Flexibility in workstyle

Our survey of female millennials found that nearly half (47%) say that flexibility and work-life balance programmes exist in their organisation, but are not readily available to them in practice. More than half (53%) believe that taking advantage of flexibility and work-life balance programmes would have negative consequences for their careers.

It's therefore important to make flexibility a real part of all staff's working lives rather than a just a passive policy. This includes identifying why women think taking advantage of flexibility policies could harm their careers and seeking to address this.

Some organisations are looking to adopt a more proactive approach to flexibility, which gives people much greater say in how they meet work demands and make more effective use of contingent, contract and other 'non-traditional' workers (see Figure 5).

Figure 5: The flexibility strategy – attacking from four angles



Source: PwC



7: Reputation and communication

The brightest and best candidates will actively seek out organisations that have a strong reputation for diversity and inclusiveness.

It's important to ensure that diversity and inclusiveness are at the core of your employer brand. Setting and tracking clear targets can help to identify priorities for intervention and demonstrate your organisation is genuinely committed to promoting equality. It's important to reinforce this with the identification and promotion of role models.

Questions for your organisation

- *What are you doing to develop objective talent, performance management and career progression systems and definitions?*
- *What are you doing to identify and tackle unconscious bias?*
- *How are you communicating the positive aspects of diversity within your organisation and how can you ensure these stand up to scrutiny?*

Conclusion: Raising the level of urgency

Your board wants greater diversity. Your customers and employees expect it. But while progress is being made, it may feel painfully slow.

You can chart your own progress by gauging whether you fully agree, partially agree or disagree with the following statements:

		Fully agree	Partially agree	Disagree
1	We can articulate a clear case for diversity in recruitment, promotion, decision-making and customer relations.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	The framework for talent assessment, promotion and access to training/ key assignments has been updated to enhance awareness of potential biases and ensure people from underrepresented groups can and do reach their potential.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	We have clearly defined succession plans and leadership programmes for people from underrepresented groups.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	We have procedures for understanding why people from underrepresented groups may not reach their potential or leave, and how this can be addressed.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	We regularly review promotion rates and other key indices to test for fairness and identify potential biases.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	We gauge and communicate progress on achieving diversity, both internally and externally.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Developing these systematic frameworks, challenging your organisation on progress and actively tackling identified barriers will help turn diversity strategies from high-level statements of intent to policies that can make a real difference, not just to your workforce, but to your ability to succeed in a fast-changing marketplace.



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