Meeting Summary

Policymaker Roundtable

Diversity and inclusion on Boards

London, 23 November 2017

On 23 November 2017, IBDE hosted its policymaker roundtable on diversity and inclusion. The meeting was held in line with the IBDE and Legal and General Investment Management's commitment to diversity and actions to create more inclusive workplace cultures.

The event was kindly hosted by Legal & General Investment Management and sponsored by the City of London Corporation.

Held under the Chatham House Rule the event brought together senior representatives from Whitehall, City of London and IBDE members to discuss how to retain momentum in the efforts towards greater board and management team diversity - and in particular how to improve the diversity of thought in an age of upheaval.

Discussion

Following the welcome and introduction by IBDE Executive Chairman, the discussion that followed noted that the issue of diversity is a well-worn subject on boards but remains unmastered and that such roundtables serve to provide new momentum. A decade ago there was a thunderous wake-up call of the risks of having very homogenous boards. This was illustrated by the regulator on the downfall of RBS: “The ill-fated acquisition of ABN Amro lacked rigorous testing, questioning and challenge that would be expected in an effective board process dealing with such large and strategic propositions.” However, out of the wreckage of the financial crises came the opportunity of setting up the “30% Club” which launched in 2010 with the aim of improving the proportion of women on the boards of FTSE100 and FTSE250. In 5 years the proportion of female board directors went up from 12.5% to 27% and also the number of all-male boards in the 350 companies went from 153 to 15. The attitudes towards diversity experienced a 180-degree change in direction. Companies went from seeing this as a “woman’s issue” to an organisational one. Although the 30% target was not met (though close to it) the focus shifted to being a global challenge through a hearts and minds process rather than a legislative one. Another prong to this was to focus on the leadership and executive roles by being more inclusive. Currently, the executive committees have 20% of their positions occupied by women. Lastly, in using the created momentum for change, it became imperative to broaden the scope beyond gender. In taking these into account, it is clear that there is a long way to go for subsequent changes to make it to the board level. There is the additional issue that a lot of people are quite tired and have expressed resentment over the issue of diversity at the expense of talent and positive discrimination. These must be taken into account rather than be ignored.

To further drive the change, one attendee proposed that investors have to be more assertive on these issues and become more involved. HR teams and recruitment methods must be upgraded and rebranded with diversity - in other words, to be more radical in approaches to recruitment by not simply hiring those candidates whose thinking is aligned to the established ways so as to be less likely to bring something new to the table. The change required is not incremental but radical.

One participant stated that change has to be led from the top which in itself is ironic since the boards are at the heart of the matter. Impetus must also be driven by the shareholders and lacking their backing, change will not be forthcoming.

Many organisations, another delegate added, are bowing to societal pressure in the application of having more women in executive roles to reflect the make-up of the host country’s population. This was wrong as it led to quotas based purely on representational benefits rather than business benefits. There must be a business case for this change to take place and this change must have demanding targets. This would ensure fundamental change in practices and makeup of boards even if targets were missed. However, there needs to be a pipeline of candidates which will enable the required change of boards, meaning the companies must work in preparing a pool of people ready to be introduced into boards: this relationship is symbiotic. The attendee went on to add that members of the executive committee would benefit greatly were they to sit on other boards. This would remove a lot of barriers and ultimately make response timelier, hence it would be immensely beneficial to business. The view that women are more risk-averse was challenged: it was stated that women do take more risks (getting married, having children and so on) but they are more thoughtful about risk. Women, on the whole, tend to think more of the customer and the benefits to the customer in what is being proposed, whereas men tend to think along the lines of ‘how does this impact my company’ and then think about the customer.

The discussion went on to note that this must also be thought about not just with regard to the executive committee but also decision-making committees within a company. The delegate stated that diversity of judgement was a major hurdle which must be overcome but it must not be at the expense of others. The change must also tackle the biggest elephant in the room: social inclusion. The onus is on supervisors on how they oversee day-to-day activities. While there is no silver bullet, the task can have targets, and if they are not met, then those responsible for each target have to notice a reduction on their pay packets. This is an effective pique in their engagement and commitment to the cause. Recruitment pipelines must be set up in a way which continuously sustains the diversity issue. Work-allocation and the way in which work is allocated are also ripe for challenge. Supervisors tend to allocate work to employees who are like them. This cycle must be broken. While everyone wants meritocracy, how does one analyse merit?

Another delegate stated that diversity issues are being treated with regard to the current executive generation, but the younger generation must not be neglected; they must be encouraged to be a part of various boards and hence increase inclusivity. This, together with reverse mentoring and mentor-exchanges between companies, will facilitate greater changes in diversity.

An unexpected appointment, too, could provide a change to ways of thinking in candidates who would not normally consider certain executive positions to be emboldened to apply for such roles. To this end, another delegate responded that while people celebrate differences because of different aims and agendas, they soon revert to type: the old club type syndrome. There is a long way to go in changing this mentality. The reverting occurs not only on an individual level but also at a company level. This is where government legislation can come in and provide the required adjustment; so the "hearts and minds" approach may unintentionally produce positive discrimination. The lack of a standard model makes this even harder to achieve. To this, an attendee responded that the triangle "context, content and process, where context is inner (from within the company) or outer" can be applied to have a more holistic and pragmatic approach which also mitigates unintended consequences.

Another speaker told of how a company is making their working on diversity and inclusivity bring them even more business. It was further added that the fatigue and resentment are very real and partly due to the acutely increased sensitivity and lack of tolerance towards those that are not well versed in diversity and inclusivity. For example, when someone uses the wrong words and then someone else heavily criticises them immediately, this in turn kills off any dialogue. Therefore, the thought police and vocabulary police need to be more tolerant and accepting of the fact that some, knowingly or otherwise, may fall short on the drive for change. The language must be more clear and collaborative as words like "diversity" and "inclusivity" become ever more charged and thus divisive when the objective is the opposite. To this end, many of the attendees stressed the importance of creating an environment in which employees felt comfortable to be different rather than conform to standards which may be of a previous generation. At the same time as the client expectations must be considered, ensuring deals are concluded, and this is even more important when dealing with international clients.

Another way of tackling lack of diversity is through cross-sector collaborations to reach a wider audience. Social media is another tool in which the financial services sector has to be more active, or it risks being caught out. The messages, through the social media channel, coming out of companies must be continuous and more frequent.

The conversation moved on to the steps that companies in banking and financial services were taking, and one attendee felt positive about the encouraging steps that companies are taking by having more women at all levels and that rather than simply talking about it, companies should just take concrete actions which tackle diversity issues. Change is taking place slowly but surely. Another attendee stated that for the change to firmly take place, we should look into implementing it from early school days where girls are instilled with belief, ambition and aspirations just as boys are. These are societal changes, but the executives in companies are also members of society, and showcasing examples may well be the required spark of inspiration for the younger generation.

Another attendee cited studies conducted in Australia, by a leading consulting firm, which showed that companies which had a higher proportion of women (at the time of the study this was the scope of diversity) performed 2% better on return on capital investment.

The advent of so-called "pinkwashing" was also touched upon, where candidates are being selected and hired simply for quota purposes and, when candidates fail, such examples are being used to nullify the diversity agenda, but even such occurrences are being tackled and utilised as stepping stones to hone in on the specifics of such great and challenging issues.

Conclusion

Out of the last financial crises the necessity for change was unavoidable and organisations that engage proactively in promoting diversity and inclusion are to be thanked for being the change agents at major firms in achieving greater gender diversity in the makeup of the executive board, though there seems to be no silver bullet. Such challenges have to be tackled with the right intentions and be supported by the appropriate frameworks. The onus is also on shareholders and governments to demand greater changes when it comes to diversity and inclusivity, and for companies to have diversity targets which directly impact on executives' reward packages. The scale and scope of the diversity challenge have grown bigger, and for businesses to regain society's trust, businesses have to be more reflective of the host society at all levels, which incidentally also yields business benefits.

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