

## Diversity: why it matters and how to embrace it

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Diversity remains high on the agenda for board level recruitment. Our boardrooms and leadership teams do not reflect the diversity of wider UK society or the stakeholders that firms seek to engage and represent. While the public policy debate has tended to focus on listed companies, building societies face similar issues.

The conversation has moved beyond that of debating why boards are comprised of directors who are simply 'pale male and stale'! Improving diversity remains a hot topic and there is external pressure on boards to continue to change their composition and bring more transparency to their people agendas. Greater diversity in the boardroom can help create constructive and challenging dialogue.

There have been many high-profile reviews and initiatives bringing leaders together to address this (Lord Davies, Lord Parker<sup>2</sup>, Women in Finance<sup>3</sup>). While progress has been made on diversity, equality and inclusion generally, it is widely acknowledged that more changes are still needed in the boardrooms, where leadership, stewardship and corporate ethics are established and set the tone.

To create broader diversity we need to improve our approaches to recruiting and developing people, so that there is a larger pipeline of diverse talent coming through the leadership teams and more importantly ensuring that we have diversity at every level within an organisation.

<sup>1</sup> The final [report](#) from Lord Davies in 2015 recommended FTSE 350 boards be 33% female by 2020.

Business leaders know that they cannot operate successfully without the support of their stakeholders, including their members, and employees. Increasingly stakeholders want to be assured that the composition of their boards not only includes the best range of talent, skill sets and relevant experience available to them, but that they also broadly reflect those they serve and those who work as part of our companies.

Successful companies acknowledge that they need to attract, retain and promote the best talent available, irrespective of class, nationality, gender, sexuality, age, religion, ethnic background or any other perceived difference from the “mainstream”.

It is clear from all the Societies that we have been working with that the subject of diversity is being debated and many are making progress on diversifying their boards, Whilst it is easy to assume that this is a greater challenge for the smaller societies as they have greater resource constraints this is not borne out by our experience. Our observation is that the more open the chairman and chief executive are in embracing individuals from different backgrounds the more diverse their boards and leadership teams are as opposed to size per se.

## Gender diversity

Since the launch of the original Davies Report *Women on Boards* in 2011, progress has been made on improving the numbers of women on boards, so much so, that we are now looking at how we can develop gender diversity at all leadership levels<sup>1</sup>. This is reflected in the growing number of organisations signing up to the 2016 Women in Finance Charter<sup>1</sup>.

Within the building society sector the proportion of female board members has increased from 14% in 2011 to 22% in 2016 but many of the appointments have been Non-Executive directors. Only 15% of building society executive directors are women, compared to 9% in 2011.

## Ethnic diversity

The lack of ethnic diversity on building society boards is even more stark although not measured formally by the BSA (for now anyway). Many Chairmen are concerned that their boards are not reflective of the communities in which their societies are based.

The recent Parker Review of the ethnic diversity of UK Boards<sup>2</sup> estimates that to reach an ethnically diverse mix similar to that of the overall adult working population by 2021 (approximately 15%), one in five new Board appointees would need to be black or minority ethnic (BME). By 2030, it is expected that the proportion will be closer to 20% of the total UK population and by 2051, it could be over 30%. In practice, considering typical board appointment cycles, that would imply (on average) each company needing to appoint one BME director in the period to 2021. By comparison, at the time of its establishment, the target set out by the Davies Review necessitated (on average)

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<sup>1</sup> <https://www.gov.uk/government/publications/women-in-finance-charter>

<sup>2</sup> [http://www.ey.com/Publication/vwLUAssets/A\\_Report\\_into\\_the\\_Ethnic\\_Diversity\\_of\\_UK\\_Boards/\\$FILE/Beyond%20One%20by%2021%20PDF%20Report.pdf](http://www.ey.com/Publication/vwLUAssets/A_Report_into_the_Ethnic_Diversity_of_UK_Boards/$FILE/Beyond%20One%20by%2021%20PDF%20Report.pdf)

<sup>3</sup> The 'Women in Finance Charter' asks financial services firms to commit to implement key industry actions.

that one in three new director appointees must be female. Whilst the Parker Review did focus on the FTSE 100, its findings are highly relevant to the mutual sector and highlight a call to action.

## **Diversity is multi-faceted**

The biggest shift we have seen by boards is a recognition that diversity is multi-faceted. Diversity in its broadest sense is about being open minded to individuals from all backgrounds whether that be gender, ethnicity, social class, age, sexuality or disability. And, of course, even if all these groups are represented we all still need to consider diversity of thinking, behaviours and corporate experience to ensure the optimum mix.

Building significantly more diverse leadership teams requires a different outlook. It involves bringing people of different backgrounds, viewpoints and characteristics which will by default create a different dynamic when boards are used to recruiting for 'fit' (consciously or unconsciously). Determining whether a candidate will 'fit' entails subjectivity and value judgements. It often relates to the perceived ability of an individual to 'get along' with others within an established culture and the degree to which their values are perceived to align. It is important that all individuals thrive when joining new cultures but if organisations are not aware of their own biases and preferences they can unconsciously end up appointing individuals similar to themselves, which can lead to 'group-think' and perpetuating the status quo.

Creating diversity is certainly not a quick fix and forward-looking organisations and search firms continue to collaborate so that we can all make progress on an issue that not only makes business sense but also aligns to the values and ethos of mutuality.

## **Creating high performing businesses**

Having a diverse workforce which reflects society is not an end in itself. Many organisations are realising that to create a positive environment for all to thrive and progress within is not only the right thing to do but there is a business case which supports this - work forces that are more diverse are higher performing.

Much has been learned and researched about diversity and in business the problems arising from group-think have been exposed; in particular as a result of the financial crisis. It is now widely recognised that one of the ways in which constructive debate can be encouraged is through having sufficient diversity on the board.

The first step in building a truly inclusive organisation is understanding that diversity is about more than filling quotas and complying with affirmative action initiatives. Diversity is as much about differences of approach and experience, and it is important in ensuring effective engagement with key stakeholders to deliver the business strategy. An inclusive culture is one where behaviours show that they do not just respect and value difference, employees and leaders go out of their way to seek out and value different perspectives. It is clear that to achieve this success, companies must reflect the values of their stakeholders (including employees, shareholders/members and the communities in which they sit) and also project those values externally (including to the consumers they are seeking to attract and the markets in which they operate).

A diverse workforce with clear, collective goals is generally associated with innovation, comprehensive and better-framed strategies, and decisions that are more robust resulting from increased challenge and different perspectives. Business benefits include improved employee engagement and making the organisation more capable to respond to diverse customers and their needs.

Diversity is not a quick fix: developing a long-term sustainable view on diversity, requires a joined-up, leader-led, multi-year effort. Many market-leading organisations have Diversity & Inclusion (D&I) strategies that are embedded within the firm's business and people strategies with measurable benchmarks. However, care is needed to ensure formal D&I strategies do not lead to increased segregation of individual minority groups. Focus on creating an inclusive culture is key.

### **Tone from the top, transparency and reporting**

One of the key roles for the board includes establishing the culture, values and ethics of the Society. It is important that the Board sets a positive "tone from the top", and the directors should lead by example. A board should be committed to identifying, attracting, retaining and promoting the best talent, irrespective of any defining characteristics of any candidate.

Stewardship, mentoring and sponsorship are essential components in professional development and progression. Without the appropriate commitments from existing chairs, boards and executives, UK companies will not secure the best talent, whatever their background and wherever they may be located.

It is important for boards to embed diversity (including ethnicity and gender) in their corporate succession plan. Ideally this should be "part of a holistic approach": diversity and inclusion, reflecting changing demographics, needs to be part of the overall corporate strategy, and the board should exhibit leadership on, and reflect a commitment to, diversity and inclusion to the same extent that it does all other aspects of corporate strategy.

Whilst many boards have been very anti-quotas, many are now introducing clear targets to ensure their boards and leadership teams are more diverse with a view to... 'what gets measured gets done'. This has included positive action in deliberately appointing women when there have been all male boards or leadership teams in place.

Transparency is key and a description of the board's policy on diversity set out in the annual report offers this. Typically, this includes a description of the firm's efforts to increase its diversity across the organisation, including at board level. Listed companies that do not then meet board composition recommendations by the relevant date are going to be required to disclose in the annual report why they have not been able to achieve compliance. Gender pay gap reporting will be mandatory for those with 250 or more employees as of April 2018.

## **Evolving your people strategies and plans to attract, develop and retain talent**

But it is not easy accepting difference...building diverse organisations requires bringing people of different backgrounds, viewpoints and characteristics together. This can create friction, make teams more difficult to manage and potentially slow down decision-making.

Diversity approaches need to be incorporated fully into a People Plan to enable talent to access the most appropriate development and talent programmes. Encourage reverse-mentoring allowing younger employees to feel valued and more established workers to gain a fresh perspective.

Make diversity management a part of your leadership programme, providing managers with the skills to communicate across cultures. Promote diversity from the top down *and* the bottom up ensuring that a culture of inclusivity is encouraged at every level and in every corner of your Society

To be competitive, Societies need to retain talented people from all backgrounds and ages and where it makes business sense, encourage flexible working to support them with their life and family responsibilities.

This is also about capability and the ability to recruit from the widest talent pool. Particularly in times of restructuring, redeployment and market change, we all need people with the right skills and learning opportunities in place to develop them. Societies need a talent management approach that enables all employees to work at the very top of their abilities.

To facilitate this change requires a forward looking and thinking chairman and chief executive in all of our Societies irrespective of size. Whilst the resources for each Society may be different there are diverse candidates available to all if we think laterally and openly about the competencies and experiences required to achieve a balanced board.

## **Whilst it is unlawful to positively discriminate**

...it is possible to take positive action<sup>1</sup> which refers to a number of methods designed to counteract the effects of past discrimination and to help abolish stereotyping. Positive discrimination generally means employing someone because they come from a particular demographic or ethnic group, irrespective of whether or not they have the relevant skills and qualifications.

Action can be taken to encourage people from particular groups to take advantage of opportunities for work and training. This can be done when underrepresentation of particular groups has been identified in the previous year.

Under this broad meaning positive action may include initiatives such as the introduction of non-discriminatory selection procedures and training programmes or policies aimed at preventing sexual harassment.

## **How can we maximise talent pools available to you?**

Reviewing HR policies and practices with a diversity lens highlights good recruitment and selection practices that help Societies focus on building a diverse workplace. Our role in Executive Search should always be to ask the question – how we can maximise the talent pool available to you? It is a challenge and commonly commented that “there are not enough capable and qualified candidates

from diverse backgrounds”.

### ***Make Diversity a Part of Your Brand***

A strong brand creates a stronger compelling story when we go to market to attract candidates. When it comes to diversity, it's not enough to simply “walk the walk”. Societies need to let the world know that your organisation embraces difference and welcomes all, and the best way of doing so is by making diversity a part of your brand. It is possible to demonstrate that your Society cares by promoting volunteerism among employees and providing corporate-sponsored initiatives to raise funds and awareness for different causes. Invest in diversity by offering internships and scholarships to people from underrepresented groups.

### ***Unconscious Bias***

It makes a significant difference when our clients remain open minded as to how proven somebody is and which organisations they have worked or are working for. We are also investing more time in helping leaders understand their own ‘unconscious’ bias and acknowledge what we really mean by cultural ‘fit’. Feedback and research has highlighted that many employees believe that the unconscious bias of CEOs and leadership teams is one of the leading reasons for the lack of progress at board level for women and individuals from minority groups.

Unconscious bias affects every area of our lives. Unconsciously, we tend to like people who look like us, think like us and come from backgrounds similar to ours. Everyone likes to think he or she is open-minded and objective, but research has shown that the beliefs and values gained from family, culture and a lifetime of experiences heavily influence how we view and evaluate both others and ourselves.

These thought patterns, assumptions and interpretations or biases we have built up over time help us to process information quickly and efficiently. From a survival standpoint, bias is a positive and necessary trait. We all have unconscious bias. In business, however, bias can be costly. It can cause us to make decisions that are not objective; and ultimately, we miss opportunities. Therefore, being aware of our natural disposition to bias is the first step in eliminating it in our hiring decision making process and allowing boards to be more open to the possible.

Our aspirations too tend to reflect the current norm and, with relatively few women or BME in key roles, unconscious beliefs about career advancement could be holding some back from reaching the top. Bias comes in many forms, from assuming you need to take on more “masculine” characteristics to succeed, to doubting your abilities and strengths. We can all play a coaching role in encouraging and inspiring individuals to go forward for roles both internally and externally.

### ***Creating New Talent Pools***

Both the Davies and Parker Reviews highlighted that the professionalisation of boards meant that the skills criteria for candidates has increasingly focused on the need to have substantial business and board level experience. This has also evolved into many financial services organisations still stating a need for candidates to have had significant prior financial responsibility which has led to a dominance of accountants on boards. Whilst there is a real need for candidates to have exposure to

board level decision making and be financially literate, just like sector expertise this can be taught and should not be a prerequisite for all appointments . To maximise the talent available to us we need to consider the blend of skills around the board table and also appoint individuals who have the potential to be board members rather than all being proven already.

We are more likely to increase ethnicity if we consider appointing from outside the corporate mainstream, including entrepreneurs, senior individuals with professional service backgrounds, academics and civil servants. Increasingly, this means looking beyond the traditional sources to identify and leverage new talent pools both internally and externally.

### ***Attracting and Assessing Talent***

We can all play a key role in ‘stress testing’ the candidate brief and greater emphasis should always be placed on considering a broader mix of skills and experience.

Whether you are advertising or creating a candidate brief for executive search the following suggestions and considerations help reveal and remove bias that may affect who is selected for an interview, how the interview is conducted, and final selection of candidates. Removing bias from the recruitment process requires ongoing review of practices, both the process and the outcomes to uncover systematic barriers.

- Develop a clear and consistent set of guidelines, including clear measures and targets focused on improving diversity. Both as the employer and for your recruitment partners.
- Value talent within your own organisation before going to market. Consider how you can offer stretch opportunities to enable individuals to step up into roles. Provide opportunities that offer stretch for those with potential; champion aspiring internal and external talent.
- Develop longer-term relationships with diverse talent in the market so that you become an Employer of Choice, at all levels. This might include engaging more with the wider community and the government on its education agenda.
- Establish a recruitment philosophy specifically focused on skills; create barrier-free job descriptions and reduce bias in the assessment process.
- Focus on the content rather than the style of the CV and what they’ve achieved; remove any ‘horns and halo’ effect attached to academics and employer brands.
- Values are important but avoid subjective terms in the recruitment process, such as ‘best cultural fit.’ This can unwittingly exclude qualified candidates without gaining a deeper understanding of their potential.
- Acknowledge your own bias and preferences; and pay attention to differences and how you react to them (including communication style, ‘personal impact/gravitas’, levels of modesty’). Include assessors from diverse backgrounds.
- Be prepared to ‘disrupt’ by bringing in talent that will add to your team but may look or feel different to the ‘norm’; embrace the differences and value they add.

### **What more can be done by all of us to improve diversity in the boardroom and more broadly?**

Many Boards believe they already have diverse skillsets and thinking within their Societies. But what

can we do more of to create Boards and leadership teams (executive and management) which are even more diverse, are closer to a 50/50 male/female split and at have at least one leader from an ethnic background?

Inclusion and diversity is not just a corporate initiative, it is personal and we will all find our own approach. Market leading organisations have encouraged their people to do this in workshops and conversations, learning programmes and within their networks. Unconscious bias training as a minimum creates greater self-awareness. We all need to look at our own unconscious bias and move away from beliefs potentially damaging to ourselves and to others. Assumptions are internal; they come from within us and before any external change can be made in a Society's culture, they need to be understood. We *can* unlearn our current beliefs and relearn new ones.

Secondly, it's about culture not about a series of HR initiatives. It's about 'how we do things round here'. It's about respect with an eye on deliberately changing the way things are, clearly linked to the business objectives of your Society. The marketplace is demanding change and we should be determined to exceed expectations. Fostering a collaborative environment that supports diverse thinking and a culture of inclusion will ensure your talented people will achieve their potential and drive business success.

And finally, it requires personal leadership and this is about more than the Chief Executive and the Board. All leaders must step forward with courage, committed to change the status quo, making tough choices and saying things that might seem challenging and occasionally provocative.

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