

Diversity and inclusion communication and reputation 2017

Your record on diversity and inclusion is now a key, though generally under-managed, source of reputational risk as it comes to play an increasingly powerful role in shaping stakeholder perceptions. And the spotlight of new gender pay reporting will force diversity further up the risk register. What impression are different sectors within financial services making on diversity? What risks does this open up? What marks out the leaders and how can they benefit?

Opening up on diversity: Getting to grips with the reputational risks







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Introduction:

Diversity and inclusion is a reputational risk that financial services firms can't afford to ignore

Your record on diversity and inclusion is under scrutiny, not only among the talent you need to attract and retain, but consumers, investors and increasingly the government and regulators.

As diversity and inclusion becomes increasingly crucial in determining how your organisation is perceived by these key stakeholders, it's important to recognise this as a business issue and, in particular, a reputational risk, rather than just an HR issue. There are clear upsides if you can get to grips with the reputational risks. But there are also damaging downsides.

What's at risk?

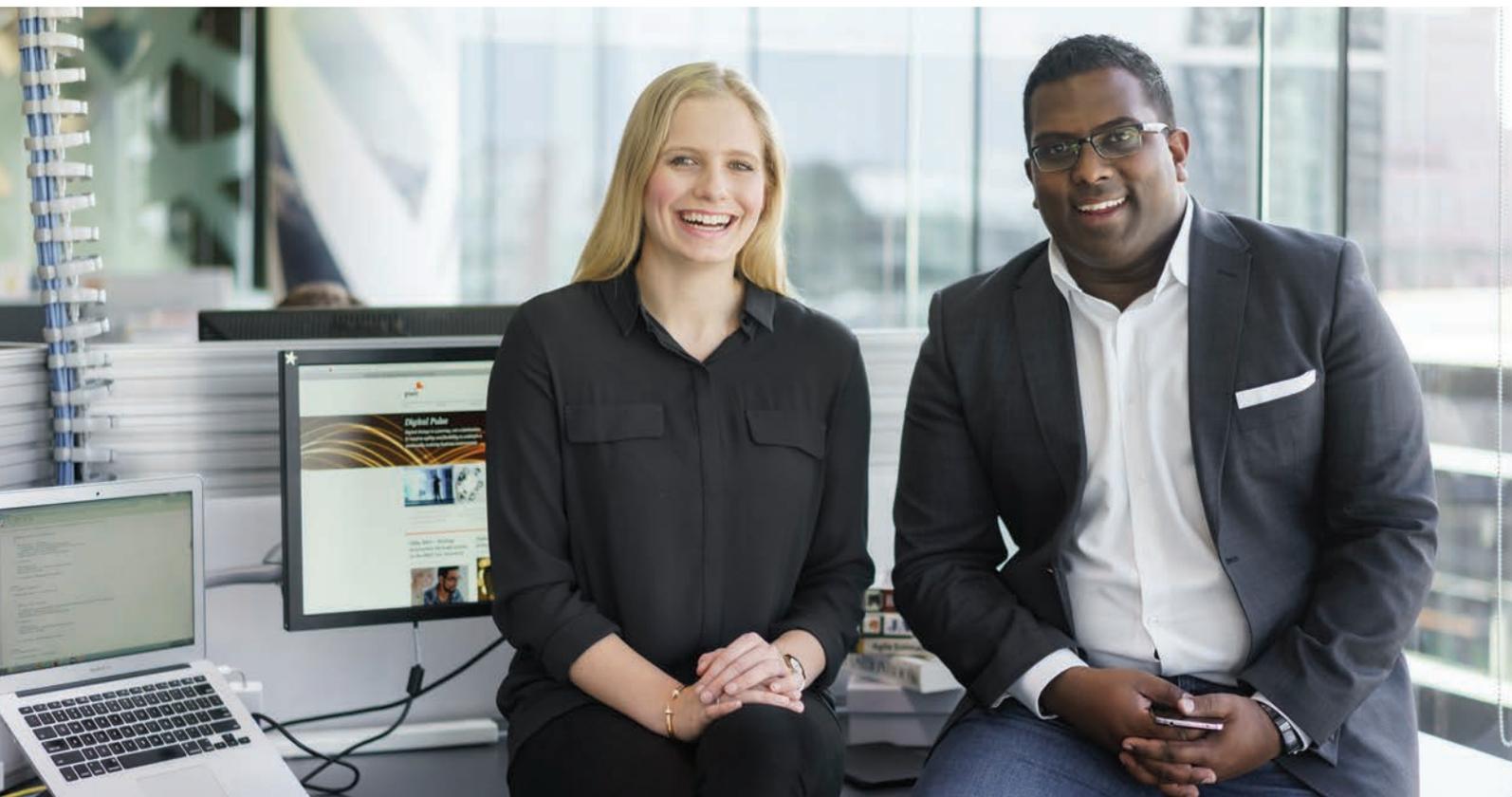
Downsides of poor reputation on diversity and inclusion

- 1 Deterring talent:** The talent you need to attract may be encouraged to look elsewhere if they believe your organisation's approach to diversity and inclusion would make it harder for them to fulfil their potential. Key existing employees may also become disillusioned with their prospects and leave.
- 2 Putting off customers:** If you don't have a good reputation for diversity and inclusion, there is a risk that customers will switch to a competitor that does. There is even a risk that your business could be boycotted by certain groups. Further risks centre on the presence of diversity and inclusion as one of the selection criteria; for example, for fund management tenders, including those for Government and local authority pension schemes.
- 3 Difficult questions from investors:** Shareholders want assurance on anything that affects your organisation's reputation, and hence the value of their investment. They're asking more and more questions about diversity and inclusion as a result.
- 4 Eroding government support:** The government is seeking to promote greater diversity and inclusion within FS as part of its wider focus on the culture within the industry and social mobility within society as a whole. The government's launch of the Women in Finance Charter¹ and strong backing for the Parker Review recommendations on increasing ethnic diversity within senior management² are a testament to how seriously it takes these issues.
- 5 Eroding regulators' confidence:** Regulators are keen to promote diversity as a way to encourage greater debate and challenge, and guard against the risks of group think, within decision making. This has direct implications – the Financial Conduct Authority has been at the forefront of calls for progress on diversity to be accelerated³. There is also a broader risk that regulators may be more likely to challenge the culture and decision making within less diverse organisations.

¹ Women in Finance Charter, HM Treasury, July 2016 (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/519620/women_in_finance_charter.pdf)

² Business Minister Margot James speaking at the launch of Sir John Parker's independent report on diversity, 2 November 2016 (<https://www.gov.uk/government/speeches/the-ethnic-diversity-of-uk-boards-launch-of-the-parker-review>)

³ Bloomberg, 24 January 2016 (<https://www.bloomberg.com/news/articles/2017-01-24/white-male-bank-culture-difficult-to-take-fca-s-butler-says>)



Benefits of a favourable reputation on diversity and inclusion

- 1 Broadening your talent pool:** A positive reputation on diversity and inclusion will not only strengthen your ability to compete for talent within your sector, but also attract people who may not have considered a career in FS. And these are often the people with the creativity and fresh ideas that can give your business a powerful edge in a time of disruption and change.
- 2 Closer to customers:** Bringing a more diverse range of people into your organisation and winning the trust of different communities is an opportunity to get closer to customers and develop more targeted and tailored services.
- 3 Enhancing trust:** How open you are about diversity and inclusion is a litmus test for wider transparency and trust. If you're transparent on an issue that stakeholders care about, even if you may not have such a good record on it, then this will strengthen your reputation elsewhere.
- 4 Enhancing regulators' confidence:** Demonstrating a desire to promote greater diversity of thinking within your organisation is an indicator that you are focused on enhancing your culture, and shows that your organisation is willing to embrace the spirit as well as the letter of regulation.

Figure 1: Comparing sectors

Average ratings for the four key dimensions of diversity and inclusion reputation



Percentages denote the sum rating of a firm as a percentage of the maximum score across the four dimensions:

• Diversity and inclusion strategy • Leadership and tone from the top • HR processes • Other diversity and inclusion initiatives

'Simplistic' rating scores 1 out of 4, 'defined' scores 2 out of 4, 'advanced' scores 3 out of 4 and 'leading' scores 4 out of 4

Source: 39 FS organisations analysed as part of PwC's Diversity and Inclusion Reputation Research 2017

The reputational risks are about to be heightened by mandatory gender pay reporting in the UK⁴. Being required to disclose what women in your organisation earn compared to men will shine a spotlight on inequality and act as a catalyst for wider public focus on diversity and inclusion. Moreover, once these disclosures begin to hit the headlines, the questions are likely to move beyond gender pay to reach into a much broader spectrum of sensitive issues ranging from facilities for people with disabilities to the ethnic make-up of your executive team. And the media attention will ensure that diversity and inclusion are at the top of the management agenda, rather than just a matter for HR. You're also likely to face increasingly difficult questions from your own employees, analysts and investors.

How are different sectors perceived?

It's therefore important to know how your organisation comes across on diversity and inclusion, what reputational risks this opens up and how these can be best managed. This is what this report sets out to do.

Drawing on publicly available information on 39 leading FS organisations that are active in the UK market, we analysed how strategies, policies and progress on diversity and inclusion are likely to be perceived by key stakeholders⁵. From disclosed strategies, objectives and key performance indicators to levels of engagement and accountability within senior management,

the analysis looks at information in the public domain across the four key dimensions of strategy, leadership, HR processes and other diversity and inclusion initiatives. The result is a progress rating in each of the four dimensions, ranging from 'simplistic' through to 'defined', 'advanced' and 'leading'. Although the analysis isn't exhaustive, it offers valuable insights into current perception; gaps in policy development, measurement and communication; and how your organisation can protect and enhance its reputation.

So, how do the different FS sectors rate? The overall sector scores in Figure 1 reveal the extent to which banks are ahead of their counterparts in insurance and asset and wealth management (AWM). However, an average rating of around 70% indicates that even banks have room for improvement. And while several individual banks stand out, there are none that rate as 'leading' across all four dimensions.

As our analysis highlights, the priorities for action don't just include how diversity and inclusion are communicated, but also the development of underlying strategies, targets and measurement against them. The overriding priority is recognising diversity and inclusion as a reputational risk, which should be built into business planning and managed with the same strategic focus, systematic monitoring and, where necessary, active intervention as other risks and business issues.

⁴ Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 requires all private and voluntary-sector employers with 250 or more employees to publish information about their gender pay gap results (<http://www.legislation.gov.uk/ukdsi/2017/9780111152010>).

⁵ The information used in the research came from websites, annual reports, careers sites and general online searches (including mainstream social media sites). The use of publicly accessible information as the basis for the analysis, rather than how the organisation perceives itself, was intentionally designed to replicate the way that an external stakeholder would access information and, therefore, gain a view of the external reputation of an organisation's diversity and inclusion 'brand'.

What we mean by diversity and inclusion

Diversity

Individuals of all backgrounds, life experiences, preferences and beliefs are recognised and respected as individuals and valued for the different perspectives they bring.

Inclusion

All people are given equal opportunity to contribute to business success and be their true selves, regardless of background.

These definitions have informed the development of the methodology and rating criteria we used in the analysis for this report. The organisations that stand out as leaders within our analysis take a broad view of how they define and promote these characteristics of diversity and inclusion, and incorporate them within their businesses

How we rated FS organisations' reputation on diversity and inclusion

39 FS organisations were assessed against 17 sets of progress criteria:

1 Diversity and inclusion strategy

Rating the extent to which formal strategies and policies are referenced, associated metrics are published and individuals are identified as being responsible. The organisations out in front not only show that they have comprehensive strategies and policies in place, but these are well articulated, a senior executive is responsible for delivering the objectives and a range of relevant metrics are monitored, tracked and published to the extent appropriate.

2 Leadership and tone from the top

Rating the relative passion for and direct involvement of the leadership team in promoting diversity and inclusion, and building them into the management of the business. The organisations out in front have active sponsorship and advocacy from the leadership team, and these values are reflected in their behaviour, decision making, performance assessment and reward.

3 HR processes

Rating the extent to which key HR policies such as recruitment and career progression programmes for under-represented groups are in place and referenced. The organisations out in front not only show that they have comprehensive policies and supporting processes in place, they also regularly report on progress and act on this information. The available information also demonstrates how they are looking to lead their industry and the wider economy in these areas.

4 Other diversity and inclusion initiatives

Includes the level of information on networks for minority and under-represented groups, awareness training in areas such as unconscious bias and involvement in awards programmes. The organisations out in front not only show that such initiatives are in place, but how they are built into the culture and management of the business in areas ranging from levels of training to the promotion of dialogue between networks, internally and outside.

1

Why the reputational stakes are rising

The risks surrounding diversity and inclusion are insufficiently recognised and managed.

In marketplaces facing escalating disruption, the skills your organisation needs to succeed are changing fast. The FS industry leaders taking part in our latest CEO Survey now rank adaptability and collaboration on a par with traditional FS skills such as problem-solving and risk management⁶. Creativity and emotional intelligence are also coming to the fore, though alongside leadership, people with these characteristics are seen as the hardest to recruit.

With competition to attract these prized skills rising, reaching out to people who haven't considered a career in FS is an increasing priority. It's clearly also important to nurture the diverse talent within your organisation and encourage them to develop their potential. FS CEOs recognise the importance of diversity and inclusion in addressing these challenges – 85% are keen to promote diversity and inclusion within their organisations. Yet the skills gaps continue to mount – 72% of FS CEOs see the limited availability of skills as a threat to growth, on a par with concerns over the speed of technological change (73%).

Unfavourable perception

This is what makes perceptions of diversity and inclusion so critical. Our research shows that the generations coming into the workforce and moving up the career ladder want to work for inclusive organisations⁷. If you're making strong progress on diversity and inclusion, this is therefore a great way to attract talent. But as an FS organisation, you face the challenge of how to overcome an image that may not always be favourable – 15% per cent of the women from the UK taking part in our 2015 global millennial survey wouldn't want to work in banking because of its image, 11% wouldn't want to work in insurance, and 8% wouldn't want to work in AWM⁸.

Perceptions within the organisation are equally important. In particular, there is a risk that employees are attracted to an organisation because it says that it cares about diversity and inclusion, but their experience doesn't match the claims and they become disenchanted. Globally, female millennials working in FS see opportunities for career progression as the most important attribute in an employer. Yet, half believe that promotion is biased towards men. And this proportion rises the further women move along their careers. If women are facing these frustrations, it's likely that other groups who are under-represented in senior positions, such as people with disabilities and people from ethnic minorities, are feeling the same, though there is notably less data to back this up.

⁶ 'Ahead of the curve: Confronting the big talent challenges in financial services' key talent findings in the financial services sector from PwC's 20th CEO Survey (ceosurvey.pwc)

⁷ More than 80% of the 1400 millennials (people born between 1980 and 1995) from the UK taking part in a 2015 PwC survey said that an employer's policy on diversity, equality and workforce inclusion is an important factor when deciding whether or not to work for them. To explore the global findings in the FS sector, 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)

⁸ PwC Millennial Survey 2015. For more on the cross-industry findings see 'The female millennial: A new era of talent' (http://www.pwc.com/jg/en/publications/the-female-millennial_a-new-era-of-talent.pdf). To find out more about the perspectives of women working in financial services, 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)

Why diversity and inclusion is a competitive issue

The benefits of diversity and inclusion not only include a broader talent pool, but also a workforce that better reflects your customer base and can therefore serve them more effectively. Recruiting people from more diverse backgrounds would also bring in the fresh ideas and experiences needed to foster innovation, deal with upheaval and capitalise on opportunities.



And these perceptions can be just as important among other stakeholders. Customers are more likely to want to deal with inclusive organisations, for example. In turn, the government wants to see FS becoming more inclusive. And when these stakeholders set their sights on an issue, analysts and investors will inevitably want to know how your organisation is responding.

Test of transparency

The reputational risks surrounding diversity and inclusion are further enhanced by the importance of transparency in rebuilding public trust. If stakeholders trust you to do the right thing on an issue that not only matters to them directly, but also shows that your organisation is prepared to embrace difficult cultural change, this can greatly enhance your credibility and goodwill. Even if you still have some way to go, being open about what you would like to do better and how you plan to do this demonstrates that this is important to you. The resulting impression is likely to be favourable.

By contrast, ignoring the reputational risks relating to diversity and inclusion can undermine efforts to engage with stakeholders in other areas. At a time when many people feel distrustful of and disconnected from corporations, your reputation on diversity and inclusion could become a key test of the public credibility of your overall commitment to strengthening transparency and trust. Diversity and inclusion, or the lack of them, could even become a lightning rod for public disillusionment and anger, just as high pay within certain areas of FS came to be in the wake of the financial crisis.

Who is at risk?

If your business is being judged on its record on diversity and inclusion, then this is a reputational risk. If we look across the FS market in the UK, there are some companies that are making very little progress on diversity and inclusion and don't look at the consequences through a reputational risk lens. These are the most vulnerable. There are other companies within which the reality doesn't match the claims. They are also at high risk. At the other end of the spectrum, there are quite a few organisations that have put improving diversity and inclusivity as a priority, but the message isn't always getting out there. Their big risk is the missed opportunity.

So why do few FS organisations look at diversity and inclusion through a reputational lens and how does this heighten the risks? In our experience, there is still a tendency to see diversity and inclusion as primarily an HR responsibility, rather than integrating it into risk and wider business management. But moving the dial needs full business buy-in across areas such as recruitment and progression. And if your organisation is falling short and this is affecting your reputation, the leadership within the business can respond more quickly and decisively than HR on its own.

The risk spectrum

Do little/say little
Say a lot/but reality falls short

Moving in the right direction/failing to get this across

Do a lot/
communicate well

- High risk
- Medium risk/high opportunity
- Low risk/high opportunity

2

Catalyst for change

Mandatory gender pay gap disclosure will force diversity and inclusion reputation up the senior management agenda.

While pay is clearly important, it's only one aspect of inclusion within FS (and one area of our analysis). Issues such as poor female retention and the low proportion of people from ethnic minorities within senior management are just some of the areas that are equally worthy of attention. Yet, pay makes headlines. And with the latest ONS research showing that the gender pay gap in FS is 39.5%, compared to 19.2% in the economy as a whole⁹, the potential for 'bad press' is evident. And once the sights are fixed on one area of diversity and inclusion, others will undoubtedly follow. That's why the incoming gender pay gap reporting¹⁰ will bring the reputational risks surrounding diversity and inclusion to the fore and provide a catalyst for changing how FS organisations manage them.

A further catalyst for changes comes from reporting on progress against the goals set out in the Women in Finance Charter, which was launched in July 2016. By January 2017, more than 90 organisations had signed up for the Charter. While most of the signatories are from FS, they also include firms working closely with the industry, including PwC.

Shifting perceptions

There may be a temptation to keep the disclosure and explanation in the gender pay reporting, along with Women in Finance Charter reporting if applicable, to a minimum because you're worried that a lack of progress could lead to bad press. This reluctance can be heightened by the sensitivities surrounding diversity and inclusion, especially in relation to communities that feel they've been ignored by, or excluded from, what they see as a remote financial elite. Looking across the market as whole, even where FS organisations are striving to do the right thing on diversity and inclusion – and the vast majority are – they often ask “are we saying the right thing?” or “could what's meant to be a step forward end up backfiring?”. Yet 'silence' could easily be construed as a lack of commitment, even if this is not the case. And the reputational risks from any unfavourable results revealed in the disclosures can only increase if you fail to adequately explain why these shortcomings exist and how you plan to address them.

Moreover, 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 issues that need to be addressed and setting out your plans for accelerating progress. Such openness and resolve can make a very favourable public impression. And you stand an even better chance of shifting perceptions if you report ahead of the gender pay deadlines and broaden your disclosures beyond the minimum required.

⁹ 'Major financial services firms step up efforts to tackle gender gap', HM Treasury media release, 11 October 2016 (<https://www.gov.uk/government/news/major-financial-services-firms-step-up-efforts-to-tackle-gender-gap>)

¹⁰ Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 requires all private and voluntary-sector employers with 250 or more employees to publish information about their gender pay gap results (<http://www.legislation.gov.uk/ukdsi/2017/9780111152010>)

On the spot: How do you explain your gender pay gap

The gender pay gap across the FS industry in the UK is nearly 40%¹¹. Or as a headline writer might put it, “women earn barely 60p for every £1 earned by men”. The reason is that even though more women than men start out in many parts of FS, most of the most senior and best paid positions are still held by men¹².

If the pay gap in your organisation is anything like as wide as the industry average, you’re going to be facing some awkward questions, not just from the media, but also from employees and potential recruits. And if the disclosures show that women are getting a raw deal, people from

communities that are also under-represented in senior and high earning positions will be looking closely at your record.

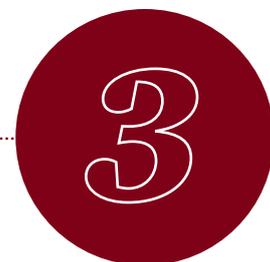
Therefore, if you’re going to be put on the spot like this, it’s important to have your response worked out – “what’s the reason for the gap?”, “what do you think about it?” and “what are you going to do about it?”. If you just state the bare facts without explanation, people will assume that you don’t care. We believe that it is important that FS organisations go beyond the minimum required disclosures to provide context to these disclosures and explain the wider action and activity that they are undertaking in the diversity and inclusion space. The benefits of this approach are underlined by the recommendations of the Government Equalities Office’s Gender Pay Reporting Guide¹³.



11 ‘Major financial services firms step up efforts to tackle gender gap’, HM Treasury media release, 11 October 2016 (<https://www.gov.uk/government/news/major-financial-services-firms-step-up-efforts-to-tackle-gender-gap>)

12 Mending the Gender Gap: Advancing Tomorrow’s Women Leaders in Financial Services’, PwC, 2013 (analysis from US) (<http://www.pwc.com/us/en/financial-services/publications/gender-gap-women-in-financial-services.html>)

13 http://www.acas.org.uk/media/pdf/1/6/Gender_Pay_Reporting_GUIDE.pdf



How different sectors come across

Our analysis highlights both the gaps and the opportunities to accelerate progress.

Our analysis looked at information in the public domain across four dimensions:

- Diversity and inclusion strategy
- Leadership and tone from the top
- HR processes
- Other diversity and inclusion initiatives

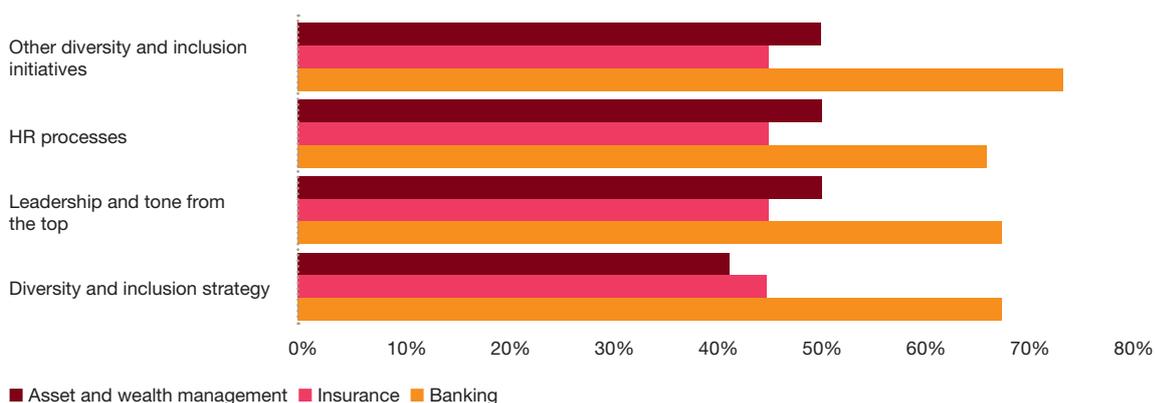
Across the industry, we found some notable instances of leading practice in HR policies and some of the other initiatives being pursued. But none of the organisations we analysed are fully up to speed on strategy and leadership.

Figure 2 highlights the gulf between banking and the other FS sectors and Figure 3 highlights the gaps between the worst and best performers. The lowest rating for a bank is only just short of the highest rating for AWM businesses. The spread between the highest and lowest is also much wider in insurance and AWM than banking. This indicates that most banks are making reasonable progress. It also indicates that the average ratings for insurance and AWM are being driven up by a few higher performers.

Most of the banks we analysed have reached an 'advanced' level across each of the four dimensions, but have yet to make the step up to a 'leading' position in areas such as explicitly aligning their diversity and inclusion policies with their business strategy and priorities. Less than half of the insurers and AWM businesses

Figure 2: Comparing sectors

Average ratings for the four key dimensions of diversity and inclusion reputation



Percentages denote the sum rating of a firm as a percentage of the maximum score. 'Simplistic' rating scores 1 out of 4 (25% if scored simplistic on all four dimensions), 'defined' scores 2 out of 4 (50%), 'advanced' scores 3 out of 4 (75%) and 'leading' scores 4 out of 4 (100%)

Source: Source: 39 FS organisations analysed as part of PwC's Diversity and Inclusion Reputation Research 2017

have reached an ‘advanced’ level in any of the dimensions, and a number are still to move beyond the ‘simplistic’ starting blocks.

Organisations that have signed the Women in Finance Charter tend to rate more favourably than peers that haven’t. This reflects their underlying commitment to improving diversity and inclusion, of which the Charter is part. It also stems from the fact that the Charter requires a number of activities that will directly lead to better scores, such as setting targets for women in senior management and building these targets into performance-related reward.

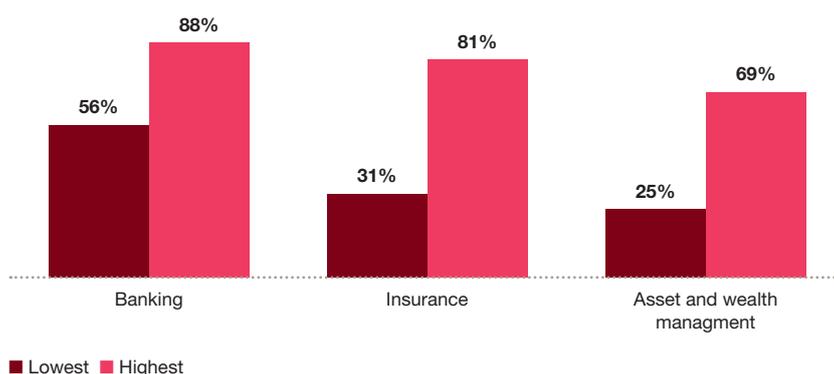
Banking

The generally ‘advanced’ ratings for the banks we analysed reflect the fact that the sector has, in general, engaged with diversity and inclusion for longer than other areas of FS. The longstanding commitment can be seen in areas such as the promotion of internal diversity networks and participation in awards – a key factor behind the sector’s high score in the ‘other diversity and inclusion initiatives’ dimension. The banks are also bigger than many of the organisations we analysed in other sectors, particularly AWM. This gives them more of the critical mass needed to set up diversity networks and put funding and workforce behind these initiatives.

Yet, aside from a few notable exceptions, banks’ ratings for ‘diversity and inclusion strategy’ are lower than the ‘other initiatives’ dimension (see Figure 4). Common gaps include the need to articulate strategies more effectively and fully embed them into the business through senior management ownership, alignment with business plans and targets/measures to back this up. The lower ratings for ‘strategy’ also reflect the fact that alignment between diversity and inclusion and business strategies tends to be less well publicised than ‘other initiatives’ such as awards, even though it’s the key foundation for making diversity a reality.

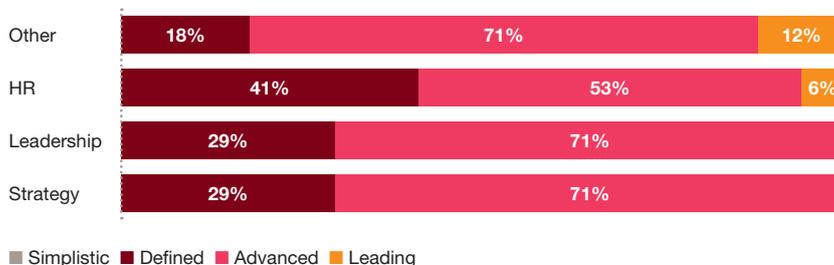
Figure 3: Comparing sectors

Highest and lowest ratings for diversity and inclusion reputation



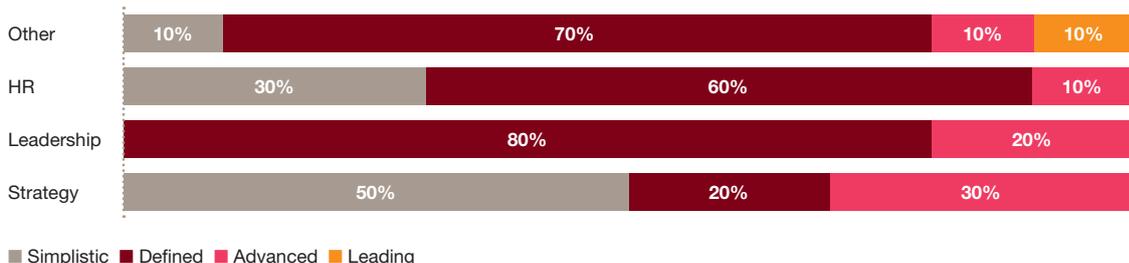
Percentages denote the sum rating of a firm as a percentage of the maximum score. ‘Simplistic’ rating scores 1 out of 4 (25% if scored simplistic on all four dimensions), ‘defined’ scores 2 out of 4 (50%), ‘advanced’ scores 3 out of 4 (75%) and ‘leading’ scores 4 out of 4 (100%)
 Source: 39 FS organisations analysed as part of PwC’s Diversity and Inclusion Reputation Research 2017

Figure 4: How banks rate across the four dimensions of diversity and inclusion



Percentages denote proportion of sector sample in each of the rating categories of ‘simplistic’, ‘defined’, ‘advanced’ and ‘leading’
 Source: 17 banks analysed as part of PwC’s Diversity and Inclusion Reputation Research 2017

Figure 5: How insurers rate across the four dimensions of diversity inclusion



Percentages denote proportion of sector sample in each of the rating categories of 'simplistic', 'defined', 'advanced' and 'leading'
 Source: 10 insurers analysed as part of PwC's Diversity and Inclusion Reputation Research 2017

Insurance

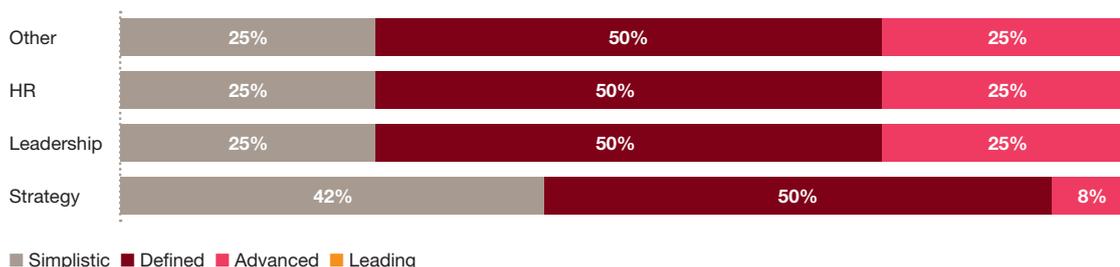
Many of the insurers we analysed are as large and high profile as their counterparts in banking. This makes insurers' generally lower ratings all the more significant. Notably, however, more insurers are 'advanced' in their 'diversity and inclusion strategy' than other dimensions (see Figure 5). This suggests that while most insurers are in the early stages of their journey, they recognise the need to get the overall strategy and business alignment right before moving on to individual initiatives.

Insurers' 'strategy first' approach can provide a solid foundation for closing the gap with the banks. And learning the lessons from the banks that are further along this journey can help to accelerate progress. One area where insurers can quickly get up to speed is 'HR processes'. While most banks have some specialist programmes in place to identify, promote and recruit diverse talent, this was rarely evident in our analysis of the public information of insurers. And this is unlikely to be a failure of communication as, by

their very nature, recruitment programmes are out in the public domain. However, experience in banking highlights the importance of establishing appropriate priorities through a solid understanding of the organisation, its goals and challenges. This will help to ensure that diversity and inclusion programmes are targeted in a way that will make the most discernible impact, with data to support this. The right target might be certain roles or areas within the business (e.g. senior management or underwriting teams), dimensions of diversity (e.g. broadening the social backgrounds of people within the organisation) or certain moments in employees' careers (e.g. moves from middle to senior management or returning after parental leave or a career break).



Figure 6: How asset and wealth managers rate across the four dimensions of diversity and inclusion



Percentages denote proportion of sector sample in each of the rating categories of ‘simplistic’, ‘defined’, ‘advanced’ and ‘leading’
 Source: Source: 12 AWM businesses analysed as part of PwC’s Diversity and Inclusion Reputation Research 2017

Asset and wealth management

Like insurers, most AWM businesses are behind the curve, with barely 30% reaching the advanced level across any of the dimensions (see Figure 6).

Many AWM businesses are struggling to get up to speed on diversity and inclusion and their relatively small size may be a factor. This may explain the low scores on ‘HR processes’ and ‘other diversity and inclusion initiatives’, though there are opportunities to take part in industry-wide programmes such as Investment 2020 (<https://www.investment2020.org.uk/>).

However, the low ratings in the strategy and leadership dimensions, which require little or no critical mass to make progress, suggest that diversity and inclusion could be more of a priority within many AWM businesses. There are many people within AWM who regularly speak on diversity issues and are passionate in promoting it. Yet, there appears to be no consistent support across the leadership in the vast majority of the AWM businesses we analysed. As a first step, it’s therefore important to think about how to harness the power of leaders to set the right tone and accelerate progress.

4

On the front foot

Building diversity and inclusion into risk and wider business management will enable your organisation to actively shape perceptions and turn what might be a weak link into a source of strength and advantage. So how can your organisation get on the front and realise the benefits?

1 Articulate and communicate your strategy

Be clear about your strategy for diversity and inclusion and how you intend to achieve it. A key part of this is how you plan to integrate diversity and inclusion into business plans, performance management and rewards. At the same time, you have to be realistic about what can be achieved by when. The big risk is creating expectations that aren't being or can't be met, or failing to match the claims with the reality.

2 Tell it how it is

Be as open as possible, even if this means acknowledging shortcomings. Your candour will be respected, especially if you disclose the information voluntarily and ahead of the deadline set by statutory or industry reporting. Being open about gaps and weaknesses will also strengthen your reputation for transparency across the board.

3 Integrate into reputational risk management

It's important to build diversity and inclusion into the risk register, strategy and tracking in the same way as other reputational risks such as mis-selling or market abuse. The risk assessment should ask "have the reputational risks been identified?", "how are we addressing them?" and "are they being appropriately measured and tracked?". Ensuring that diversity and inclusion are built into the business enables you to manage the risks proactively and respond to weaknesses and emerging issues. And as so much of the information that shapes your reputation comes from social media, this includes tracking what's being said, engaging in dialogue and moving quickly to refute or address potentially damaging statements.

4 Capitalise on the benefits

Putting the business in the driving seat on diversity and inclusion is an opportunity to engage more closely with a broad range of communities and tailor products and services more effectively. Other openings include developing new solutions and adapting existing services to address the particular issues faced by different groups of the population. Managing diversity and inclusion as a reputational and risk priority can help to identify and cement these connections by winning community trust and responding in ways that make lives better.

Conclusion: Taking the initiative

You can't ignore your reputation on diversity and inclusion as it's a key basis for how stakeholders judge your organisation. And by actively managing your reputation and the surrounding risks, you can turn this stakeholder scrutiny to your advantage.

We believe that there are five key questions that your organisation needs to actively address to minimise the risks and capitalise on the benefits:

- 1 How are you perceived across the four dimensions of strategy, leadership, HR processes and other initiatives?
- 2 What risks and opportunities do these perceptions open up?
- 3 What is your strategy for addressing these risks and opportunities?
- 4 How does diversity and inclusion fit into the wider push to improve transparency and trust?
- 5 How do you measure and communicate progress?

While gender pay gap reporting increases the urgency of addressing these questions, there is still time to get ahead of the pack by disclosing early and in more detail than the legislation demands. The ultimate aim is building diversity and inclusion into a winning commercial and employer brand.

Contacts

If you would like to discuss any of the issues raised in this report in more detail, please get in touch with your usual PwC representative or one of the contacts listed below:

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