



Understanding diversity and inclusion in the investment management industry

The Diversity Project, March 2018



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Foreword



The investment management industry has come late to the issue of diversity and inclusion but as chair of the Diversity Project I now see momentum building rapidly. There is a real sense of urgency and widespread commitment to improve our diversity, driven by the understanding that the best talent now expects inclusive, diverse workplaces. Since we obviously need the best talent to deliver the best results for customers, it's clear that greater diversity is not optional, it's essential.

This helpful report highlights the fact that we are at present 'behind the curve', with how our diversity and inclusion could be perceived and we are likely to suffer a further setback as the industry's gender pay gap data is published. We know that we can't fix the past but we can write the future. It's more important than ever to press on with the many efforts now underway to attract a wider range of talented individuals, including more women, but also to improve diversity across all dimensions. We need to redouble our efforts to create modern workplace cultures, so that everyone who joins us can fulfil their potential. This requires us to be 'gender intelligent' in how we manage and develop people, to build truly meritocratic organisations where difference is valued, and where those differences combine to create brilliant teams, not just groups of talented but all-too-similar individuals.

The wonderful thing about fund management is that ultimately, it's all about results. Outputs, not inputs. That's great news for anyone – not just women – who want a full life and to combine a career with other priorities. As the mother of nine, I am proof of this – and I'm far from alone! Our industry therefore has an intrinsic advantage when it comes to attracting young, diverse talent – over 90% of the 20,000 university students who responded to the 30% Club's 2016 Think Future Study said that work-life balance was a key career consideration. Fund management may not be something many immediately think of – but it offers an exciting, varied and interesting career, and one that will only get better if we are able to encourage a wider range of people to join us.

This report includes a number of suggestions to 'move the dial', including how we better communicate what we are already doing. The Diversity Project is working with many individual organisations who agree that diversity is a top priority and who are taking action to accelerate change. I am confident that future updates of this report will demonstrate significant progress.

Helena Morrissey
Diversity Project Chair



An important step to meeting the Diversity Project's goals to attract, develop and retain diverse talent across the investment management profession is to understand the current position of the industry. Benchmarking the industry's reputation externally and maturity internally is key to gaining this understanding. Crucially, it will allow the industry to identify the changes that can have the biggest impact in meeting this important goal.

We are delighted to present our research analysis, which examines the maturity of a number of investment management firms from both an external and internal perspective. As expected, there are areas within the industry where good progress is being made, and others where the diversity journey is only just beginning. What is clear, though, is that, compared to our research in other financial services industries (and in particular banking), the investment management industry still has work to do to improve its reputation in diversity and inclusion.

This is particularly important in the context of the new gender pay gap reporting requirements in the UK. We know that the gender pay gap in the investment management industry is far higher than in many other industries. This poses a risk to the reputation of the industry, which will impact even those firms who are not required to disclose their gender pay gap. In this environment, it is an imperative that investment management organisations work positively to improve their reputation as inclusive organisations, and as an inclusive industry.

What is positive is that this is an area where change can be made relatively quickly. Although it may take many years to achieve a diverse and inclusive workforce in the industry, organisations who are behind the curve can enhance their reputation by acknowledging the issues that need to be addressed, and demonstrating their commitment to resolve them.

I hope that our analysis will assist the investment management industry better understand the issues and support firms in accelerating their progress.

Jon Terry
Global FS HR Consulting Leader, PwC



Executive summary

The situation today: Stakeholder pressure on the investment management industry

The industry's record on diversity and inclusion is under scrutiny, not only from the talent it needs to attract and retain, but also from consumers, investors and, increasingly, governments and regulators. As diversity and inclusion becomes critical in influencing how both organisations and sectors are perceived by these key stakeholders, our view is that it is important for it to be recognised as a business issue and a reputational risk, rather than just an HR issue or a "nice to have". There are clear benefits from successfully managing the reputational risks and damaging downsides if action is not taken.

For potential employees, and especially millennials, an organisation's approach to diversity and inclusion is a key criteria when selecting an employer. And while individual organisations may have a strong reputation, diverse talent may look elsewhere if they believe it is harder for them to fulfil their potential in the industry. Conversely, a strong industry-wide reputation on diversity and inclusion will enhance the ability of all organisations in the sector to compete for talent.

Customers and shareholders are also increasingly asking organisations about their record on diversity. While this is mainly considered on a firm level, being part of an industry-wide effort to improve diversity would certainly differentiate firms.

Many of the investment management industry are, of course, themselves investors who have been vocal on their expectations on diversity as shareholders. Building on this to demonstrate how this prioritisation is reflected internally is a powerful way to demonstrate the industry's commitment to the diversity agenda.

This stakeholder pressure is magnified in the context of governmental and regulatory call for progress on diversity to be accelerated. A number of government-backed reports¹ have been published in the recent years on this topic, while HM Treasury's voluntary Women in Finance Charter has focussed on the issue in the financial services sector. Perhaps the most important new legislation is the new requirement that employers over a certain size publish their gender

pay gap by no later than April 2018.

There is no doubt that gender pay gap numbers will make headlines (and have already), and the press will be drawing industry-wide conclusions, affecting even those who are not subject to the requirements.

In this context, it is a matter of urgency to develop a holistic industry-wide approach to diversity and inclusion. Gender pay gap reporting requirements could be used as an opportunity for the industry to send a positive message to their stakeholders, clearly acknowledging the issues and evidencing the industry's strong commitment to change.

¹ Example guidelines and publications include: Women on boards: 5 year summary (Davies review), Corporate Governance Reform Green Paper, McGregor-Smith Review, Hampton-Alexander Review, Parker Review.

Our analysis of the participants' diversity and inclusion maturity levels found an average rating of ...



Comparison of the outcomes of the external and internal assessments aids understanding of where the industry stands today from an internal and external perspective and enables identification of points where interventions can be made to achieve most impact. We reviewed 14 investment management organisations in detail and our conclusions were informed by research we conducted across more than 20 further firms in the sector. The external assessment results clearly show that there is a reputational issue within the investment management industry, while the considerably higher average internal rating suggests that there are advanced practices in place in a number of organisations. The size of the 'gap' between the internal and external assessment outcomes highlights the issue that positive action occurring within firms is not always being publicised or promoted externally.

Key messages – Taking the initiative at an industry level

- 1** Treat diversity and inclusion as a business priority for the industry. Encourage firms to articulate a clear strategy, assign accountability, set targets and monitor progress.
- 2** Encourage individual firms to promote internal diversity and inclusion initiatives more widely, including externally, to get the most impact for the efforts already made.
- 3** Make the most of what is working well, ensure that diversity and inclusion leaders and advocates in the market are identified and engaged by their organisations and cross-industry bodies to make the best use of their passion and support.
- 4** Enhance industry-wide initiatives to support smaller firms with their diversity agenda. This will help those businesses with insufficient resources and/or a small employee population to leverage the knowledge of diversity specialists and established employee networks.
- 5** Use gender pay reporting as an opportunity to demonstrate how seriously gender and wider diversity issues are taken by the industry. Investigate presenting powerful disclosure that acknowledges the gap, analyse the reasons for it and focus on what actions are being taken to address the issue.

² Percentages denote the sum rating of a firm as a percentage of the maximum score across the four areas of Strategy, Leadership, HR Processes and Other diversity and inclusion initiatives.



Our approach

Our approach encompasses a view of firms from two distinct lenses – an ‘outside in’ assessment, which looks at external perceptions of the firm, and an ‘inside out’ assessment, which is based on the perception of a senior individual within an organisation who is closely linked to diversity and inclusion efforts. The same four key areas of strategy, leadership, HR processes and other diversity and inclusion initiatives are assessed externally and internally, to allow comparison between the two.

Under both assessments organisations were rated on a consistent maturity scale, with levels ranging from ‘Simplistic’ to ‘Leading’, against all four areas. This allows us to identify not just average and individual ratings, but where the results are strongest across the industry and where improvement may be most quickly and effectively achieved.

A summary of the methodology, including the maturity levels and key assessment areas are set out below.

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 use in our analysis. 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.

Measuring through the internal and external lenses

The **external assessment** looks at information available in the public domain and was completed for 14 organisations. PwC researchers carried out the analysis, the results of which were calibrated using our standardised methodology.

The **internal assessment** is based on a PwC designed survey completed by members of the leadership team or HR team of each the participant firms. These respondents were nominated by the organisation due to their involvement in the organisation’s diversity and inclusion efforts. Responses are therefore based on respondents’ knowledge of the organisation, with the results calibrated by PwC.

Defining maturity

These definitions have informed the development of the methodology and rating criteria we used in the analysis. The definition of each maturity level is set out below:

Leading

Diversity and inclusion initiatives are perceived internally and externally by the various stakeholders as essential to driving business performance and people strategy. In such organisations, inclusion is embedded throughout all aspects of the employee and customer experience and is clearly articulated under the corporate strategy.

Advanced

Diversity and inclusion initiatives are perceived internally and externally as highly integrated with the talent lifecycle and employees begin to view diversity and inclusion as a core competency. Such organisations are typically at early stages of integrating diversity and inclusion initiatives into their corporate strategy. Nonetheless, such preliminary steps are generally disclosed and celebrated.

Defined

Diversity and inclusion initiatives are perceived internally and externally as basic with some alignment with the talent lifecycle. Employees understand basic diversity and inclusion concepts as well as the business value. Such organisations are typically at the very early stages of articulating their plan internally and externally.

Simplistic

No or very basic diversity and inclusion initiatives are perceived internally and externally to be in place. If present, these practices may be ad hoc and/or solely driven by the need to comply with regulatory requirements. Such organisations do not tie diversity and inclusion practices to business needs or the employee lifecycle.





Key areas assessed

From an external perspective	From an internal perspective
Diversity and inclusion strategy <p>Rating the extent to which formal strategies and policies are referenced, associated metrics are published and individuals are identified as being responsible.</p> <p>Leading organisations 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.</p>	<p>Rating the presence of a clearly articulated strategy and business case for diversity and inclusion, comprehensive policies and associated metrics, as well as leadership responsibility for diversity and inclusion.</p> <p>Leading organisations demonstrate clear alignment with wider corporate strategy and are fully deploying value-driven initiatives. A senior executive is responsible for delivering the objectives and a range of relevant metrics are monitored, tracked and communicated.</p>
Leadership <p>Rating the engagement and direct involvement of the leadership team in promoting diversity and inclusion externally, and embedding them into the management of the business. This area also captures the diversity of the leadership team.</p> <p>Leading organisations have active sponsorship and advocacy from the leadership team, and these values are reflected in the leadership team's behaviour, decision making, performance assessment and reward. In such organisations, the key leadership teams are all made up of at least 25% from a female or ethnic minority background.</p>	<p>Rating the engagement and direct involvement of the leadership team in promoting diversity and inclusion internally, as well as goals set for the leadership team and accountability for progress made. This area also captures the diversity of the leadership team.</p> <p>Leading organisations have leaders communicate about diversity regularly and within the context of wider business strategy and goals. Leaders and management have diversity goals in place and are accountable for progress, which is measured and linked to their performance and reward. In such organisations the UK leadership team is made up of at least 25% from a female or ethnic minority background.</p>
HR processes <p>Rating the extent to which key HR policies such as recruitment and career progression programmes for under-represented groups are in place and publicly disclosed.</p> <p>Leading organisations 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 disclosures also demonstrate how they are looking to lead their industry and the wider society in these areas.</p>	<p>Rating the extent to which key HR policies such as recruitment and career progression programmes for under-represented groups are in place, and also rating the process of obtaining and analysing diversity and inclusion-related data.</p> <p>Leading organisations have embedded diversity and inclusion into HR processes throughout the employee lifecycle. They collect and analyse diversity and inclusion-related data and have metrics in place, which enable them to make data-driven decisions that make the most impact in improving diversity and inclusion.</p>
Other diversity and inclusion initiatives <p>Rating level of disclosures on networks for under-represented groups (as well as public activity of these groups), awareness training in areas such as unconscious bias; diversity awards received/nominated for, as well as other diversity efforts.</p> <p>Leading organisations not only disclose 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 externally.</p>	<p>Rating availability and level of activity of networks for under-represented groups, availability of awareness training in areas such as unconscious bias and awards received/nominated for, as well as actions taken to increase supplier diversity.</p> <p>Leading organisations 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 externally.</p>

Other considerations

External assessment approach for investment management businesses that are part of a group

The focus of this review is on the investment management sector in the UK. To maintain this focus and ensure a like for like comparison when assessing investment management businesses that form part of a larger group, we have assessed diversity and inclusion disclosures that can be directly attributed to the UK investment management business. For example, in assessing the diversity of the leadership team, we have specifically focussed on the leadership team of the investment management business in the UK/EMEA and not the group leadership team.

We have made exceptions to this in areas where it would be reasonable for the investment management business to rely on group policies or practices. For example, when rating employee networks the group disclosures under this area have been considered (although, to be leading, direct evidence of participation or support of the investment management business would be required). This is particularly relevant for small investment management businesses that are part of a large and complex groups. In such a scenario, establishing employee networks to cover a small employee population may not be meaningful and participation in wider group networks may well be more appropriate.

Size of the business

No size adjustments have been applied to the rating mechanism. However, where the size factor impacts outcomes we have acknowledged this in our commentary in the relevant section of this report. In addition, firms are rated on their participation and involvement in public or cross industry initiatives, networks and groups. So, for example, a smaller company could achieve a 'leading' rating through their support and participation in a series of cross-industry employee networks, if their size prevented them from establishing stand-alone networks.



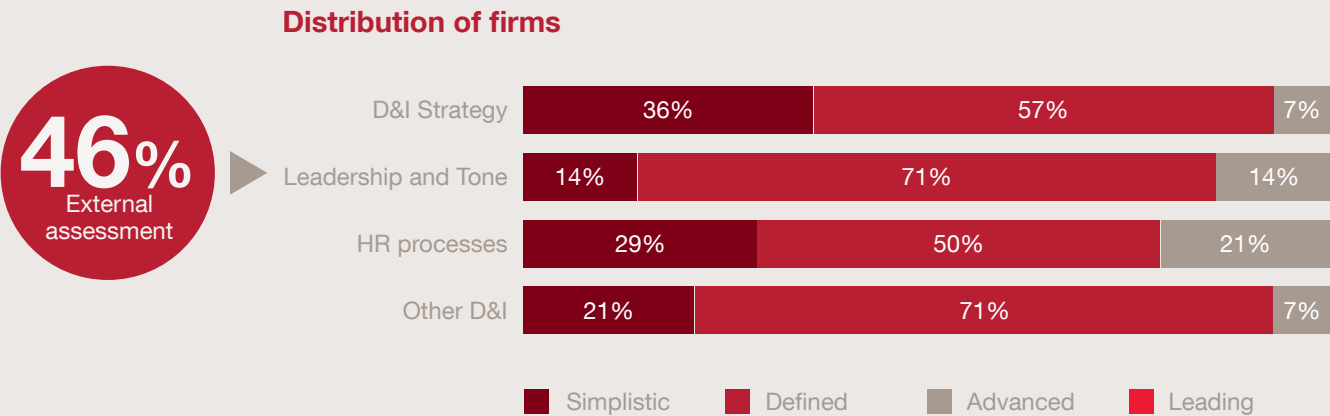


Overall results

External assessment outcomes

Our external assessment confirms that there is a definite reputational issue when it comes to diversity within the investment management industry. In this context, themes of the Diversity Project emphasising the need for a focused effort to improve the reputation of the industry as a whole is important. This will only become more important as firms begin to report their gender pay gap, which we know in the investment management industry will be considerably above the UK average.

Figure 3: The average external assessment rating and the corresponding distribution ratings across the four areas.

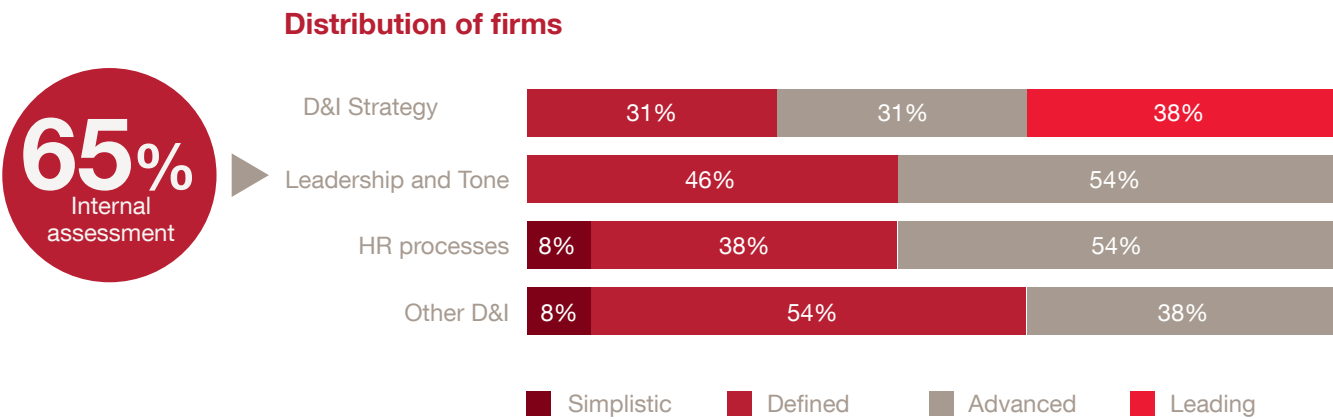


Internal assessment outcomes

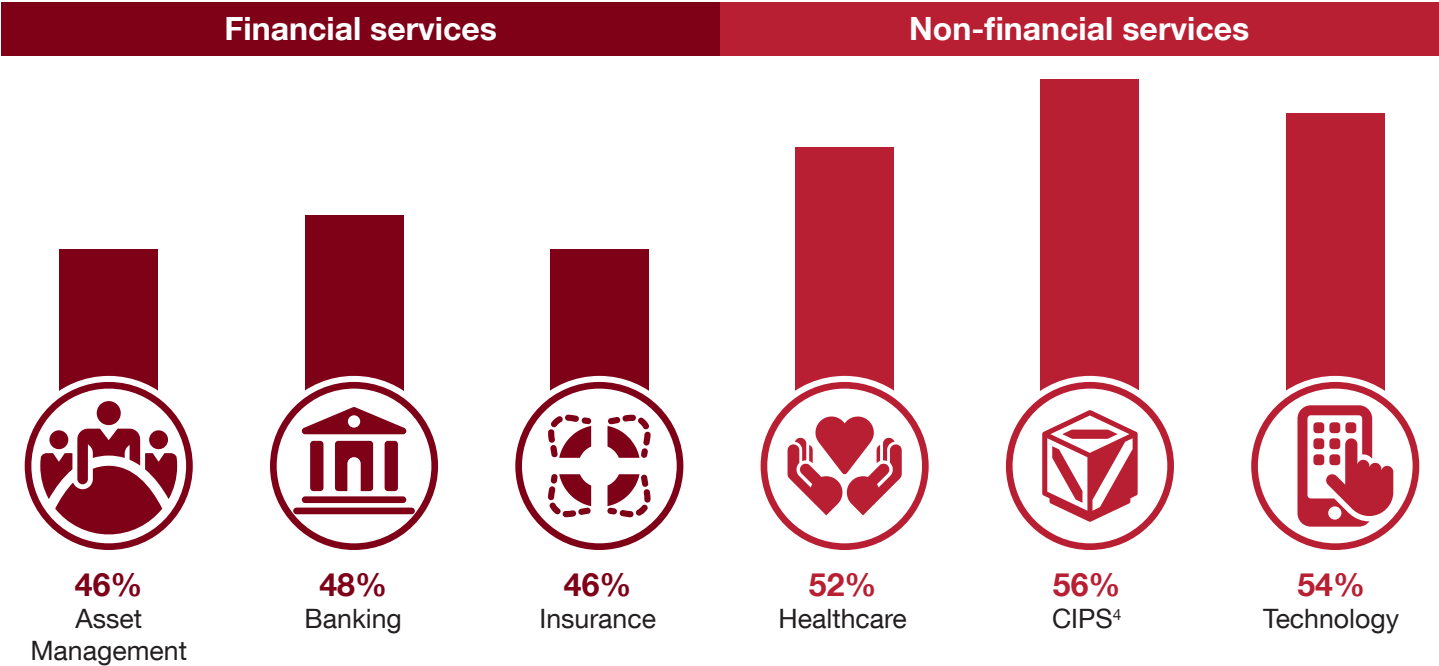
There is a notable difference between the average of 65% achieved by the participants of the survey reviewed in this report and the high-forties averages for the FS sectors and low-to-mid fifties for the non-FS displayed below. One reason for this may be that there is generally higher engagement on diversity and inclusion issues in the UK compared to many other countries, resulting in more advanced internal maturity. Further, the Diversity Project brings together organisations that are committed to making a difference and for most of them the diversity journey has already started internally, even if it is yet to be reflected in the external reputation.

As we will explore further in this report, there are areas of good practice within many parts of the industry. There are also a number of areas where small changes could be made to make a material difference to the overall reputation of individual firms, and the industry as a whole. In this context, the internal assessment is particularly interesting. The rating of 65% is considerably above the 46% external rating. Some difference is to be expected, as firms will often for good reasons choose not to disclose some of their activities or policies publicly. However, the size of the internal and external ‘gap’ suggests that there may be some positive action occurring within firms, which is simply not being publicised or promoted externally. Changes to improve the external communication of firms’ commitment to diversity and inclusion could, potentially, reap considerable rewards.

Figure 4: The average internal assessment rating and the corresponding distribution ratings across the four areas.



To provide a wider context we have also provided below the average outcomes for the internal assesment both within FS sectors and beyond. This data has a global rather than UK focus³, therefore it is not directly, comparable. However, it still provides an interesting insight into the current internal maturity level of global organisations.



³ Note that the data was reviewed using a similar, but not identical methodology.
⁴ CIPS refers to Consumer and Industrial Products.

Taking a closer look

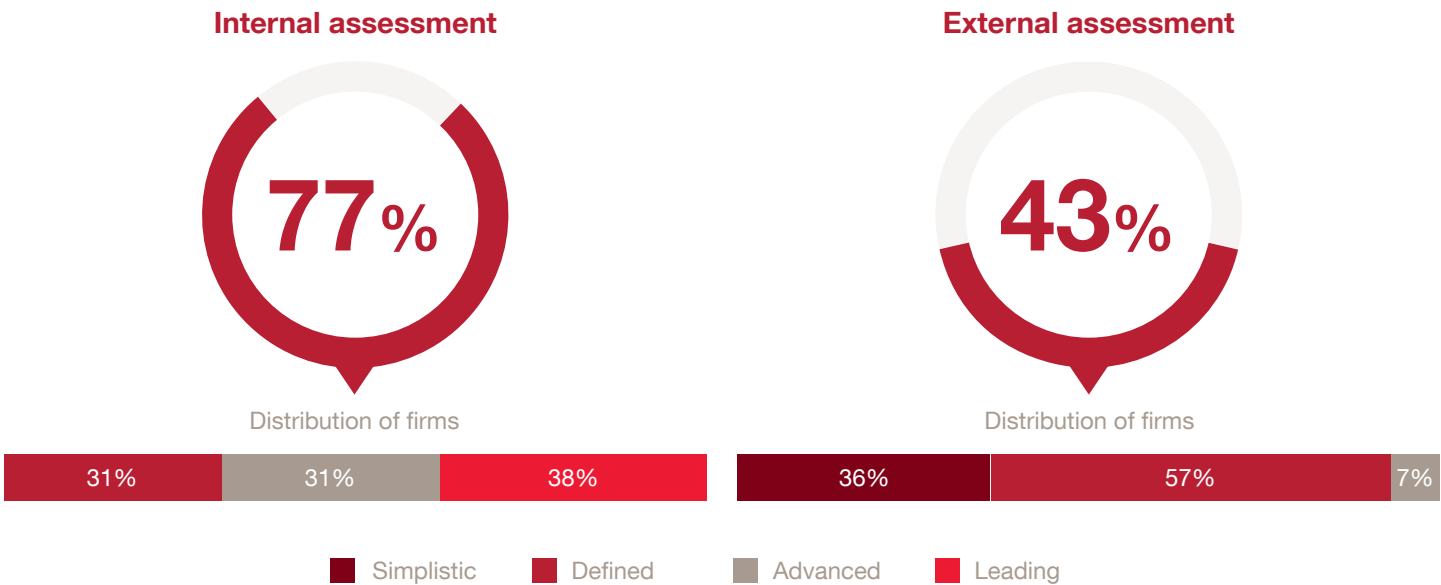
1 – Diversity and inclusion strategy



The most striking difference between the internal and external perception is attributed to the diversity and inclusion strategy. The internal perception rating is the highest (77%) compared to the other areas, with an even distribution of firms' ratings as 'defined', 'advanced' and 'leading'. No respondent was rated as 'simplistic'.

The external assessment, on the other hand, shows a considerably lower overall rating (43%). None of the firms achieved a 'leading' rating, and only one firm secured an 'advanced' rating in this area.

Figure 6: A comparison of the average internal and external assessment ratings for the diversity and inclusion strategy area and the distribution of ratings.



Beyond the numbers



This area aims to look at the overall strategic focus an organisation has on diversity and inclusion. To be leading, organisations need to not just have a desire to be inclusive, but to have ‘made this real’. This means evidence of a comprehensive strategy and policy, embedded in wider business strategy, with clear goals and leadership at senior levels. Organisations out in front not only show that they have comprehensive strategies and policies in place, which are well articulated, but a senior executive is responsible for delivering the objectives and a range of relevant metrics are monitored, tracked and published to the extent appropriate.

This focus on evidencing a commitment to diversity, through practical action and supporting governance, partly explains the large variance we see between the internal and external ratings. Every organisation that we assessed stated internally that diversity and inclusion was a stated value or priority area. However, few had published any strategy or policy externally to bring this to life. Similarly, a number said that they had senior leadership accountability and an assigned programme leader for this area, but did not disclose this publicly.

What is not clear is how much this gap reflects perception or reality. The survey results suggest that there are some organisations that have developed a strategy and policy on diversity, and set up some form of governance to support its implementation. For these organisations, the question is why they do not disclose more in an area where transparency will almost certainly be viewed positively by their stakeholders.

For others, it is likely that they are simply closer to the start of their journey on diversity. For them, the next step will be to learn from more mature organisations in turning their stated values and priorities into a tangible strategy, albeit in a way that is proportionate and appropriate for their size, complexity and maturity level.

One area we assess is the scope of the definition of diversity – i.e. how wide a range of dimensions of diversity are considered within a company’s policy and strategy. This is an area where many participants received a lower score. But this does not mean that they should necessarily change their focus overnight. Ultimately, leading organisations in this area will be considering a wide definition of diversity, with the best moving beyond the ‘protected characteristics’ (set out in the UK Equality Act 2010) to consider wider issues of inclusion and diversity of thought. However, these leading organisations have often been focused on diversity as an issue for many years, building capability, experience and a culture of inclusion over time. For those at the start of the journey, it is not necessarily unreasonable to focus on a small number of dimensions first, and use these as the starting point to broaden over time. Practically, particularly for smaller organisations, this may be the best way forward. However, organisations should always be mindful of the ‘end goal’ of inclusion, to ensure that their programmes and targets are aligned with this, and that they ‘translate’ in other geographies, where other aspects of diversity may be more pressing. This is particularly important given the natural focus on gender in the UK, partly driven by new gender pay reporting requirements.

Action planning for firms



- Work with your PR and external communication teams (including social media), to review internal strategy, policy, goals and governance on diversity and test whether you could disclose or promote your approach more. Given that the gaps in internal and external perception, it is likely that for some firms this is an area where change can be achieved within a short space of time through enhanced disclosure.
- For those who are only starting to focus on this area, consider agreeing a formal strategy and policy, and assigning a senior executive as accountable for it. Clear goals or objectives to meet this strategy should also be considered to help ensure momentum is maintained and results are achieved.
- It may be appropriate for initiatives to focus more on certain types of diversity if you are at the start of your journey. However, ensure that they are positioned within an overall long-term goal of creating an inclusive environment for all employees. As part of this, consider if gender pay reporting requirements could be used as a platform to gather, analyse and review data for other diversity dimensions, or at least discuss priorities and commitment to diversity in all its forms.

Action planning for the industry



- Articulate a clear strategy for the industry and communicate it externally as part of the Diversity Project.
- Measure and report on progress, celebrating successes and acknowledging reasons if any initiatives did not bring the desired impact, and what was done to address this.

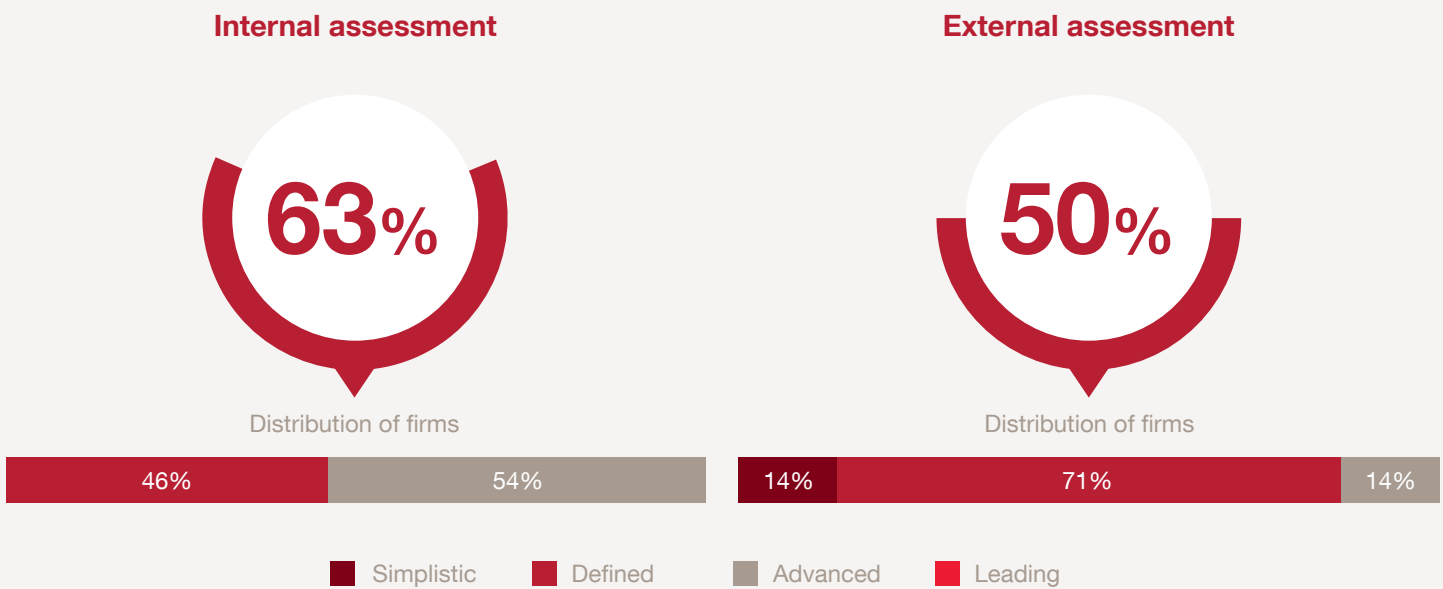


2 – Leadership

In a number of organisations, the overall ratings for the internal and external perception on leadership appear to be relatively close. However, an analysis of the responses from the survey for each sub-area of leadership show interesting variances attributed to the perception of the leadership team internally and externally.

Overall, the main difference is in relation to the distribution of firms: 54% of respondents rated their internal leadership initiatives as ‘advanced while only 14% meet the external assessment ‘advanced’ criteria.

Figure 7: A comparison of the average internal and external assessment ratings for the Leadership area and the distribution of ratings.



Beyond the numbers



This area focuses on assessing the leadership of an organisation, to test how much individual leaders appear to be engaged or passionate about diversity issues, as well as the diversity of leadership itself, and if they are motivated through goals and compensation targets to support diversity within their organisation. The intention is to recognise the importance of 'tone from the top' in establishing and supporting an inclusive culture, as well as the importance of diverse leadership in demonstrating diversity within an organisation.

From an external perspective, this is perhaps the strongest area for the investment management industry. This reflects the fact that, although many leadership teams are not particularly diverse, (and most do not have publicly disclosed goals in this area) there are examples in many firms of individual leaders who are publicly engaged in supporting diversity in some form. This is particularly interesting because this is not always reflected in the internal survey. In fact, this aspect of leadership is one of the few areas where a number of companies outscore externally compared to internally when rating business leaders' communication on diversity. This suggests an unusual situation in some organisations where individual leaders may be communicating on diversity (or participating in events supporting it) more often publicly than within their own organisation. It is unclear if this is because different leaders are responsible internally from those who are active externally, or if it is simply that activity

is happening less frequently or is less high profile internally. However, whichever may be the case in individual organisations, the findings suggests that organisations are often not making the full use of the personal passion of their leaders internally. By better connecting internal and external activity, and using the interest and engagement of their existing leaders, firms can quickly make a difference in the perception of diversity within their organisations.

There is more alignment when we look at the other aspects of this area. In general, it seems that many organisations have not yet started to communicate actively on the diversity of their leadership team and set goals on this, either internally or externally. This is, however, an area that is changing. A number of organisations note that they have begun to set goals on the diversity of leadership, and link this to compensation. This is aligned to the focus within external initiatives such as the voluntary Women in Finance Charter, which requires signatories to commit to set targets to improve the number of women in senior leadership; disclose these targets and progress against them; and align executive pay to achievement of these targets. We would expect to see more focus on this area, particularly as gender pay reporting begins to bring public focus specifically to the issue of women in senior positions, which is often the primary driver of large pay gaps in the industry.

Action planning for firms



- Review key leaders and assess their interest and 'brand' on diversity to identify those who can help internally support and advocate for diversity. Where they are involved in external events and networks, consider exploring how to best promote these internally, and potentially link external and internal activities (for example by promoting activity that an individual does with an external diversity network with messaging/networks on this topic internally).
- Review your approach to promoting diversity within your leadership team and explore if this could be strengthened through targets (whether quantitative or qualitative). This may be particularly helpful to consider as part of any planning for the communication of gender pay reporting, where many firms will look to provide additional disclosure on 'why' a gap exists, which will likely focus on the number of women in senior and front office positions.
- Where activity to increase the diversity of leadership is occurring internally, review your external disclosures to identify any enhancements to your public statements that will improve external reputation.

Action planning for the industry



- Identify key leaders in the industry and explore how their external activities on diversity and inclusion could represent the industry as well as their individual organisations.
- Consider external initiatives (e.g. diversity events, research sponsorship, etc.) that could be carried out for the industry or certain parts of the industry, for example, geographical regions.
- Consider publication of industry wide gender pay gap communications. These could reflect the data of the Diversity Project participants on a consolidated basis, demonstrating the work that is taking place at the industry level to address the gender pay gap issue specifically and the wider inclusion agenda generally.

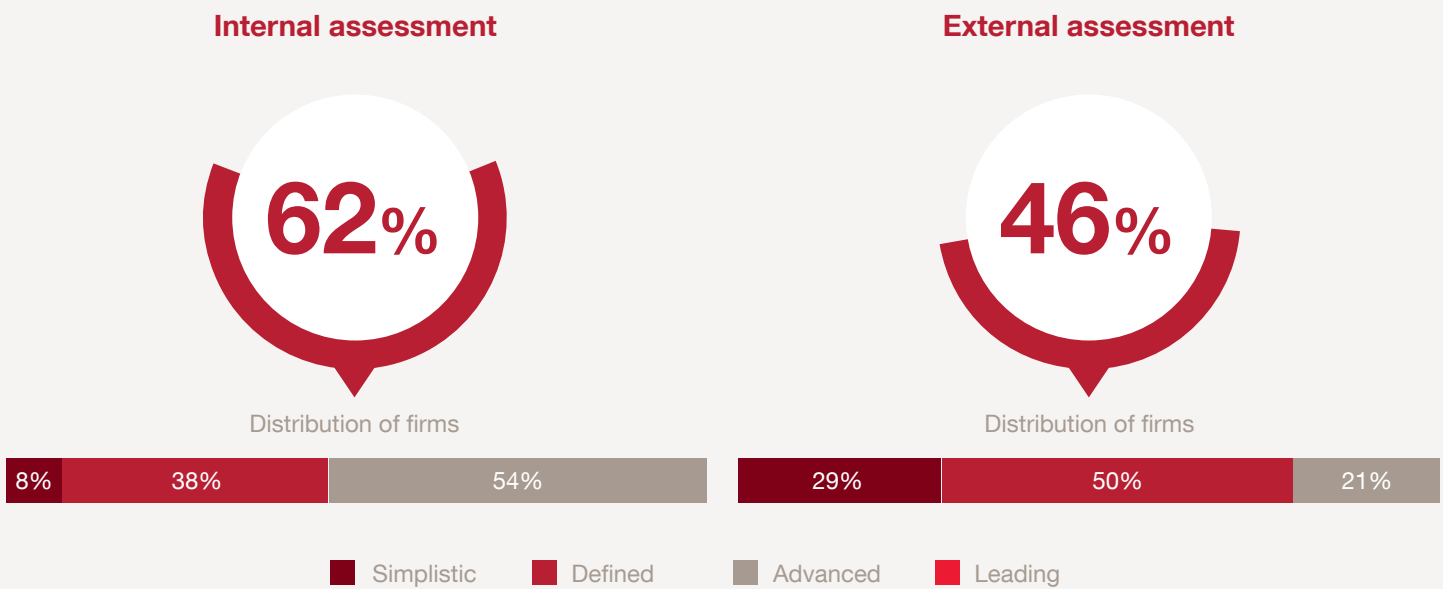


3 – HR processes

A slightly higher gap between internal and external perceptions, compared to ‘leadership’ is observed in this area. Once again, this is driven by a difference in the distribution of ratings with over half of the firms rated ‘advanced’ internally, while only 21% achieved ‘advanced’ based on the external assessment.

The internal nature of this area is the key reason for this difference, with a number of HR activities in this space requiring confidentiality. However, appropriate disclosures of the programmes in place for under-represented groups would undoubtedly go a long way in enhancing the company reputation for diversity and inclusion.

Figure 8: A comparison of the average internal and external assessment ratings for the HR processes area and the distribution of ratings.



Beyond the numbers



From our experience, both as an employer and an advisor, a critical part of creating a more inclusive organisation is to ensure that diversity is supported, and bias managed, at all levels of the organisation. Doing this effectively requires careful consideration of the framework that determines the experience and career of employees – an organisation's HR policies and processes. In this context, this area looks at organisation's HR processes to assess how much they support diversity. Leading organisations will not only have specific HR programmes to support diversity, but will also have embedded diversity and inclusion within the standard goals and strategy of the HR function.

This is one of the areas where we see a larger number of firms at the start of their maturity journey, with 29% receiving a 'simplistic' rating based on our external assessment. Partly this may reflect the size of some participants – ultimately it will be significantly more difficult for small organisations to set

up specialist programmes in areas such as recruitment, if the number of individuals they recruit each year are very small. Certainly they will not have the funds or size to justify the long-term talent programmes we would rate as 'leading'. For these organisations, alternative cross-industry approaches, such as Investment Management 2020, may be the best way to engage.

However, although this explains part of the rating, it is not the full story. A number of organisations state in our internal survey that they have specialist programmes in place to support diversity in recruitment and/or talent management, but in many cases these programmes were not identified in our external review. While this may be appropriate in respect of some talent management programmes, it is particularly notable in the case of recruitment, where active promotion would presumably improve the success of such programmes in attracting high quality diverse talent.

Action planning for firms



- Review any existing HR programmes and consider if their external communication could be improved. This is particularly important for recruitment programmes where external promotion could not only enhance reputation, but also improve the effectiveness of the programmes in increasing diversity within organisations.
- If you do not have specialist programmes in place, consider if these could be appropriate, or if cross-industry initiatives could be better utilised and promoted externally and internally.

Action planning for the industry



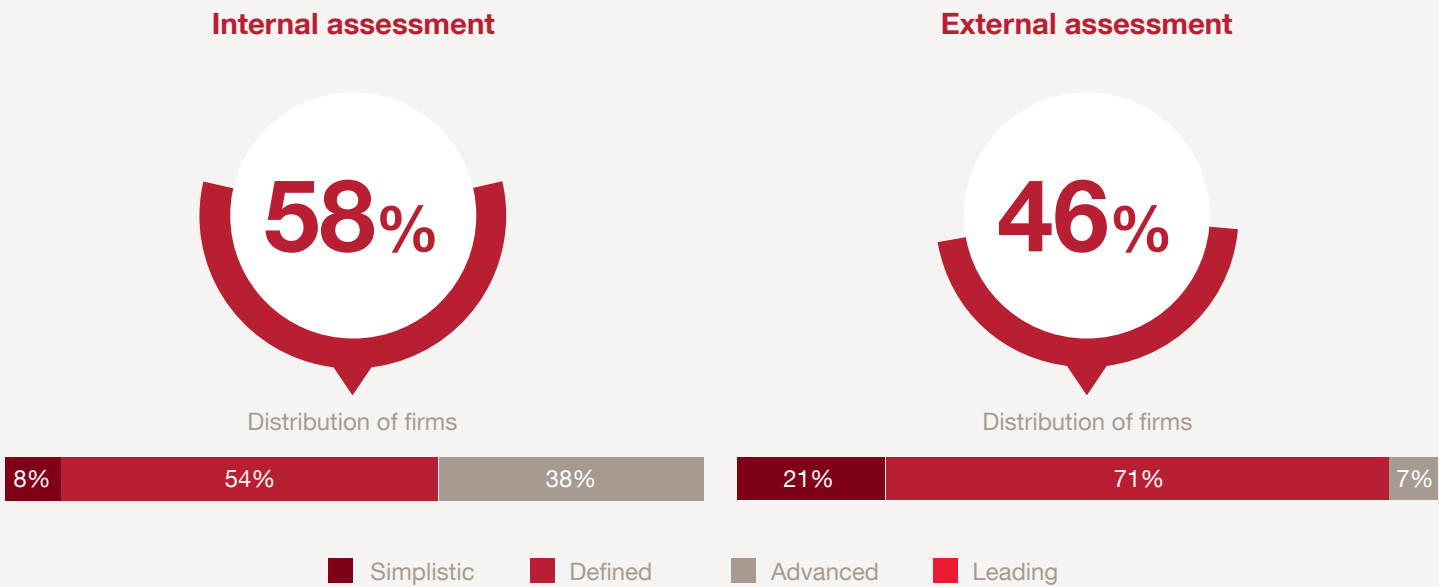
- Ensure that any industry-wide recruitment or talent programmes are effectively communicated both through the Diversity Project and Investment Management Association as well as by the individual firm participants.
- Review programmes in place at the industry level through the 'employee lifecycle' lens and consider if there are additional initiatives that could be put in place at the industry level – for example mentoring, sponsorship and reverse mentoring.



4 – Other diversity and inclusion areas

As for the other three areas, there is a gap between internal and external perception. Overall, it is similar with the gap in the ‘leadership’ area, and generally stems from a number of firms scoring one level higher internally compared to externally. As for ‘leadership’ and ‘HR processes’, no firms achieved ‘leading’ either internally or externally.

Figure 9: A comparison of the average internal and external assessment ratings for other diversity and inclusion areas and the distribution of ratings.



Beyond the numbers



This area is perhaps the most diverse, looking at a range of other activities that we would expect to see in leading organisations as evidence of a commitment to diversity and inclusion. Some aspects are viewed and assessed from both an internal and external lens, such as the presence of employee networks and the implementation of specialist inclusion or unconscious bias training. However, others are more relevant either internally or externally. For example, the focus on diversity of suppliers is increasingly common in leading organisations, but is not necessarily something that we would expect to see extensively discussed publicly. Similarly, celebration of diversity awards, participation in external events and active engagement in diversity initiatives such as the voluntary Women in Finance Charter; are by their nature more externally focused (although the most mature organisations will ensure internal communication of these activities occur).

It is notable that in this analysis of the investment management industry no 'leading' ratings were given either internally or externally. For some organisations, this may reflect their relatively small size. Ultimately, activities such as entering awards, setting up networks and sponsoring or participating in external diversity events require either a certain amount of internal effort/funds, or enough employees to make activity meaningful and impactful. For these organisations, the question is how to best leverage industry-wide initiatives and, just as importantly, how to articulate and promote their participation in these initiatives in a way that inspires employees and is understood by external stakeholders.

However, for some organisations in our sample it is clear that some activity is occurring, but that it is not being fully promoted. A key example of this is employee networks, which a number of organisations stated that they have in our internal assessment, but this could not be identified in our external assessment. Again, this is an area where firms can consider how they better promote their internal activity to demonstrate their commitment to diversity externally.

Action planning for firms



- If your size does not make some activity appropriate, consider if cross industry groups and initiatives could be better leveraged and promoted to achieve similar results for your employees and recognition for your firm.
- Ensure that you are promoting externally your activity internally. One way to do this could be to empower employee networks to promote themselves externally and forge relationships with other networks in the market. This could help improve your reputation, create new relationships with clients and stakeholders and allow the diverse members of these networks an opportunity to promote themselves and gain new opportunities and experience within the industry.

Action planning for the industry



- Review existing external networks and consider if there are gaps that could be filled by networks or groups at the industry level.
- Consider positions taken by a number of firms in their capacity as investors and if there are any aspects of diversity and inclusion within the industry that could be addressed to demonstrate commitment within.



Gender pay gap reporting



Mandatory gender pay gap disclosure is forcing diversity and inclusion up the senior management agenda. To date, with only a month left of the year-long disclosure window has opened, less than one fifth of the estimated number of impacted organisations have published their figures. In particular, the market is still awaiting disclosures from many of the key players in financial services.

While pay is a relatively narrow issue, it makes headlines. And with the latest research showing that the gender pay gap in financial services as a whole and specifically in the investment management industry is significantly higher compared to the UK average, the potential for negative publicity is evident. Once sights are fixed on one area of diversity and inclusion, the questions are likely to move beyond gender pay into a much broader spectrum of sensitive issues ranging from possibilities for flexible working to the ethnic make-up of leadership teams. This puts the overall approach to diversity and inclusion into the spotlight.

Given their size, many investment management organisations will not be caught by the gender pay gap reporting requirements. However, they will undoubtedly feel the impact of the press coverage as part of the sector. It is clear that the seriousness of the issue is at the forefront of mind of a number of smaller organisations. Indeed, a number of companies, who are not required to make a disclosure are looking to do so. Internally, this would provide an understanding on how they compare to their larger competitors and provide data to inform any actions taken to make positive change. Externally, this provides an acknowledgement of the issues and a clear commitment to move the dial on diversity and inclusion and provides a strong message demonstrating that its approach to diversity and inclusion goes beyond legal requirements. Further detail of these requirements can be found in Appendix 1.

Gender pay gap reporting as an opportunity: Disclosure beyond numbers



There may be a temptation to keep the disclosure and explanation in the gender pay reporting to a minimum because firms are worried that a lack of progress could lead to negative publicity. Many organisations are striving to do the right thing on diversity and inclusion, but often there is hesitation to disclose too much. 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 organisations fail to adequately explain why these shortcomings exist and how they plan to address them.

Even if an organisation is behind the curve on diversity and inclusion now, this is an opportunity to get on the front foot by acknowledging that there are issues that need to be addressed and setting out plans for accelerating progress. Such openness and resolve can make a favourable public impression. Reporting ahead of the gender pay deadlines and broadening disclosures beyond the minimum required would strengthen the message.

Getting it right and fitting into the bigger picture



A clear priority is improving gender pay numbers in future annual disclosures to demonstrate progress. The advent of gender pay reporting is also an opportunity to mobilise the business behind embedding diversity and inclusion in the wider context (and beyond the gender pay issue) into business strategy and HR processes, to accelerate meaningful change.

Drawing on our research and work with clients, we believe there are key priorities that individual organisations and the industry as a whole need to address to make sure that they are prepared for gender pay reporting and the publicity that surrounds it, equipped to manage the risks and ready to make the most of the opportunities.

Action planning for firms



- Understand the technical requirements and calculate the numbers. This may require time, as it may not only be challenging to collect the data, but also the regulations are silent on a number of complex issues.
- Analyse the numbers and understand the key risk areas and whether you have to address any immediate equal pay risks.
- Identify additional numbers, initiatives and plans you would like to disclose that can provide supporting information.
- Begin to craft the narrative of your disclosures and develop your communication plan. This could include sharing and discussing the data internally before going public.
- Use the data and analytics to understand the root causes of particular issues or why certain groups of staff are especially affected. Identify key people interventions to support and drive sustainable improvement.

Action planning for the industry



- Consider publication of industry wide gender pay gap communications. These could reflect the data of the Diversity Project participants on a consolidated basis, demonstrating the work that is taking place at the industry level to address the gender pay gap issue specifically and the wider inclusion agenda generally.



Moving the dial in investment management



What can be done by firms in the short-term to enhance their reputation for diversity and inclusion?

Make the most of what you are already doing internally by communicating it with impact

Review your internal initiatives and activities on diversity and inclusion across your business. If there are programmes and initiatives in place, ensure that these are prominently disclosed and communicated both internally and externally.

Use gender pay reporting requirements as the opportunity to enhance your brand for diversity

We know that gender pay gap reporting will generate interest from your current employees, and various external stakeholders. Your reporting can be a positive platform from which to articulate your commitment to diversity and inclusion and the activities that you are undertaking to promote inclusivity in your organisation. Consider additional disclosures to explain the root causes along with how you intend to address these. Consider at least partial disclosure, even if you are not large enough to formally be required to report.

Make the most of your diversity and inclusion advocates

Understand who are the diversity and inclusion advocates in your firm and explore how they can help to articulate your commitment to diversity through personal sponsorship and advocacy.

What can be done by firms in the longer-term to enhance their reputation for diversity and inclusion and drive a more inclusive culture?

Get the fundamentals right to ensure you have an action plan to drive change

Like any business issue, to truly drive change and be recognised as a priority, it is important that your diversity and inclusion approach is clearly articulated in a formal diversity strategy. To be most effective, this strategy should be linked to your business strategy, have senior sponsorship and accountability, be supported by a detailed action plan and underpinned by short and longer term metrics.

Use your data to understand where your specific challenges are, and use the results to inform your strategy and action plan

Although we would expect to see industry wide trends, each organisation will have different challenges and priorities when addressing the diversity and inclusion agenda. Analysis of employee data over time, can help identify “hot spots” where new initiatives and HR process reviews will have the most impact in the short and longer term.

Review your existing HR processes through an unconscious bias lens

Although diversity and inclusion initiatives and networks can be powerful tools, to truly drive cultural change the HR processes and policies should be carefully tested. Reviewing key HR processes (such as promotion and recruitment) through a bias lens can help identify changes to processes and policies that can create a more level playing field in those areas which make the most difference in your organisation.

Appendices



Appendix 1: Gender pay reporting deadlines and mandatory requirements

Employers are required to take a first data snapshot on 5 April 2017, which should be analysed and published on a date of their choosing, but no later than 4 April 2018.

The gender pay gap information will need to be published on the employer's website (and signed off by a senior executive to validate the accuracy of the information). The figures will also need to be published on a Government-sponsored website.

According to the regulations, companies will be expected to set out data on the differences between their male and female employees including:

- the difference in the mean hourly pay of male full-pay relevant employees and female full-pay relevant employees, expressed as a proportion of the male figure;
- the difference in the median hourly pay between male full-pay relevant employees and female full-pay relevant employees, expressed as a proportion of the male figure;
- the difference in the mean bonus pay, between male and female employees, expressed as a proportion of the male figure;
- the difference in the median bonus pay, between male and female employees, expressed as a proportion of the male figure;
- the number of male and female relevant employees in each quartile of the overall pay range; and
- the proportion of male and female employees who received a bonus in the year.

In addition to this information, employers will be able to provide contextual narrative, explaining any pay gaps and setting out what remedial action they intend to take in line with the guidance that will be published alongside the regulations.

While there are currently no civil penalties for non-compliance, the Government is keeping this under review. The broader challenges for companies are the potential negative publicity, impact on the company reputation and employee relations, and the potential risk of equal pay claims.

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The purpose of the Diversity Project is to accelerate progress towards an inclusive culture in the investment profession. An inclusive culture across all levels supports more effective teamwork, gives wider perspectives, better investment decisions, better results for our clients and ultimately more sustainable businesses. The Project spans the whole range of the profession: asset owners, fund managers, fund selectors, pension consultants, actuaries, trustees, wealth managers and the professional standards and trade bodies. For more information, please go to: www.diversityproject.com

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