

Securing the future of the financial industry through improved gender diversity

SWIFT Institute Working Paper
May 2020

Kristina Kämpfer, DPhil (PhD) Candidate
Professor Dariusz Wójcik

School of Geography and the Environment
University of Oxford

Introduction

Exploring developments in the industry ten years after the financial crisis of 2007-9, new research sponsored by the SWIFT Institute aims to unravel and answer two key questions facing the financial industry.

- How can (gender) diversity become core to business in finance, or in other words, how can more women be attracted to the industry and promoted to leadership positions within it?
- What are the mature and less mature practices for improving gender diversity in senior management in finance?

Key findings

Culture drives diversity

Culture drives diversity, rather than any single or combined set of gender equality initiatives.

- If dominated by “male values”, the culture of an organisation is perceived as the biggest barrier to greater gender diversity.
- Support from top management is considered to be **the most important** factor driving greater diversity (and the right culture). Middle management is perceived as a pivotal layer, either as an obstacle or as a central enabler, but is also the group most likely to be in need of support to implement change.
- The success (or lack) of initiatives for diversity within financial companies has implications for the competitiveness of financial centres and the diversity of people that make-up the financial elite.
- Financial organisations working towards a more diverse workforce have to address cultural barriers and the similarity attraction paradigm.

Research approach

The research combines economic geography with gender and cultural studies to bring a unique perspective to geographical diversity, comparing work practices and cultures in London and Frankfurt as two key international financial centres. The choice to conduct research in different geographies was made on the assumption that cultural as well as institutional variations are one of the keys to understanding the progress – or lack thereof – of gender diversity within financial companies.

Contextual findings

Industry and government-led initiatives in both countries determine the context within which businesses operate.

The institutional setting varies greatly between Germany and the UK. The financial sector in the UK is dominated by numerous industry and government-led initiatives that promote voluntary agreements such as the 30% Club and the Women in Finance Charter. Germany adopted a gender legislation quota in 2015, which aimed to increase female representation on advisory but not on executive boards.

Government and industry led initiatives

United Kingdom

No legal requirement for boards to contain a particular proportion of women.

Industry-led initiatives like the 30% Club advocate for voluntary agreements instead of quotas.

The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 in the UK has obliged employers with more than 250 employees to publicly report their pay gaps as of April 2017.

Germany

The German government passed gender quota legislation in April 2015, requiring a minimum of 30% gender diversity on advisory boards of listed companies as of 2016.

The Entgelttransparenzgesetz (Transparency of Remuneration Act) in Germany only places responsibility on the employer to respond to individual employee requests for information on their gender pay gap.

The research identifies variations between different sectors in finance, between asset managers, banks and insurers, as well as between countries. However, in reality very few financial companies provide a comprehensive overview of their gender equality and diversity policies. Reasons for this may vary between having few policies in place, or the policies being new and therefore as yet little surrounding collateral having been established. Alternatively, companies may engage in avoidance techniques because of the negative publicity associated with the lack of (gender) diversity in their workforce.

At a financial company level there exists a divide between asset managers, banks and insurers. Within the research sample, most efforts to improve gender equality are undertaken by banks and insurers. They are also primary supporters of industry and government-led initiatives such as the Women in Finance Charter.

The lack of gender equality initiatives within large parts of the fund industry is in line with recent findings that show a severe underrepresentation of women and lack of other kinds of diversity in this industry.

From a comparison of British and German companies, with the exception of the ten largest banks in London (studied separately), overall, German companies offer less gender equality initiatives, and those offered primarily target women.

In contrast, British companies have a wider scope and also target male employees.

Characteristics of company gender equality initiatives

Initiatives exclusively for women

- In-company networks and events (e.g. conferences) for women
- Mentorship & sponsoring programmes

Employee lifecycle initiatives

- Policies and practices targeting
 - Attraction and recruitment
 - Retention and advancement
 - Return
-

Company-wide initiatives aimed at creating a more inclusive work culture

- Training for leadership/ management, or company-wide, on unconscious bias and/ or diversity and inclusion (D&I)
 - Family-friendly policies like paid parental leave and flexible working arrangements
-

External partnerships

- Government and industry-led initiatives (e.g. the Women in Finance Charter or 30% Club)

American and British investment banks appear to be trailblazers in terms of gender diversity, offering a comprehensive and wide range of initiatives. However, overall, only a small minority of these programmes include or target men and focus almost exclusively on women, which may actually be **detrimental to diversity efforts**. Please note that this paper did not investigate the effectiveness of their programs in part as not enough data is available.

Attractiveness and competitiveness of financial services

It is impossible to disentangle gender diversity from other aspects of diversity

The majority of respondents in Germany observed a major loss of trust in financial institutions as well as a loss of reputation of financial professions as a consequence of the 2007 – 2009 financial crisis.

Interviewees in Germany called for a move away from thinking in terms of status, the **breaking up of old structures in the industry**, and for financial companies to become more agile in general and more flexible employers in particular.

For London-based interviewees, specific emphasis was placed on the need to modernise perceptions of the 'out-dated-ness' of the industry, in particular with regards to breaking with the image of the stereotypical (male and white) banker. Concern was also raised around the general lack of understanding of the business model and the core function of finance.

Building on the statement that **it is impossible to disentangle gender diversity from other aspects of diversity**, the general conservative and outdated image of the financial industry runs the major risk of limiting the talent pool from multiple perspectives of diversity, including the younger generation.

Gender diversity in senior management

“Ultimately, gender equality initiatives and best practices promise little to no success in the wrong culture.”

Key findings, based on interview feedback and questionnaire results from all key stakeholders:

- If dominated by male values and if it does not offer an inclusive work environment, the culture of an organisation is perceived as the biggest barrier to diversity.
- Senior management, on the other hand, is seen as the biggest driver of greater gender diversity (and the right culture).
- Culture and diversity are dependent on context.

Diversity was understood very differently in the two financial centres studied. These understandings were closely tied to the cultural context of the respective society, including the institutional setting.

Diversity is primarily understood in terms of gender in Germany. In the UK, the key phrase was **'diversity of thought'**. The concept of diversity in the UK encompassed much more than just gender and can be partly attributed to the importance of class in British society, which is also tied to socio-economic background.

What are the key barriers to success in women's careers?

Internal and external perspective

What are the key drivers or useful initiatives to support women's careers?

Middle management can be both barrier and a driver

Internal perspective

The vast majority of interviewees in either the UK or Germany considered organisational culture as the central barrier. This central finding is in line with other research that investigates the success of gender equality initiatives.

External perspective of executive search firms

The perceptions of the pipeline and the lack of women with experience is by far the biggest gender-related obstacle in the appointment process, followed by boardroom cultures and the cultural context as very or somewhat important barriers.

Internal perspective

Support from senior executives is considered key to greater gender diversity.

The key driver, seen as very or somewhat useful by all interviewees, was the support from senior executives or top management. How did top managers view their own role? All of the interviewees belonging to this stakeholder group were aware of the (key) role they play.

External perspective of executive search firms (ESFs)

London-based ESFs view themselves as stronger advocates for greater diversity than Frankfurt-based ESFs.

Asked about the importance of ESFs in the process of securing greater diversity among senior management, London-based executive search professionals called it their 'moral obligation' to push for diversity and considered their role as 'significant'.

In contrast, the majority of Frankfurt-based executive search professionals were less vocal in this matter. But as ESFs serve their clients and do operate locally, this variation in executive search practices may only mirror different attitudes towards gender diversity in London and Frankfurt.

External perspective of diversity specialists

Middle management can be both a barrier and a driver.

Diversity specialists were asked for their opinion on what they considered to be obstacles to greater gender diversity within organisations. They drew particular attention to the role of middle managers.

Middle management are the group on which you must focus most. They need the most support in having the courage to change and require support around them in terms of how to lead a (very) diverse team.

The collective responses, from both internal and external stakeholders, highlight that cultural as well as institutional variations are central to understanding the key barriers to, or drivers of success, for diversity within financial companies in different geographies.

This has implications for the competitiveness of financial centres and the diversity of people that make-up the financial elite.

Financial companies that strive for greater diversity, and for which elite labour is a key resource, need to pay particular attention to the cultural and institutional frameworks they operate within.

What actions can the financial industry take?

The key challenges facing financial organisations working towards a more diverse workforce and inclusive culture are as seen as follows:

- Internal resistance
- Outdated ways of working
- The complexity of diversity

For each of these challenges the research provides a set of recommendations and suggested actions:

Internal resistance, in particular by men, towards gender diversity initiatives.

The first set of recommendations rests on the finding that gender equality policies should not only concern women:

- 1. Include male co-workers in gender equality initiatives.** Working towards greater diversity within organisations should not solely be the responsibility of those who experience exclusion. Set-up initiatives that include men and that aim at fixing the gender ratio across the entire organisation.
- 2. Acknowledge where perceptions are wrong to counter internal backlash.** Despite a fear of internal backlash as a result of gender equality and diversity programmes, finance is not a diverse industry – in particular at the top. It continues to be a male-dominated industry. It is the responsibility of financial organisations to acknowledge these facts.

Outdated (and gendered) ways of working, leading and recruiting.

- 1. Embed flexible working policies instead of singling them out**

The pressure of 'presenteeism' is a challenge to new working practices, in particular flexible working. Flexible working policies are doomed to fail if the work environment is dominated by 'presenteeism', long hours and a lack of flexibility. Financial institutions need to drive greater cultural change at the organisational level.
- 2. Revise leadership roles and responsibilities**

Rethink what roles leaders have to assume (in particular for their team) and what are the right qualities of a great leader. This, in turn, might qualify other – potentially more diverse – candidates for these positions.
- 3. Create roles for female talent**

Rethink leadership areas of responsibility instead of looking for specific talents to fill a role with a particular set of responsibilities. This might also serve the purpose of greater diversity in management or other parts of the business that lack diversity.
- 4. Change recruitment requirements**

Relax eligibility criteria regarding the scope of 'favoured' universities, as long as candidates meet capability criteria (as opposed to, for example, STEM programmes only).

The complexity of (achieving) diversity.

There is a fear of a trade-off between performance and diversity. This tension, between merit and diversity, is difficult if not impossible to resolve. Complexity, however, is not an excuse for the lack of diversity. The numbers continue to demonstrate that the need for action is urgent.

- 1. Simple messaging**

Diversity is complex and encompasses a lot more than gender. Narrow it down to the gender dimension to enable the (cap)ability to act.
- 2. Set clear targets**

Set clear targets to enable a method of measurement. Combine targets with regular and detailed reporting and benchmarking (in particular externally against other companies). Ensure personal accountability of these targets (i.e. embed them in performance reviews or set KPIs around them) to make them effective.

Conclusion

Creating greater (gender) diversity goes beyond the scope of individual companies.

It encompasses the industry, the regulator and society as a whole. The research shows that the driving forces of diversity within companies depends very much upon forces outside of them. Looking for the causes as well as solutions to the lack of diversity demands that companies look both inside and outside their own walls for long-lasting impact. This includes challenging the formation and application of (gender) stereotypes, from schools through to careers and beyond.

About SWIFT Institute

The SWIFT Institute, set up by SWIFT, funds independent research, supports knowledge-led debate and provides a forum where academics and financial practitioners can learn from each other. The primary focus of the SWIFT Institute's work is transaction banking, covering the areas of payments & banking, securities, cyber security, technology & innovation, regulation & compliance and leadership. To date nearly 40 research papers have been published. All of the Institute's research is freely available to download and share at www.swiftinstitute.org.