

# Implementing DEI: A Strategic Imperative for C-Suite Leaders

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As the Chinese proverb goes, the journey of a thousand miles begins with a single step. For many organisations today, busy dealing with economic uncertainty, inflation, and countless other constant challenges, achieving diversity, equity, and inclusion (DEI) can feel like a thousand-mile journey. Most are unsure where they are along that journey or even how many steps they have taken.

This article aims to recap the trends driving DEI and remind business leaders of the clear benefits. It then offers a framework for C-suite and other senior business leaders to establish where their organisations are in their DEI journeys and help them to work out which specific steps to take next.

## The current status of Diversity, Equity, and Inclusion in the Finance Sector

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Diversity, Equity, and Inclusion (DEI) refers to workplace policies and procedures that promote the representation, fair treatment, and full participation of all people in an organisation, particularly those from traditionally underrepresented groups. Some organisations use all three terms, while others, like the UK's financial services regulators, prefer Diversity and Inclusion (D&I). DEI and D&I aim to create environments where everyone feels valued and has equal access to opportunities.

Diversity involves increasing an organisation's heterogeneity in terms of race, ethnicity, gender, sexuality, disability, social class, cognitive divergence, experience, and worldview. Inclusion ensures everyone feels they have a voice and can participate fully at work. Equity involves allocating support, resources, and opportunities considering individuals' different circumstances to help achieve more equal outcomes.

Championing DEI in the finance sector presents unique challenges due to its rich history and entrenched traditions. The finance world has long been dominated by men, leading to fewer women in leadership roles, limited mentorship opportunities for emerging female professionals, and a culture that may inadvertently favour one gender over others.

### Biases in Key Decisions:

**Hiring:** Despite growing awareness of DEI, unconscious biases can still influence recruitment, leading to preferences for candidates from certain educational institutions or backgrounds or those who fit a particular 'mould' seen as suitable for finance roles.

**Promotions:** Promotion criteria, often subjective, can be influenced by biases. Employees from underrepresented groups might find it challenging to break the proverbial glass ceiling due to these deep-seated biases.

**Investment Decisions:** Biases can also affect investment decisions. Venture capital, for instance, has been criticised for not funding enough startups led by women or people of colour, potentially missing out on innovative ideas and lucrative opportunities.

Navigating these challenges requires concerted efforts to address historical imbalances and biases, ensuring a more inclusive and equitable finance sector. By actively promoting DEI, organisations can unlock a wealth of talent and perspectives, driving innovation and success in the industry.

# Why is DEI a business imperative?

Research suggests that the more diverse and inclusive a company is, the better it can perform. According to McKinsey, racially diverse companies are 35% more likely to outperform their less diverse competitors, while companies with strong women representation are 25% more likely to outperform.

At the same time, employees want to work for more diverse companies. According to Glassdoor, two-thirds of job candidates seek out companies with more diverse workforces.

Perhaps more profoundly, the UK's financial regulators have highlighted greater diversity as a key contributor towards greater financial market stability, integrity, and growth. For both the UK's Financial Conduct Authority and Prudential Regulatory Authority, financial firms have an obligation to better reflect the diversity of their customers. They have drafted a number of stringent proposals that will see financial firms in the UK obligated to establish evidence-based D&I strategies or face significant potential fines.

Although these rules will not directly impact other sectors, they are likely to become best practices over time, which those in other verticals will feel pressured to adopt.

Improving DEI offers operational benefits and is a legal requirement for many. It also helps foster a fairer society and ensures equal opportunities for all.

## Key challenges of achieving DEI

Despite the clear benefits of DEI, it is far from becoming reality in most countries. In the UK, only four FTSE 100 CEOs are women, while only 13% of FTSE 100 senior managers in 2023 were ethnically diverse. In the US meanwhile, 2023 saw a "record" number of Black CEOs of Fortune 500 companies – a somewhat disappointing eight out of 500 (1.6%).

One of the biggest reasons for this is that companies simply aren't prioritising DEI enough. 41% of managers report being "too busy" to implement DEI initiatives. Add to this a widespread lack of evidence-based and measurable DEI policies, and cultural resistance from many within organisations themselves, and there are multiple barriers towards progress.

# Understanding where your organisation is now

These challenges are why it's so important to understand where your organisation is now on the DEI competence model. Only then can you get a clear idea of what has worked, what isn't working, and what steps to take next.

**Level one** in the DEI competence model is **Compliance**; your organisation is reacting to existing laws and regulations as they evolve. At this level, your workforce is largely homogenous and your legal, HR or specific DEI team are entirely responsible for driving change.

**Level two** in the model is **Performance**; your organisation is increasing the representation of specific demographic groups. In this case the HR or DEI team are still mainly responsible for driving change, but your organisation is likely to have a business case for DEI and increasing diversity, though diverse hires must adapt to your existing culture and many of them may end up leaving.

**Level three** is **Leader-Led**, where your organisation's leaders drive change by looking to address systemic cultural barriers. Typical characteristics of this level include having a cohesive strategy for achieving greater DEI, including dealing with cultural resistance. You will also likely have good training and communications around the topic.

**Level four** is the ultimate goal: **Integrated**. This is where all employees at every level of your organisation buy into the goal of greater DEI and seek to help achieve it. Characteristics of this level include having a demographically and cognitively-diverse workforce, a genuinely inclusive culture and motivated workforce, and outcomes including greater productivity and innovation.

## Achieving strategic and talent alignment

Now you have a better understanding of where your organisation sits in the competence model, it's time to look at how best to solve the challenges you're facing. If you haven't yet aligned your DEI strategy with your overall business strategy, you will struggle to succeed.

A robust DEI strategy with measurable success criteria requires a structured approach with clear milestones and outcomes tied to specific business outcomes. You must start by engaging senior leaders and identifying sponsors with real influence who can drive change across the business. Consider tying DEI targets to remuneration for managers, implementing organisation-wide programmes, and measuring the ongoing impact on productivity, innovation, and revenue growth.

Then comes the last steps on the journey: identifying, recruiting and effectively onboarding and nurturing diverse talent. There are many smaller steps needed to achieve this, but they can include refining your employee value proposition, expanding your existing talent pools, reviewing job specs to increase the inclusiveness of the language used, ensuring diverse interview panels, getting independent reviews of your processes, and more.

# Key recommendations

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There's a lot to consider for busy executives when advancing DEI. The biggest benefits of increasing DEI are by now well known. If organisations are failing to make further significant strides with their DEI, it's not usually due to a lack of will but rather a combination of common barriers. However, no problem can be solved without first ensuring a correct diagnosis, which is why that's the essential first step for any organisation serious about driving DEI.

First, work out where your organisation is now. Then, look at what your key barriers or challenges are. Then, look to reinvigorate senior-level support for change, identify key DEI champions to help spread the word across the business, and look again at how you identify, recruit, onboard, and continuously support diverse talent. There are more steps to go before we reach our DEI destination, but with the will to carry on even when it gets tough, we will significantly improve the odds of success.

## Are you ready for the upcoming FCA and PRA proposals on D&I in financial services?

As part of the financial regulators' consultation on D&I proposals, the consultation period closed in December 2023, with the FCA and PRA committed to publishing a final policy statement sometime in 2024. This now looks likely to happen in August or September at the earliest. At the same time, due to significant criticism of some of the proposals, the regulators may end up changing or watering down some of the new rules, according to legal firm [Linklaters](#).

This remains a complex issue. However, if you're a financial services firm, you still need to be ready for these changes. At Sheffield Haworth, our change consulting team can deliver DEI-focused compliance projects that will help financial services firms become operationally resilient to these new rules, whatever form they take.

Our consulting solutions allow firms to access senior specialists in diversity and inclusion who can advise on strategies for embedding DEI into governance and compliance processes. Not to mention talent mapping, selection, recruitment, and retention.





# Our Change Consulting practice

Sheffield Haworth's change consulting practice offers solutions for change and transformation in the banking, wealth and asset management, and insurance sectors. Our expert services cover technology and data, risk and resilience, and regulation and compliance. Our solutions are designed to provide clear and strategic direction for achieving your organisation's potential. We have a team of experienced professionals with extensive expertise and a deep understanding of your business needs, offering customised solutions that deliver measurable results and the highest level of service and expertise. We ensure results-focused program delivery through SME strategy, defined outcomes, quality assurance, and delivery management within a cost-effective framework.

Our consultants are industry specialists with the expertise and agility to support and deliver small, medium, and large-scale programs and our partners are trusted advisors at the CxO level.

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