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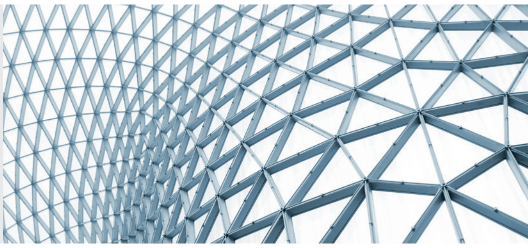

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Culture is the precursor to diversity

Investment firms with strong corporate cultures can better support D&I efforts

Key Takeaways:

- A D&I policy is little more than a marketing tool unless it is part of wider efforts to improve corporate culture. Culture, the shared values and norms of employees, is one of the most important and least recognised links in the value chain.
- The emphasis on culture at investment firms has grown as the industry's main clients – institutional investors, asset owners and investment consultants – have started to take a close interest in how firms treat staff and stakeholders.
- Defined and well-communicated cultural change can differentiate firms from their competition and substantially improve their D&I profile. The most critical input for effecting cultural change and overcoming obstacles to it is strong leadership.

Greater diversity and inclusion (D&I) is now a priority item for many investment firms. It is widely recognised that diverse groups of people bring more and different ways of seeing problems and better ways of solving them.

But D&I as a standalone aim is questionable. A D&I policy, however well intended, is little more than a marketing tool unless it is part of a wider structure, or corporate culture, that supports D&I efforts.

Culture, the shared values and norms of groups of people working together, is one of the most important and least recognised links in the value chain. Culture is what CEOs should be thinking about every day, according to a seminal 2019 paper from Willis Towers Watson's Thinking Ahead Institute. Culture, argues the Thinking Ahead Institute, is a unique ingredient in the struggle for competitive advantage among investment organisations. Likewise, McKinsey data suggests that companies with effective cultures deliver substantially higher performance.

Culture is the driving force behind, and precursor to, all changes that add value. "With the right corporate culture, a client-centric, high-performing, and inclusive workplace is achievable," says Charlene Sagoe, Head of Diversity & Inclusion at Natixis Investment Managers.

Investment firms are starting to focus on culture

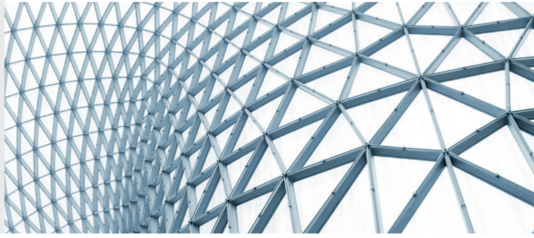
"The emphasis on culture at investment firms has grown as the industry's main clients – institutional investors, asset owners and investment consultants – have started to take a close interest in how firms are managed.

Charlene Sagoe
Diversity & Inclusion
Natixis Investment Managers

These client groupings increasingly seek to know whether a firm's culture is beneficial for clients and staff, and due diligence processes are starting to focus on these aspects as much as performance. The rationale is simple: effective culture feeds through to good performance over the long run.

Investment consultancy Mercer is typical of consultants that have changed the way they assess investment firms, focusing closely on whether a firm's culture is conducive to getting the best out of its resources. That includes examining whether firms have an inclusive ethos and if team members at all levels are positively engaged with the business. "Faced with these types of questions and amid doubts they would pass culture assessments, we are aware that some investment managers have unilaterally withdrawn from investment due diligence processes," says Charlene Sagoe.

The focus has been sharpened by the collapse of Woodford Investment Management in 2019, with corporate culture at the centre of mismanagement



claims. The collapse reverberated around Europe and has acted as a wake-up call for asset managers to take culture more seriously.

Regulators are also taking an interest in the subject. In the UK, the Financial Conduct Authority , in its most recent business plan, announced it would investigate how financial firms are "creating and sustaining healthy cultures". Indeed, the FCA's new CEO, Nikhil Rathi told politicians on 22 July 2020 that boosting diversity in "all its dimensions" would be one of his top priorities once he was at the helm of the City watchdog.

Not least, culture is increasingly becoming a key component in fund managers' research. Although corporate management has long been a focus of researchers, some investment houses have taken the concept a step further and made culture the primary research item, ahead of traditional metrics.

A roadmap to cultural change

This growing emphasis on culture means investment firms are increasingly asking themselves: how we do we effect genuine change that adds value to our organisation, clients and stakeholders?

"Culture is a unique organisational characteristic, it can't be copied or mimicked," says Isabelle Pujol, chief executive of Pluribus, a D&I global consultancy[1]. "It is about translating key idiosyncratic values into behaviours and processes."

This kind of change cannot be created in a day. There are no short cuts, it's a journey which requires new behaviours rather than good intentions. This means rethinking how people talk and listen to each other, how they challenge their biases, how values are embedded in HR processes. A serious methodology and tangible measures are required.

Different cultures exist across different teams even within the same organisation. The probable first step for many organisations is measurement so that perceptions can be viewed and shared of how well teams are working. Engagement surveys and feedback processes with a mix of qualitative and quantitative features can assess local "climates" within teams.

Testing of local climates can reveal whether teams have a culture of accountability, or blame. Measurement can uncover illusions of unanimity, whereas in truth team members are reluctant to dissent. Views on staff turnover can aid understanding of team dynamics and the value placed on diversity.

Feedback can also show the impact of remuneration structures on individual behaviours and team dynamics.

Follow-up action is likely to centre around education. "Education is not necessarily as it is in a school setting," says Pujol. "It's about creating space for people to speak up, to hold conversations in an authentic way."

CULTURE ROAD-MAP

From	To
Culture discussions lack vocabulary and good quality narrative	Culture discussions grow in clarity, authenticity and impact
Treating culture as a fixture (and a constant) not as a fitting (and a variable)	Better appreciation of what can be done to manage culture directly and indirectly
Culture not well integrated with beliefs, strategy and vision fitting (and a variable)	The synching of strategy and culture
Culture set by accident and not well differentiated	Culture set by design and providing opportunities for adaption and innovation
Purpose not a big part of the vision and mission	More purposeful investment firms as an industry opportunity

Education should include executives and board members, who must buy in to the concept of shared values if managers and employees are expected to live those values in their everyday work.

Investment firms may want to create offline bodies, sometimes known as steering groups, to collect information on issues such as D&I and report regularly to executives. Offline bodies support line managers who are often too preoccupied with operational activities to give their full attention to cultural issues. This kind of structural support is critical to the long-term strategic effort needed to change mindsets and build an identifiable culture.

Expect bumps in the road

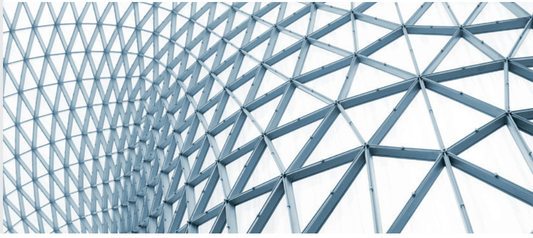
Cultural change doesn't come easily and there will be obstacles and resistance.

There may, for instance, be resistance from members of staff who inherently do not like change or for whom change may appear to threaten their role or systems of working. But this can be anticipated and even welcomed, as negative energy can be often be transformed into positive mindsets.

One way to counteract recalcitrant behaviour is through the creation of "peer-to-peer networks" among staff who do support a change programme[2]. These networks can help persuade reluctant colleagues and hold them to account if they continue to refuse to countenance change. Organisations should not be afraid to reinforce a message of cultural change among its workforce, praising good behaviours and censuring persistent bad actors.

The impetus for change sometimes falls away as the memory of education activities such as training sessions fades, meaning overall progress is slow. To counter this, cultural change should be treated as a transformation programme, with Key Performance Indicators and a dedicated team which assumes ownership of the project.

1 Pluribus has in the past and may in the future provide consultancy services to Natixis Investment Managers
2 Source: Ignites Europe



Firms may also have to alter their recruitment practices. Instead of focusing on “cultural fit” among new hires, firms might instead consider the “mission fit” of an employee – that is, whether they buy into a firm’s long-term vision.

It all starts at the top

The critical input for effecting cultural change and overcoming obstacles is strong leadership. According to the Thinking Ahead Institute, culture is an “expression of leaders both past and present” and is shaped by multiple leaders over time.

Even the most sophisticated, well thought-out plans for cultural change will flounder if senior managers do not lead by example. For example, senior staff encouraging a non-hierarchical culture and fairness while maintaining private offices and personal parking spaces are likely to disincentivise their workforce.

Firms should consider this type of “intangible” behaviour when designing a cultural transformation programme, says Pujol. “When you have leaders who walk the talk, practice key values, who are credible, then you get positive impact,” she says.

So is it challenging to get the leadership team to buy into “soft” issues, when they are principally judged on hard, tangible issues such as revenues and costs? “It’s not true that executives only understand numbers,” says Pujol. “When we engage leadership teams, we invite them to experience with their heart and to make cultural and D&I a personal goal. After they engage, only then do we link culture and diversity to company objectives.”

Sometimes harder than obtaining senior leadership buy-in, is engaging middle management. Middle managers are more numerous than executives and between them carry the full weight of operational expectations. Translating a cultural vision to this group can take longer and involve frequent communication and educative activities, including workshops, seminars and online support.

The challenge for leaders across an organisation is to act empathetically, communicate clearly on values and show the courage needed to foster the greater good.

Culture as a differentiator

Cultural change will not take place overnight. Investment firms should have realistic, but real, expectations around the scale and pace of change.

“The changing of a culture is a journey, and with every step organisations will improve value for clients through delivery, performance, and service,” says Charlene Sagoe. Defined and well-communicated cultural change will differentiate a firm from the competition and, in the process, substantially improve its D&I profile.

Written in January 2021

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