



BANK OF ENGLAND

# Speech

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## **The diversity project**

Speech given by

Andrew G Haldane, Chief Economist, Bank of England

Opening remarks given at the Investment Association Launch of the Diversity Project

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Let me start by congratulating Helena for launching the Diversity Project.<sup>1</sup> It is a great initiative. The UK's financial services industry is a world-leader in a great many respects – and long may that remain the case. Yet when it comes to issues of diversity it is often a laggard. For example, recent work by PWC has shown that the gender balance in Financial Services diminishes sharply with seniority. Despite women making up 60% of all employees, only 25% make it to middle-management and only 19% to more senior roles.<sup>2</sup>

This is deeply disappointing. But it also presents the industry with a real opportunity to make some great strides forward. I hope the Diversity Project under Helena's leadership, and the announcement of Jayne-Anne as the Government's new Women in Finance Champion can help seize that opportunity and propel financial services into a leadership role on diversity too.

When I asked a colleague what I should talk about today, she said I needed to have a personal story. That was an immediate challenge. As a white, middle aged, middle class, man working for an Establishment institution, I am not exactly part of a disadvantaged minority. Or am I? Diversity, like beauty, is much more than skin deep. Diversity is not only about our physiological identity – our gender, ethnicity. It is also about our sociological identity – our background, experience – and our neurological identity – our personalities, how our brains are wired.

When I joined the Bank of England 26 years ago, I was physiologically similar to others at the Bank, but quite different along these broader sociological and neurological dimensions. In fact, I was the beneficiary of one of the Bank's first waves of diversity initiatives. And I am delighted to say that, following a sequence of initiatives over the years, the Bank today is a significantly more diverse place along all these dimensions.

So too, I am sure, are all of your organisations. The numbers here speak for themselves with a steadily rising trend, over several decades now, of female and ethnic minority representation in the workplace and, admittedly more limited, evidence of a rising trend at senior executive and board level. That is good progress, spurred on by initiatives such as Helena's 30% Club<sup>3</sup>, Jayne-Anne's review of gender diversity earlier this year<sup>4</sup> and John Parker's review of ethnic diversity just last week.<sup>5</sup> But can we rest on our laurels? My answer to that – and I imagine Helena's, Jayne-Anne's and John's too - is a resounding no.

Many of our organisations have diversity policies, champions and initiatives. Yet this is still a subject owned by the HR department rather than the Boardroom or Executive Suite in many firms. In still too many organisations, diversity is seen as an act of corporate responsibility or philanthropy, rather than as a means of driving creativity and productivity. Despite progress, our educational, training, recruitment, promotion, and performance systems are still, to my mind, infused with biases against truly diverse candidates - unconscious

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<sup>1</sup> For further details please see: <http://diversityproject.com/>

<sup>2</sup> For further details please see PWC (2013), '*Mending the gender gap: advancing tomorrow's women leaders in financial services*'.

<sup>3</sup> For further details please see: <https://30percentclub.org/>

<sup>4</sup> Please see Gadhia (2016), '*Empowering Productivity: harnessing the talents of women in financial services*'.

<sup>5</sup> Please see Parker (2016), '*A Report into the Ethnic Diversity of UK Boards*'.

biases, often, but biases nonetheless. Breaking these barriers down is, for me, the next frontier of diversity policy. And I wish to argue it is essential we press on to that next frontier.

Before doing so, I wanted to set out the analytical case for greater diversity in teams, organisations and societies.<sup>6</sup> That evidence has been accumulating at a rate of knots. But these benefits have yet to be fully understood and digested by many organisations, which is perhaps one reason why diversity may not fully have entered the corporate bloodstream.

Let's take history, dating back not years and decades but centuries and millennia. The long stretch of history points to clear episodes or epochs during which there were great leaps forward in innovation and well-being: from Ancient Greece to Ancient Rome, from Elizabethan Britain to post-Revolutionary France. By studying these episodes, historians have been able to pinpoint the source of these transformative episodes. The common denominator was the coming together of different cultures, disciplines, religions and experiences in one place at one time. In short, these great historical leaps forward had diversity at their heart. Historians even have a name for this – the “Medici effect”.

From the past to the present. What explains why some cities today are thriving, fast-growing creative hubs: from San Francisco to Seattle to Sydney, from London to Dublin to Edinburgh. On this the economic geographers are also crystal clear. The common denominator is diversity - ethnic, cultural, sexual, educational. And if we turn finally from countries and cities to organisations and ask ourselves what hallmarks the most creative, fast-growing, productive and successful companies, what do you think academics find to be the common denominator? You don't need an economist to tell you the answer to that; it too is diversity.

Here's a quiz question for you. At what age were you at your creative peak? 40, 30, 20 perhaps? In fact, the psychologists tell us it is around five years old. Next time someone tells you to grow up, just remind them of that. The reason is because a child engages in so-called “divergent” thinking – that is to say, thinking untethered by convention and education.

It is too late for anyone in this room to recreate their childhood brain, I'm afraid. But we could all do the next best thing, which is to create “divergent thinking” within and across our organisations. That means building teams rich and diverse in their backgrounds, personalities and thought processes – if you like, creating your very own mini-Medici effect. This is very much the ethos in some of the world's most innovative companies.

The benefits of diversity do not end with innovation and creativity. Diversity has also been shown to make organisations more resilient to stresses and strains, including the frailties of human decision-making. Human decisions are riddled with biases like hubris and groupthink. These impair judgement and make for

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<sup>6</sup> Haldane (2016), *The Sneetches* sets this out in greater detail.

sub-optimal decision-making. And we do not need to look far for examples. Hubris was the reason some banks failed in 2008. But groupthink was the reason most banks (as well as many regulators, central banks and academics) failed in 2008.<sup>7</sup> As lack of diversity was the cause of these failures, greater diversity can be the antidote to them recurring in future.

Plato argued that necessity is the mother of all invention. The evidence, accumulated over the centuries since, suggests Plato may have been only half right. *Diversity* may be the true mother of all invention – and the father of all risk management. That being the case, what should be the next steps in harvesting these benefits?

We have all got a lot on our plates: from the uncertainties of Brexit to the complexities of geo-politics; from wrenching technological change to rising inequality; from simmering mistrust of big business, big banks and big government. We would be forgiven for putting diversity issues on the back-burner while these more pressing matters resolved themselves, would we not?

While this sounds reasonable, I think it would be exactly the wrong response. This environment is precisely one in which we should be pressing the accelerator, rather than the brake, on diversity policies and practices. Why? Because an environment of acute uncertainty and ambiguity is one in which the organisational returns to diversity are likely to be greatest.

What is the best safeguard against the ambiguities of geo-politics? A workforce with diversity of thought and experience who can juggle competing world views. How are the opportunities of technology best to be harnessed? With a creatively diverse workforce, masquerading as five year olds. How is trust to be rebuilt among diverse and disenchanted customers and stakeholders? By having a workforce which is their mirror-image, who can understand their needs and perspectives. And how are entrenched inequalities in income and wealth to be redressed? By first tackling inbuilt inequalities in educational attainment and social mobility.

These are fine as aspirations, but how are they to be realised? What is the next frontier for diversity and how is it to be reached? From a potentially long list, let me make four points on possible next steps.

First, we have barely scratched the surface when it comes to harvesting the fruits of existing diversity initiatives, focussed on the protected characteristics of gender, ethnicity and disability. On gender, where progress has perhaps been fastest and furthest, there are still gaps to fill all the way up the executive chain, especially in financial services, with a persistent pay gap of 20-30% and low levels of representation at executive level. On ethnicity, as John Parker's report last week made clear, we are scarcely out of the

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<sup>7</sup> For further details please see Haldane (2014) '*Central bank psychology*'.

starting blocks. And on disability, physical and mental, much the same could be said. Whatever else we do, we must not let up in continuing to make progress along these dimensions of diversity.

Second, notwithstanding that, I do think we need to do a much better job of understanding and measuring the more subtle, cognitive and socio-economic dimensions of diversity. They are harder to identify and measure, as the information exists between our ears rather than on our faces. But that is precisely why unconscious biases may be largest and most in need of redress.

As experience with gender and ethnicity illustrates, measurement and, ultimately, publication of diversity metrics can be important first steps towards creating a more socio-economically and cognitively diverse workforce. Metrics hold a mirror up to us all. Sometimes that casts a reflection none of us much like – a reflection that then prompts us to do better.

And the measurement task is far from impossible. Simple metrics of socio-economic background already exist, however imperfect, and are being used in some organisations to help recruitment. Psychometric and neuroscientific tests are being developed at pace which help paint a picture – sometimes quite literally, through MRI scans – of an individual's cognitive skills. In this respect, I applaud the Diversity Project's intention to develop multiple metrics of diversity and to share this information among its membership.

Third, recruitment. The filters applied in many of our standard recruitment procedures are, to my mind, a big barrier to building a diverse workforce. Filters such as academic prowess (grades at school and university), work experience (internships and voluntary activities) and social skills (team-building and networking) are standard recruitment filters and sound perfectly sensible. Yet these filters may, inadvertently but unhelpfully, disadvantage certain cohorts of society. Those whose parental incomes, and hence school choice, may have held back their academic scores and work experience opportunities. Those whose personality-type or brain circuitry means they are not as socially skilled or who dread interviews or team interactions.

Let me take a specific example - autism. It is also well-known that, despite their social challenges, many with autism have powerful intellectual skills – for example, in pattern recognition. That it is why it has been estimated that as many as 50% of Silicon Valley innovators may have Asperger's Syndrome, a type of autism.<sup>8</sup> Yet how easy would it be for those with autism to thrive in our organisations? The facts rather speak for themselves. Only around 12% of high-functioning individuals with autism are in work.

Another aspect to recruitment which inhibits diversity-building is that it tends to be judged with individual, rather than the organisational, attributes in mind. Let's take a simple example to illustrate. Consider two candidates for a job sitting a test. The first scores 8 out of 10, the second 4 out of 10. The first person is clearly the best person for the job. But are they the right person for the organisation?

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<sup>8</sup> See *The Economist* (2016) 'Beautiful minds, wasted: how not to squander the potential of autistic people'.

That is not so clear. What if the second person answers correctly the two questions the first candidate gets wrong. And what if the same is true of most of the existing employees in the company – likely, as they will have probably helped set the test. In this situation, the second candidate may well be the better one for the organisation because they bring organisational strength through diversity, despite being individually weaker. Yet, hand on heart, how many of the organisations in this room have recruitment procedures which would choose the second candidate over the first? I suspect few.

Fourth, social mobility. The evidence on entrenched barriers to progress among those from socially disadvantaged backgrounds is discouraging. Recent work by economic historian Greg Clark has shown that social status has remained a strongly inherited characteristic through the ages, even more so than physiological features such as height.<sup>9</sup> That high degree of inertia in social status has, moreover, scarcely changed over the course of centuries, despite decades of attempts to broaden educational and work opportunities. On some measures, social mobility in England today is little greater than in the 17th century.

There are few signs of this pattern having improved over recent decades. A report last year by the Social Mobility and Child Poverty Commission suggested, if anything, there may be evidence of social mobility faltering. Of those born in the highest income quartile in 1958, around a third remained there as adults. For those born in 1970, that fraction is closer to a half.<sup>10</sup>

Part of the explanation may lie in patterns of educational attainment among those from different social backgrounds. Here again the evidence is discouraging. Those with the highest IQs but from socially disadvantaged backgrounds are surpassed in terms of academic scores by those with the lowest IQs but from socially privileged backgrounds. Moreover, that cross-over point occurs incredibly early in the educational life-cycle, perhaps around 6 or 7 years. Thereafter, these differences keep on rising through into adulthood. It seems it is far better for your future prospects to be born rich and stupid than poor and clever.<sup>11</sup>

Standing aside from issues of fairness, this is a potentially huge waste of talent. This waste is one our economy can ill afford. It calls for a rethink of all elements of the life-cycle, from education and training to recruitment and leadership. I have not got time to do those justice today. But as one example, the move towards “contextualised” recruitment practices, which take into account a person’s social background when interpreting their talent, is a welcome step in the right direction, one the Bank has itself been taking.

Let me conclude. The Diversity Project is a fantastic initiative and I hope it can help take the diversity agenda in financial services to that next frontier, to leader not laggard. The current environment demands nothing less. Thank you.

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<sup>9</sup> See Clark and Cummins (2013) *Surnames and Social Mobility: England 1230-2012*.

<sup>10</sup> See Social and Child Poverty Commission (2016) *State of the Nation 2015: Social Mobility and Child Poverty in Great Britain*.

<sup>11</sup> See Feinstein (2003) *Inequality in the Early Cognitive Development of British Children in the 1970 Cohort*.