Sharon Donnery: The importance of diversity in central banks and supervised entities

Speech by Ms Sharon Donnery, Deputy Governor of the Central Bank of Ireland, at the Central Bank of Malta 50th Anniversary Conference, Valetta, 4 May 2018.

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Introduction

It is a great pleasure to be with you today and I would like to thank Governor Vella, for the kind invitation.[1]

The Central Bank of Ireland and the Central Bank of Malta have closer connections than may be expected, separated by distance but brought closer through the European project. For example, 2018 is the tenth anniversary of our close co-operation in the management of our Eurosystem reserves. In addition, I myself went on a number of technical assistance missions to the Central Bank of Malta prior to accession to the European Union (EU), so in addition to our institutions' connections, it's a particular personal pleasure for me to return to Valletta today.

Governor Vella asked me to speak to you today specifically about gender diversity and central banking. I know this is an issue particularly close to your heart Governor, and now – thankfully – at the top of all our agendas.

In post-crisis supervision of firms, despite the regulatory and institutional overhaul, we sometimes encounter the kind of problems which contributed to the financial crisis, such as groupthink, insufficient challenge, poorly assessed risk, and problems with culture. As I will argue today, gender diversity in the boards and management of supervised firms can help ameliorate some of these issues.

Of course, going beyond gender is vitally important, given diversity is not just about the ratio of women to men in the workplace. It's about age, ethnicity, sexual orientation, education, nationality, disability, beliefs and more. I will touch upon these issues in my remarks. However, I will focus, in the main, on gender diversity.

In my opinion, the ethical argument for gender diversity – while undeniable – may ultimately have limitations. Instead, the evidence of what greater diversity can bring to the table – in the form of clear benefits for organisations – may actually be a greater driver of change. But it will, of course, take time for central banks and firms more broadly to become aware of this evidence, to accept it, and to consciously and determinedly implement change.

So in the meantime, we have a challenge ahead of us – as women, as men, as public institutions, as managers, as leaders. And it's a challenge that does and will require specific policies and tools – ranging from the publication of facts and figures, to direct intervention – until the picture has changed for the better.

Diversity needs to start from the top

Diversity, in my view, needs to start from the top. If you indulge me for a moment, I will tell you a little about my career and why I believe this to be so.

When I joined the Central Bank of Ireland in 1996, it had just under 600 full-time staff, 13 divisions and a senior management team of just 8 people. If you saw the organisational chart, you would see that there were no women on the senior management team and not even one woman at head of division level. The 'norm' was that leaders in the Central Bank of Ireland were male. This was due to a number of factors: history, culture in Ireland, culture in the discipline of economics, and culture in the Central Bank itself.

The effects – although subtle – definitely affected me in that there were no female role models, no one I could aspire to be like. All that changed, when in 2001, a woman was appointed as the first female Head of Division in the Central Bank and we have had a number of senior female appointments since. This changed my point of reference, and I know the reference points of many other senior women in our organisation.

I have since been privileged to hold significant positions of public service at both national and European level. Looking back, one influential aspect was having people at senior levels to whom I could relate, and who I could see as role models. That made a difference in my career.

Therefore, in my opinion, it is important that we create an environment where diversity is valued at all levels of the organisation – including at the very top.

What the Central Bank of Ireland is doing

Since the first woman in the Central Bank of Ireland was appointed Head of Division in 2001, solid progress has been made in promoting diversity at the top of the Central Bank. Our own diversity policy recognises that we need staff with diverse experiences and from diverse backgrounds and who bring different styles of thinking.

The Commission (the governing board of the Central Bank of Ireland) has three females out of ten members. We also have a much more diverse management mix within the Central Bank of Ireland now – 39 per cent of directors are women, as are 49 per cent of our division heads. And we have a range of policies which aim to sustain and increase the pace of this progress.

This week, we published our first gender pay gap analysis at the Central Bank of Ireland. Our report shows that, with 50 per cent female and 50 per cent male staff, we have good gender parity across the organisation. There are some differences in gender profiles across different grades. Consequently, there is an overall difference of 2.7 per cent between the average pay for males and females across the Bank. While our gap is less than other organisations there is room for continued improvement.

Within the Central Bank of Ireland, our focus is wider than on our employees alone. It’s on our prospective employees – trying to ensure we attract candidates to our organisation from a highly competitive pool of diverse talent. For me, a very important aspect of our diversity efforts is that they do not rest with our Human Resources directorate alone. Diversity management starts from the top down.

However, given the importance of what we do, diversity for diversity’s sake has limitations. Anybody who is promoted to a leadership position has got to be capable of leadership. It’s not yet a decade since the global financial crisis. And across many Member States, the effects of it are still being unwound. And so, to try to prevent a repeat, we need competent people leading central banks and in the financial sector alike.

That raises an important issue, and key element of the debate – how important is diversity in deciding who that competent person should be and, is there a stronger argument to make for ensuring gender diversity at senior management levels? I take a firm view that those in management positions should first and foremost be there because of merit, ability and track record. The institutions we work for, and indeed the public interest, demand no less.

Should regulation support gender diversity?

But is there evidence that policymakers should take action to support greater diversity at senior management levels. Well, Central Banks are evidence-based operators. We sift the available evidence and make the most informed policy decisions possible, on that basis. In short, yes. And it's a body of evidence that's growing.

For example, research shows gender diversity can affect the process and quality of decision-making.[2] It can guard against groupthink by bringing a heterogeneity of values, beliefs, and attitudes.[3] Other studies suggest that a higher female presence in top management could help develop better types of leadership behaviour across organisations – namely –people development, setting expectations and rewards, providing role models, and participative decision-making.[4] Furthermore, reducing gender differences between management and staff, can enhance worker productivity.[5] More broadly, research from the IMF shows a positive association between corporate return on assets and the share of women in senior positions.[6]

So, the available research suggests diversity can lead to improved outcomes in terms of governance, decision-making, and productivity. These are all compelling reasons why organisations and businesses should *themselves* ensure greater gender diversity at senior level. But beyond just ensuring that they have such policies, are there reasons why *policymakers* should intervene?

While acknowledging the necessity for regulated firms to take risks – every loan or investment decision has some risk attached – knowledge of risks taken by firms can improve when there is gender diversity on the board. There is an important distinction here. The available research does not suggest firms take any *less* risk if they have a more diverse board. It does, however, suggest that those risks are more carefully examined, and weighed, because each decision is challenged more.[7] So how can we get to a situation where there are more women both on boards and in positions of senior management?

Fortunately, as Deputy Governor of a central bank which has both financial stability and financial sector supervision as part of its mandate (including more than 10,000 credit institutions, insurance firms, funds and investment firms), I am in position to influence this debate.

Personally, I think that diversity at senior management levels of regulated firms is a goal worth pursuing. And, at home in Ireland, diversity of regulated firms is something upon which we in the Central Bank of Ireland have started to focus in a significant way.

For example, we have introduced requirements for regulated entities to have diversity policies. However, there's no silver bullet. All organisations are different and have differing priorities. Rather, it is something that organisations have to work at steadily, through a combination of policies and tools.

However, as I mentioned earlier, in firms, we sometimes encounter the kind of problems which contributed to the financial crisis: groupthink, insufficient challenge, poorly assessed risk, and problems with culture.

These traits can be associated with a lack of diversity at senior levels.

Therefore, in 2017, the Central Bank of Ireland took another important step. We published data on the level of gender diversity at senior levels of regulated entities and we have committed to publishing this data on an annual basis.

This included analysis of nearly 18,000 applications received by the Central Bank for pre-approval for senior roles as part of our fitness and probity regime. This covers insurance, asset management, securities and markets, banking, consumer and credit unions over the previous five years.[8]

The results are glaring but unfortunately, unsurprising.

Male applicants made up 80 per cent of applications for senior roles since 2012, with a high of 84 per cent of male applicants in 2012 itself decreasing to 78 per cent of male applicants in 2017.

The 2017 data shows an increase in the proportion of female applicants at both board – from 16 per cent to 18 per cent – and senior management levels – from 28 per cent to 30 per cent – when comparing 2017 with the period 2012–2016. But these figures are extremely low.

We have also carried out a review of the diversity policies of regulated firms and tried to nudge behaviour towards a new, improved norm, by being very clear on what we would like to see in diversity policies.

Furthermore, the Central Bank of Ireland is actively considering what other steps it should take in this area, particularly if raising awareness has insufficient effect.

We would prefer to see the firms we supervise taking steps to increase diversity levels on a voluntary basis. But in the absence of improvements in diversity at senior levels in regulated firms, the Central Bank will have to consider whether it is necessary to put specific requirements in place.

This issue is simply too important to overlook. So regulatory tools clearly have their place.

So too do other tools.

2018 marks 100 years of women's suffrage in Ireland, and we have indeed come far. This year, we at the Central Bank of Ireland will recognise this great landmark with the launch of a 15 euro commemorative coin. And although you could argue there has never been a better and safer time to be born a woman, gender equality remains the unfinished business of the last century.

In Ireland it is a national issue. For example, our political system has set down legislative quotas for general elections to the national parliament. Put simply, 30 per cent of a party's candidates must be women or their State funding will be cut. Partly, as a result, at the last general election in 2016, women's representation in the lower house rose from 15 per cent to 22 per cent – still not enough, but a significant leap in the space of just one election.

There was a time when I wouldn't have believed in targets or quotas, but I now see them as a necessary part of the picture. Now, that may seem inconsistent with my earlier view that merit should be the primary factor. But in a sense, tools like targets or quotas are not about artificially levelling the playing field – they are to ensure access to the field in the first place. We will not achieve gender diversity in governments without greater female representation in national parliaments to begin with. You won't get diversity in firms unless you determinedly encourage or implement change.

Incidentally, last year, I saw the Central Bank of Malta issued a silver coin to mark the 70th anniversary of the enacting of the 1947 constitution, which enshrined the principle of universal suffrage to all persons over 21 years of age. This was the first time that Maltese women were given the right to vote and hold office. Of the two women candidates that ran for office – Agatha Barbara (1923 – 2002) – was elected. She would successfully contest ten consecutive elections, be appointed cabinet minister five times, and would be the first Maltese woman to become president of the Republic in 1982. Clearly, the road to full and effective equality for women and men in Malta did not stop with the achievement of 1947. It is still an ongoing process.[9]

The European dimension

So, in the spirit of the theme of this conference, 'what changed after the financial crisis'? Well, from the data I have just presented, when we consider gender diversity, progress in the firms we supervise is slow. But, we are placing a spotlight on this issue, and intend to keep it there. We are doing so not from an ethical perspective, important though that is. We are doing it because there is a sound business case for diversity – one which can contribute both to the bottom line and the public good. At the Central Bank, we are committed to diversity to ensure our own organisation reflects the public we are here to serve. In our supervisory role, firms can now expect the Central Bank supervisors whom they deal with to challenge them when there is a lack of diversity at board and management levels. We want the firms we supervise to make good decisions, take considered risks and not suffer from groupthink.

There is an important European dimension to this. Just last year, the European Union marked the 60th anniversary of the Treaty of Rome. That Treaty enshrined the principle that men and women should receive equal pay for equal work. Now, while pay disparity is still a live issue, it is unquestionably the case that the situation would have been far worse without that principle being enshrined in EU law. And that principle has supported many policies, decisions and actions taken since then.

Likewise, no one single law, policy or even manager will ensure diversity in the workplace or equality of opportunity for leadership positions, let alone equality of outcome. It's a combination of factors, from studying the evidence, to recruitment policies to supporting the talent pipeline.

The motto of the European Union is "United in diversity". The motto "signifies how Europeans have come together, in the form of the European Union, to work for peace and prosperity, while at the same time being enriched by the continent's many different cultures, traditions and languages".[10]

Prior to the crisis European authorities had a range of supervisory cultures, practices and frameworks. The establishment of the Single Supervisory Mechanism and Single Resolution Mechanism are fundamental institutional changes since the financial crisis. The Economic and Monetary Union, and the Banking Union represent far more than the institutions of which they are comprised. In the Eurosystem and Banking Union more broadly, our diversity of experience, skills and cultures, allow us to better face the challenges of an ever-changing financial system.

Thank you.

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1 I would like to thank Micheál O'Keeffe for his contributions to these remarks.

2 See Hoogendoorn, S., Oosterbeek, H. and van Praag, M. (2013), The impact of gender diversity on the performance of business teams: evidence from a field experiment. Management Science, 59, pp. 1514–1528.

3 See Organization for Economic Cooperation and Development (2012), 'Closing the Gender Gap: Act Now.' OECD, Paris. Also, see Daily, C.M., Dalton, D.R. and Cannella, A.A. (2003) 'Corporate governance: Decades of dialogue and data.' Academy of management review, 28(3), pp.371–382. Also, see Robinson, G. and Dechant, K. (1997) 'Building a business case for diversity.' Academy of Management Executive, 11, pp. 164–177.

4 See McKinsey & Company (2009) 'Women Matter 3: Women leaders, a competitive edge in and after the crisis,' for results of a global survey of almost 800 business leaders conducted in September 2009.

5 See Giuliano, L., Levine, D. I, and Leonard, J. (2006). 'Do Race, Age, and Gender Differences Affect Manager-Employee Relations? An Analysis of Quits, Dismissals, and Promotions at a Large Retail Firm.' UC Berkeley: Institute for Research on Labor and Employment.

6 See Christiansen, H., Lin, H., Pereira J., Topalova, P. and Turk, R. (2016) 'Gender Diversity in Senior Positions and Firm Performance: Evidence from Europe.' IMF Working Paper, WP/16/50. For other analysis see The Gadhia Report produced for the UK Treasury entitled 'Empowering Productivity: Harnessing the Talents of Women in Financial Services', which notes that companies in the top quartile for gender diversity are 15 per cent more likely to have financial returns above their respective national industry medians. The report also notes that in the UK, for every 10 per cent increase in gender diversity, earnings before interest and tax (EBIT) rose by 3.5 per cent.

[7] See Brown, D., Brown, D. and Anastasopoulos, V. (2002) 'Women on boards: Not just the right thing . . . But the "bright" thing.' 70 Report, 341–02: The Conference Board of Canada, Ottawa.

[8] See Central Bank of Ireland's Demographic Analysis (2017).

[9] See Central Bank of Malta.

[10] See European Union.