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To Have an Impact On Diversity, Count On Culture

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The world is pushing for social change, with calls to alleviate social injustice and racial inequality growing louder around the globe. Whether it's the Black Lives Matter movement following on the heels of the Me Too movement or the current global pandemic's heavier impact on some populations more than others, the need to level the playing field has never been greater. That won't happen overnight and it won't start in one place. Rather, it's a global commitment to eliminating social inequity, embracing diversity and being inclusive. Businesses have as much responsibility for diversity and inclusion as individuals. That's why we're seeing increased pressure on corporate boards to improve their diversity, and many more shareholder proposals that push for it. Diversity and inclusion are within our power to improve, if we own where we are and behave in a way to support them. We believe one of the best ways to do this is through culture.

Mindset matters most

While diversity can take many forms, such as gender, ethnicity, nationality or cognitive, at present, gender diversity garners the most attention, particularly in financial services. Perhaps that's because it's easy to measure, or it's an obvious acknowledgement of more work to be done and a good place to start.

But in reality, diversity and inclusion go deeper and broader. You can certainly build a workforce that meets diversity quotas. To allow that diverse workforce to reach its full potential, however, you need the mindset. And that's culture — a shared belief system and common purpose (low value diversity). Diverse talent brings the value of different viewpoints and experiences (high cognitive diversity) to the table, but doesn't bear fruit unless it's supported by leadership and proper management.

This talent also needs a workplace that meets what psychologist Abraham Maslow calls their "deficiency needs" — safety, trust and comfort, to name a few. A culture where high cognitive diversity is appreciated and low value diversity is engrained not only meets employees' deficiency needs but also creates opportunity for deeper levels of motivation. As Jim Ware of Focus Consulting Group says, "When people have met their deficiency needs — safety, belonging and self-esteem — they naturally aspire to meet their growth needs: purpose, service and the greater good."

Think about it. Culture is at the heart of inclusion, respect and humility. It's also at the heart of governance. So, in the many discussions we have about culture in this industry, are we in fact missing an important connection? Are diversity and inclusion actually becoming the same thing as culture? Perhaps they should be.

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Even if we're not there quite yet, diversity and inclusion should still be a mindset — not something to measure. Otherwise, we fall into the same trap we've been in with measuring performance. Trying to meet diversity quotas quickly is akin to focusing on short-term performance when evaluating investment manager skill. It simply doesn't align with the endgame. For investment managers, that endgame is really about transforming culture in a way that gives a broader population access to this industry. Bringing more diverse talent into the industry is the only way to get the different perspectives and backgrounds essential to enhancing the investment process as a whole.

But the power of diverse thinking can't happen on its own. There must also be a common purpose and a culture that fully supports the practice of bringing diverse viewpoints together. That's ultimately how to drive sustainable value.

We've all seen the studies. The long-term impact of sustaining a diverse organization can be significant. Studies have tied diversity to corporate profitability, productivity and a better work environment. A *Harvard Business Review* study looked at the impact of what they called "2-D" diversity, which essentially means diversity across minorities, along with leaders who value differences and welcome outside the box ideas from any employee. According to the study, companies with 2-D diversity "out-innovate and outperform others."²

So, what does all this mean for diversity and inclusion at your own organization, and how might you think about next steps to make progress? From the MFS perspective, it's about focusing on three key components: building teams of diverse thinkers (talent), creating a process that promotes diversity-driven decision-making (culture) and aligning your approach to diversity both internally with your workforce and externally with other organizations (community).

MFS' perspective on diversity: Talent, culture and community



Teams of diverse thinkers

Diverse perspectives brought together create a powerful collective expertise — one that's absolutely essential to vetting investment ideas from multiple angles and identifying what's material to the long-term success of an underlying business. We believe the only way to own a business responsibly is to do thorough research and examine the findings from the many viewpoints made possible by collective expertise.

That means hiring and training diverse thinkers with a variety of backgrounds. If you lead with a culture that supports collective expertise, however, you must also create incentives for bringing people together and aligning them with both the work they're doing and why they're doing it.

The beauty of diverse thinkers is that in groups they do more than make better decisions. They also allow for a more powerful impact: overriding individual biases, which reduces mistakes. That's what actually helps lead to a better investment outcome.

Diversity-driven decisions

Diverse viewpoints and experiences in markets around the world set the foundation for understanding material risks and opportunities. There's no better way to get at sustainability factors — environmental risk, social impact and overall corporate governance. In fact, having diverse inputs can help investment managers hold underlying companies responsible for maintaining diversity in their thinking and culture, which ultimately makes them better businesses to own. A perfect example is engaging with companies on their board diversity to ensure that they have both a practice and a proof statement to help drive their sustainability.

Still, the decision-making process for sustainable investing is complex. And the idea that it can be done through screens rather than by having teams taking an in-depth look at financial and nonfinancial factors could be an oversimplified way of managing risk. Furthermore, a team of diverse thinkers is essential when it comes to developing enough conviction to extend holding horizons and create long-term value. In the end, conviction strong enough to drive sustainable value creation is not only meaningful to end investors but also to the public markets and all stakeholders.

Alignment — inside and out

Given its potential to have a far-reaching impact, diversity should be approached from both an internal and an external perspective. Internally, the work an investment manager does on diversity might have two goals: One is to attract and retain a diverse employee population; the other is to develop those talented individuals into members of a diverse leadership. That means looking at your talent pool from the ground up — whether it's your interns or your investment teams — and shaping your recruiting and development practices to fully support diversity and inclusion. Externally, sponsoring, supporting and participating in training, professional leadership development and talent management puts you in a better position to attract and retain a diverse workforce, develop tomorrow's diverse leadership and move the needle on diversity globally.

To make progress on diversity and inclusion, we all have to own it. As we suggested earlier, that could be a matter of viewing diversity and culture as the same thing. That means thinking long term and holistically about diversity and inclusion rather than approaching it as an initiative. Consider this: Achieving diversity and inclusion is simply something you do and measure, but the impact and the outcome can vary. On the other hand, sustaining a culture of diversity and inclusion changes the way your organization operates as a whole. And that could give you greater strength to navigate the incredible change and disruption we face in our industry — for the benefit of your employees and those you serve. ▲

Endnotes

¹"Money, Meaning & Mindsets," Jim Ware, Focus Consulting Group, 2017.

²"How Diversity Can Drive Innovation," Sylvia Ann Hewlett, Melinda Marshall and Laura Sherbin, Harvard Business Review, 2013.

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