

TOP STORIES

Diversity & Inclusion: An Urgent Priority for Financial Institution Innovation



By Amy J. Radin

A recent McKinsey study reported that 90% of executives “believe that the COVID-19 crisis will fundamentally change the way they do business over the next five years,” and 85% “are concerned that the COVID-19 crisis will have a lasting impact on their customers’ needs and wants over the next five years.” Yet, only 21% “feel confident that they are prepared to capture new growth opportunities” – which we know are arising from changing customer needs, preferences and expectations. These changes

contain the seeds of product, service and customer experience innovations and are the bases for institutions to thrive into the future.

Innovation – creating viable new solutions to solve people’s real problems – will be essential to financial institutions’ ability to leverage these new opportunities and address this year’s intensified business challenges. These data suggest that while executives see innovation as essential, they do not feel well prepared to move towards a future that is no longer in front of them. The future is unfolding daily, right in front of us.

Consider the business impacts of the digital acceleration of digitally enabled consumers, and concurrently the widening digital divide for the millions lacking the connectivity that contemporary financial institution digital experiences presume. These are just two examples of how the routine business model for retail banking, which has been under pressure for years, now faces the heightened threats of changing technologies, demographics, and distribution of wealth, along with a near zero interest rate environment and other macro issues.

Innovations that adapt to and anticipate contemporary market opportunities and challenges will not be discovered, developed and scaled by groups of like-minded people of similar background problem-solving skills gathered around whiteboards. Solutions will demand new levels of diversity and inclusion. Executives will have to take a fresh look at how they:

1. Define what “diversity” means for their organization, redesigning processes and the metrics to implement and manage progress,
2. Act and engage personally to embed inclusiveness in the culture, with relevant metrics and clear incentives, and
3. Leverage the linkages between a diverse and inclusive culture and creating innovation outcomes to accelerate and improve performance.

Too many conversations about innovation prioritize technology as the major driver. Technology is just one element of the complex execution puzzle for a breakthrough financial services innovation to come to life and scale. Technology is abundant and can be bought. *Diversity* – not simply defined as gender and racial representation – and *Inclusion* – the culture and environment where all members feel respected, valued, and heard – are core to building and sustaining an effective innovation pipeline. Diversity and inclusion cannot be bought; they must be created and nurtured organically.

Diversity Must Be Broadly Defined, Sought and Measured

Read any articles on current practices and priorities in corporate diversity and you will find an emphasis on race and gender; you may hear, off the record, a focus on age as well.

Reality is that while increasing gender and racial representation are essential to having a diverse organization, these characteristics are insufficient on their own. A gender and racially diverse organization will not be assured of innovation success. Also required in the composite profile: diverse life experiences, education backgrounds, and people who have come to the institution along different paths, bringing their different perspectives and knowledge to the innovation process. When this is the view of what diversity means and it is acted upon in talent decisions, an organization will make headway on achieving business impact from their innovation efforts.

Executives Must Personally Engage to Create a Culture of Inclusion

Korn Ferry identifies five qualities of the inclusive leader. They:

1. Are open and aware, i.e., they adapt their behavior to meet the needs of their diverse team members
2. Advocate for diversity
3. Lean into difference, creating psychological safety for all team members
4. Leverage differences, understanding that these differences are the source of greater insight
5. Drive results, knowing that it is their success at fostering a diverse and inclusive environment that creates success

What else is required to build an inclusive culture? Especially for those in transition, being inclusive also means being able proactively and constructively to surface and root out exclusionary behavior. It means rewarding inclusive behaviors and taking a zero-tolerance stand on those that are harmful to the target culture.

Founder Marcia Tal, who built and led Citi's Global Decision Management unit, is the creator of The Bias Index, part of the PositivityTech Intelligent Platform. Marcia is optimistic that financial institutions already have in hand the data assets – their own employee and customer narratives – to which analytic tools can be applied, as she describes, “to identify situations where there is both a high probability of potential

bias, even if it hasn't taken place yet." She also sees a data-driven culture which can "tune out the noise" as essential to building a diverse organization and inclusive culture. "When you use data to drive decisions, the culture of the organization is built on facts instead of myths that threaten diversity and inclusion," says Tal. "It also drives an organization to seek facts and data as an essential element of their culture, which in turn supports inclusion."

Implementing such an approach according to Tal means innovating how diversity and inclusion efforts themselves are managed and led. It means a multidisciplinary approach engaging data and analytics experts, learning and development experts, along with the traditional cadre of HR professionals, to listen to and understand employees at a much deeper level than historical methods have imagined or enabled. Getting to this understanding requires diverse perspectives able to look at new data sources in new ways, and help the organization move from data to insight to action and results.

Recognize the Linkages Between Diversity and Inclusion, and Innovation

Discovering, developing and scaling the innovations that will allow financial institutions to adapt to the forces of change they face, and improve their ability to anticipate whatever will come next, can only happen persistently and sustainably within a diverse organization and inclusive culture.

There is much focus in the financial services sector on becoming more customer centric, and on aligning the customer experience with the expectations we have all set in our digitally centered lives. It is only with a diverse organization thriving in an inclusive culture that any financial institution can hope to:

- Understand customers as human beings with lives that have context well beyond their financial relationships – context that must be understood to innovate
- Develop empathy to build enduring and mutually valuable customer relationships where both customers and employees feel respected, valued and heard
- Anticipate customer needs with speed and depth of insight – innovation must-have's given the macro forces affecting the sector
- Address near and present diversity risks, e.g., the loss of mid-career women with children and/or aging parents from the organization, because their careers are being marginalized by the dual roles of professional and caregiver/distance learning supervisor.

It is only through deep executive commitment and engagement to a diverse organization and inclusive culture that financial institutions can realize their innovation potential. Executives see the severity of the challenges arising this year. They can build confidence in their organization's readiness to respond by broadening their definition of what diversity looks like in their organization, personally engaging in creating a more inclusive culture, and leveraging the connection between diversity and inclusion, and their organization's ability to act upon the many innovation opportunities the sector can capture.

Amy is the author of the award-winning book *The Change Maker's Playbook: How to Seek, Seed and Scale Innovation In Any Company*. She is a director, startup advisor and keynote speaker, and has held executive digital, marketing and innovation roles in Fortune 500 consumer financial services, payments and insurance companies.