



BANK OF ENGLAND

# Speech

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## Reflecting diversity, choosing inclusion

Speech given by

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*And there were never, in the world, two opinions alike, no more than two hairs, or two grains; their most universal quality is diversity.*

*(Michel de Montaigne, Essais, Book II, Chapter 37)*

## **Introduction**

The Bank of England recognises that to pursue its mission it must reflect the diversity of the people it serves. That has not always been the case. Historically, there were times when this institution was run by the City for the City. Our first female Court member, Frances Heaton was only appointed in 1993, while our first Black, Asian and Minority Ethnic (BAME) member, Lord Morris, followed five years later. Ten years ago our graduate intake was drawn from just 11 universities. And I am the 120<sup>th</sup> in a very long line of male Governors of the Bank.

Frequent charges levelled at this central bank – like many of our peers – include being mono-culture, secretive and ridden with groupthink.

Those charges began to lose their force in the face of significant efforts by my predecessors. But despite that progress, when the Bank was reunited with the PRA we knew that we still had to do much, much more.

So three years ago we made Diverse and Talented a central pillar of our first strategic plan. We value diversity for at least three reasons. First, it is the right thing to do; a public institution should seek to reflect the public it serves. Second, it helps to build the trust we need to deliver our remits.<sup>1</sup> Third, it is well established that diversity leads to more creative thinking and reduces the risks of groupthink and bias.

It isn't enough for us to reflect diversity, however; we need also to choose inclusiveness. Inclusiveness unlocks the true value of an organisation's diversity; through inclusion people can realise their full potential. That's why as we increase the diversity of the Bank, we are focussing on building a culture that values diverse ideas, encourages open debate, and empowers people at all levels to take initiative.

Since these two ideals go hand in hand, today I will reflect on both diversity and inclusion: **what** they mean, **why** they matter, and **how** they are best delivered in a modern central bank.

## **The what**

There are two main types of diversity – identity and cognitive.

Gender, ethnicity, age, disability, sexual orientation, education are all identity factors, which can be measured, targeted and their impact assessed.<sup>ii</sup> As I will discuss in a moment, we have introduced diversity targets for the first time.

The Bank is also seeking to increase our cognitive diversity, which shapes our perspectives – how we think about problems and solve them<sup>iii</sup>

Cognitive diversity doesn't lend itself to targets. But it's no less important.<sup>iv</sup> Research shows that while older colleagues often view diversity as an issue of representation and fairness, millennials tend to view cognitive diversity as essential for a diverse and inclusive organisation.<sup>v</sup> This younger generation is interested in connecting with each other, collaborating across teams and exploring a variety of ideas to solve problems. That's not just interesting, it's necessary. The spirit of the millennial is better suited to the complex challenges that central bankers face in a risky and uncertain world.

So our commitment to diversity cannot only be about meeting targets. It must promote an environment that brings cognitive differences to the fore, and it must create a culture where everyone can maximise their potential. We need a richness of ideas and perspectives that are exchanged in the pursuit of clear goals under an overarching mission. This is the crux of inclusion: an organisation where people feel empowered, enabled and engaged in pursuit of a common goal.

## **The why**

### **Increased trust**

As a central bank, we need to be understood, credible and trusted for our policies to be most effective.

The Bank's work often requires deep technical skill and knowledge. Not everyone wants to be steeped in fan charts; modelling and stress testing. Yet the decisions we take impact every UK citizen. How can they rely on us – the dreaded experts?

Of course, trust can be built through a track record, but it can also be grounded in familiarity. People trust individuals, places and things that they know.<sup>vi</sup> Reflecting the diversity of the people we serve can reduce misperceptions that we are experts making esoteric decisions in an ivory tower for the benefit of others.

Moreover, diverse decision-making bodies typically have greater political support and enjoy greater public trust.<sup>vii</sup> They also tend to achieve better policy outcomes through better understanding of community needs and more effective dialogue with the wider population.<sup>viii</sup>

## **Better decision making, innovation and adaptability**

Homogenous groups that pay insufficient attention to minority views are vulnerable to biases, groupthink and over optimism. They are more likely to be influenced by the way information is presented (framing); and to stick with under-performing projects because of prior investments.<sup>ix</sup>

Diverse groups can overcome these ills as they are more inclined to consider novel ideas and challenge each other, enabling them to infer cause and effect and to solve problems better.<sup>x, xi</sup>

Diverse teams are also better able to adapt to changes and are more resilient.<sup>xii</sup> This is particularly important in a rapidly changing world, where information is super abundant and certainty is absent.

Indeed, almost all decisions in finance are taken under uncertainty. This makes it especially important that decision makers are exposed to a range of views, with open debate that includes perspectives that challenge the prevailing wisdom.

For those central banks with regulatory responsibilities, biases in supervision can be countered by considering a variety of perspectives and debating within diverse supervisory teams.<sup>xiii</sup>

Diversity must be supported by the right structures for its benefits to be realised. For example, research on central bank committee design shows how diverse decision making benefits from:

- Having a clearly defined policy objective;
- Having relatively small policy committees, with external members;
- Publishing policy decisions, and allowing for external scrutiny of decision-making processes.<sup>xiv</sup>

These features are integral to the MPC, FPC, PRA Board and Court of the Bank of England. In recent years, we have reinforced them by implementing the recommendations of the Warsh review, including publishing transcripts and putting all policy committees on an equal footing with clear remits.

## **More effective communication**

Being diverse can help us to craft communications that people can actually understand.

The past few decades have seen enormous strides in central bank transparency – minutes are published, interviews given, speeches rendered, blogs posted. Now it is high time that greater emphasis is placed on how central banks communicate.

Increasingly we are asking ourselves whether we are communicating messages in accessible language.<sup>xv</sup> Whether we're using the right media channels to reach the widest possible audience. And most fundamentally, whether people from different backgrounds deduce the same things from our policy messages.

Diversity can help. The more homogenous an organisation the more likely it will fall foul of the 'curse of knowledge.' This cognitive bias occurs when people assume that their audience has the same background information and base level of understanding as themselves.<sup>xvi</sup> It's assuming that everyone has the same narrow view of humanity as the representative agent at the heart of a DSGE model.

To communicate to both the City and the country, the salon and the suburb, we need to create content that engages different audiences. The problem is that they don't teach you this in Grad school (or at least the ones where we traditionally recruited). We need alternative perspectives to craft our messages so that they make sense and resonate with more people.

The more people can recognise themselves in us, the more we can stand in their shoes and speak their language, the more likely the Bank is to be trusted.<sup>xvii</sup>

## **The how**

The Bank's approach to increase diversity and foster inclusion is three-fold:

- through inclusive recruitment,
- developing an inclusive culture, and
- creating inclusive communications.

## **Inclusive recruitment**

To support our objectives, we have introduced diversity targets that are reviewed and challenged by Court. Specifically, we aim to triple both the proportions of women in our senior roles, to 35% by 2020, and of BAME employees in these roles to 13% by 2022.

As a first step, we are fishing from a larger pond and removing perceived barriers to entry.<sup>xviii</sup> We want to make the Bank a more obvious career destination for a wide range recruits: young school leavers who want to develop their skills as apprentices to graduates looking for their first full-time job, people who wish to return to work, or experienced professionals who are considering a career change and want to contribute to public policy.

In our last graduate round, we hired from over 40 UK universities (four times as many as a decade ago), attracting students from a range of socio-economic backgrounds. Two fifths of the 2016 intake were female

and a quarter came from a BAME background. Only half studied economics. The remainder were plucked equally from the sciences, business and the humanities.

In this year's graduate round, a fifth of our applicants were from lower-socio economic backgrounds. Of those graduates who joined us in 2016, 15% came from Oxbridge, while almost one tenth came from a lower socio-economic background. In contrast, 21% of fast track appointments to the public service are from Oxbridge and only 4% are from lower socio-economic backgrounds.<sup>xix</sup>

While we are casting a wider net, the reality is, the nature of our work means that we will always need to hire technical experts. Unfortunately, there continues to be limited diversity in both US and UK economics departments, which to some degree, constrains whom we can hire<sup>xx</sup>. Both the education sector and the Bank need to do more to broaden access.<sup>xxi</sup>

One new initiative that enables the Bank to hire graduates from a broader set of disciplines and train them as economists and technical specialists is our new Central Bank Qualification. Similarly, our African-Caribbean scholarship aims to attract those hitherto underrepresented in central banking. Launched in 2015, the scholarship has given three students per year £30,000 toward living and study costs, offered summer internships and provided career mentors.

To recruit experienced hires, we have committed to ensure that wherever possible, we will create diverse shortlists for jobs and interview people with diverse panels in order to mitigate affinity effects and unconscious biases. This is starting to pay off. Of the 700 experienced professionals we hired last year, almost half were women and a quarter came from a BAME background, up from two-fifths and one fifth respectively since our strategic plan was launched. In recent years, we have recruited new PhD students not just from economics, but from physics, computer science, linguistics, psychology, anthropology and economic history.

We recognise that career paths can be varied, so for people who want to return to work or to retrain, we are offering more opportunities to learn. Around 200 of our colleagues studied for degrees or professional qualifications in 2016 and 670 re-skilled through internal job moves across directorates. And since new skills can also be acquired outside the day job, we are increasing our support for community volunteering and engagement.

We are encouraged that at the last count, over three quarters of our staff believe that the Bank offers good opportunities for learning and development. That's a six percentage point improvement on the previous year and 20 percent higher than the UK average.<sup>xxii</sup>

We can't take this progress for granted, however, and need to redouble our efforts to build a more inclusive culture at the Bank.

## Inclusive culture

Having attracted a diverse workforce, we must enable and encourage participation. We are striving to create a more inclusive environment where different working patterns are accommodated, people can debate, challenge and present ideas, and are supported when undertaking new and innovative work. Inclusion Fortnight, with 21 events over ten days across three sites, attended by almost 1700 people is the latest example of this commitment.

An inclusive culture is essential to realise the benefits of our aim to be 'One Bank'. We are working to create a more agile work environment, which encourages cross-disciplinary and cross-team working further supporting the development of new ideas and approaches.

We are encouraging innovative thinking through our Research Hub, where people have collaborated with colleagues across the Bank and externally on over 50 projects. Meanwhile, our Research Away Days and [One Bank Flagship Seminar](#) series expose policy and decision makers to different ideas; from sportspersons to philosophers, and economists to psychologists. Our seminars are broadcast externally so that others can benefit from this diverse knowledge.

To empower colleagues, we have implemented an 'author in the room' policy so that expert staff can attend senior-level meetings and explain their papers in person and challenge conventional wisdom.

Our [Bank Underground](#) blog, launched in 2015, enables colleagues to share their diverse opinions outside the Bank's four walls. 400,000 people viewed the blog last year. Over the same period, its followers and subscribers increased by 60%.

Our staff are reaping the benefits of these inclusion and transparency initiatives. Two thirds feel encouraged to try new ideas, three quarters believe that their manager acts on people's suggestions and ideas, and 60% feel comfortable speaking up on important issues. We have improved on all of these measures since just a year ago.<sup>xxiii</sup> But we also need to do more.

To get the most out of a diverse workforce, we also need to ensure people can bring their best to work and feel supported. Our wellbeing programme promotes mental and physical wellbeing with staff counsellors, discounted gym-memberships, a Cycle to Work scheme, working life seminars and flexible leave options.

An inclusive culture recognises that work can be done in many ways; and that our best ideas can occur at any time and in any place.<sup>xxiv</sup> 11% of our staff are employed on a formalised flexible working arrangement, including remote working. In our most recent survey, two thirds of people agreed that there was a good balance between their work and their personal life.

Our broader leadership training programme emphasises unconscious bias training to ensure diversity can flourish and progress. This training is part of our broader focus on values. Values count heavily when assessing performance and reward. All managers - including myself - are assessed by colleagues on their values and behaviours.

The Employee Network Groups support colleagues in the Bank to be themselves and connect with different aspects of their lives. They bring issues to the attention of the Bank's senior team and they hold us to account, raise awareness of different cultures and causes, and educate us to work against any biases. For example, the disability network has played a huge part in our efforts to make the building more accessible, the women's network was heavily involved when we developed our flexible working propositions and the Bank's ethnic minorities network has launched a reciprocal mentoring scheme to support career development.

### **Inclusive communications**

Diversity also means engaging with all our stakeholders, internal and external, and being aware of the many ways in which the economic situation affects different people. Active engagement between Bank officials and a range of expert and non-expert stakeholders across the UK has always been important, but it is taking on new prominence in the information age.

Our agents and Bank officials meet thousands of business contacts across the UK each year to take the temperature of the UK economy.

Our new Open Forum and Future Forum events do this on a large scale by bringing together thousands of people from the community to discuss the economy, the financial system and the Bank's role in promoting the good of the people of the United Kingdom. We listen to the views and concerns of local business leaders, technology developers, representatives from the voluntary and education sectors, unions and the wider public and explore how the Bank can maintain stability and reduce uncertainty. The 2015 Open Forum event attracted 10,000 webpage views, 11,000 playbacks of our YouTube content and 3,000 tweets, while our 2016 Future Forum event saw almost 140,000 twitter impressions.

In reality, we can't always be there face to face. And this requires more tailored content. Deploying social media, including Facebook and YouTube, delivers our messages directly to a broader audience. New digital products, such as [KnowledgeBank](#), use accessible language and engaging visuals to help us tell a story about what the Bank does. Our recently created visual summary of the Financial Stability Report, explained how risks in both the UK and the global environment may affect financial stability without the need for dense text.



## **Conclusion**

Our staff survey last year showed that almost 80% of staff felt that the Bank takes diversity seriously, and 90% of people felt respected. Our direction of travel is encouraging, but we are far from satisfied. To take this to the next level, we have two priorities.

First, we need to do more to change the way that we work. To maximise the potential of our people, the Bank needs to embrace fully collaborative working in diverse teams. We have an incredible endowment of skills and experience. We maximise our impact when we get together - across disciplines and across areas. Everyone in the Bank should be able to devote some proportion of their time to such cross-cutting work.

Second, we need to make our communications more inclusive. Everyone, every day in the Bank will benefit if our thinking tailored to its audience. This also means making the Bank more permeable, so that internal analysis can be more readily lifted and shared with others. And it means considering what we communicate, through which channels and to whom.

Just as having a diverse and talented workforce has been a central pillar of our current strategic plan these priorities will be platforms of our next one. They will help us build the trust that is crucial to delivering our mission. And they will help us merit that trust by making us more effective. By reflecting diversity and choosing inclusion, we will ensure we are doing all that we can to promote the good of the people of the United Kingdom.

## ENDNOTES

- <sup>i</sup> Putnam, R (1993), "What makes democracy work?" National Civic Review. Putnam finds that cities, regions and countries with more trusting people tend to have better working democratic institutions. See also OECD (2009), "Fostering diversity in the public service", October.
- <sup>ii</sup> See e.g. Noland, M, Moran, T, and Kotschwar, B (2016), "Is Gender Diversity Profitable? Evidence from a Global Survey", working paper 16-3 Peterson Institute for International Economics, February.
- <sup>iii</sup> Page, S E (2007), "The difference. How the power of diversity creates better groups, firms, schools, and societies", Princeton University Press. Page describes four elements of cognitive diversity: perspectives, the way we see and present problems and solutions; interpretations, the way we explain our perspective; heuristics, the way we seek to rationalise and solve problems; and predictive models, the way we infer cause and effect.
- <sup>iv</sup> See e.g. Riordan C M (2015), "Diversity is useless without inclusivity", Harvard Business Review, August.
- <sup>v</sup> Deloitte (2015)
- <sup>vi</sup> Farmer, H, McKay, R, Tsakiris, M, Trust in Me (2013): "Trust in Me: Trustworthy Others Are Seen as More Physically Similar to the Self", Psychological Science
- <sup>vii</sup> See OECD (2009)
- <sup>viii</sup> OECD (2009)
- <sup>ix</sup> Kahneman, D (2012) "Thinking Fast and Slow", London. See also Sunstein, C.R, Hastie, R (2014), "Making Dumb Groups Smarter", Harvard Business Review, December.
- <sup>x</sup> See e.g. Page, S (2007) Hewlett, Marshall, M and Sherbin, L (2013), "How diversity can drive innovation", Harvard Business Review, December; Rock, D., Halvorson, H.G. and Grey, J (2016), "Diverse Teams Feel Less Comfortable – and That's Why They Perform Better", Harvard Business Review, September; Sunstein, C. R. and Hastie, R (2014), "Making Dumb Groups Smarter", Harvard Business Review, December.
- <sup>xi</sup> See Page (2007).
- <sup>xii</sup> See e.g. Page, E (2011), "Diversity and complexity", Princeton University Press.
- <sup>xiii</sup> See e.g. Jansen, R and Aelen, M (2015), "Biases in supervision: what are they and how can we deal with them?", DNB occasional studies.
- <sup>xiv</sup> See e.g. Sibert, A (2006), "Central Banking by Committee", De Nederlandsche Bank Working Paper 91, February; Ball, L (2012), Ben Bernanke and the zero bound, NBER working paper 17836, February; Warsh, K (2014), Transparency and the Bank of England's Monetary Policy Committee, December.
- <sup>xv</sup> See Haldane, A (2016), One Car, Two Car, Red Car, Blue Car, speech given in Redcar December and Bank Underground Blog for examples.
- <sup>xvi</sup> Newton, L (1990) "Overconfidence in the Communication of Intent: Heard and Unheard Melodies." Unpublished doctoral dissertation (Stanford, CA: Stanford University) as cited in 'The Curse of Knowledge' by Heath, C and Heath, D, Harvard Business Review, December 2006. Available at: <https://hbr.org/2006/12/the-curse-of-knowledge>
- <sup>xvii</sup> Luhmann, N (2000), "Familiarity, Confidence, Trust" and H. Farmer, R. McKay, M. Tsakiris. "Trust in Me: Trustworthy Others" "in Gambetta, Diego (ed.) Trust: Making and Breaking Cooperative Relations, electronic edition, Department of Sociology, University of Oxford, Chapter 6, pp. 94 – 107 and Farmer et al (2013).
- <sup>xviii</sup> The Bank aims to move female representation at senior levels from 30 to 35 per cent by 2020, and BAME representation at senior levels from 6 to 13 per cent by 2022.
- <sup>xix</sup> Based on 2014 data for successful applicants to the Fast Stream. For more detail, see: See institute for government research: <https://www.instituteforgovernment.org.uk/blog/civil-service-fast-stream-six-charts> and Cabinet Office (2016). See also Friedman, D and Laurison, S (2015), "Introducing the 'Class' ceiling", LSE sociology department working paper; and Social Mobility Commission (2016b), "Socio-Economic Diversity in Life Sciences and Investment Banking", July.
- <sup>xx</sup> A US study showed that gender and ethnic representation in the US economics profession (academic and student populations) remains below that in other disciplines. Interestingly, diversity had improved in Science and Technology (STEM) subjects and business and management studies, but not in economics. See Bayer, A. and Rouse, C. E. (2016), "Diversity in the Economics Profession: A New Attack on an Old Problem", Journal of Economic Perspectives, 30, p.221-242. See also Royal Economic Society (2015), "The 10th Royal Economic Society Women's Committee Survey: The Gender Balance of Academic Economics in the UK 2014".
- <sup>xxi</sup> See also Haldane, A. (2016), "The Dappled World", November; and Fourcade, M., Ollion, E. and Algan, Y. (2014), "The Superiority of Economists", Max Planck discussion paper 14/3.
- <sup>xxii</sup> Bank Viewpoint survey 2016
- <sup>xxiii</sup> Ibid
- <sup>xxiv</sup> See e.g. PWC (2014), "The Future of Work. A Journey to 2022". See also CIPD (2014), "HR: Getting smart about agile working", November.

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