

An investigation into the relationship between diversity and compliance in Irish organisations

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Abstract

The aim of this research was to investigate the perceptions of senior compliance professionals in Irish organisations regarding potential connections between the area of diversity and compliance. The research followed a qualitative design to address the research questions and to gather and summarise the data. Semi-structured interviews were used to gather primary data from senior compliance professionals based in five organisations spanning the public sector and the financial services sector. The Central Bank of Ireland ('Central Bank') report Behaviour and Culture of the Irish Retail Banks (2018a) was reviewed alongside Irish and UK Corporate Governance Codes and Corporate Governance Reviews in the UK. The Central Bank in their reviews of retail banking following the financial crises of 2007 - 2008, have suggested that increasing diversity on boards is related to an improvement in culture and behaviours. The variables in the research are diversity in the form of gender and compliance in public sector organisations as opposed to private financial services companies. The following themes emerged from the results found. Diversity is not a topic in Compliance Programmes and companies are largely not making the link with improvements in diversity having a positive effect on compliance. However, in assessing future risks, financial services companies are aware of the changing regulatory environment and are taking account of diversity in the Compliance Programmes. Analysis of the interviews suggested that a collaborative type of leadership model is viewed as conducive to an inclusive culture where diversity can be embedded. The future focus now needs to move from not alone having diversity in the workplace but to the proactive inclusion of those diverse people in the organisation.

Keywords: Diversity, compliance, financial services, banking, corporate governance.

Introduction

There is extensive Irish legislation outlining requirements for companies to prevent discrimination and to cultivate a work environment that accommodates diversity. In addition, there are Codes of Conduct applicable to Irish state bodies which highlight the importance of diversity for the governance of these bodies.

A moral argument for increasing diversity in society has been made elsewhere, but are there connections between diversity and any other positive outcomes? This research investigates whether there is a relationship between diversity within organisations and the level of compliance demonstrated by these organisations.

The Basel Committee taskforce for Banking Supervision was formed in the early 1970s. It consists of Banking Commission representatives and some leading European banks. Their responsibilities include articulating the concept of compliance for the banking and financial services sector. The Basel Committee defines compliance as referring to laws, rules and standards which generally covers matters such as standards of market conduct, conflicts of interest, the fair treatment of customers and the suitability of advice provided to customers (Basel Committee on Banking Supervision, 2005). The Basel Committee produced best practice guidelines in an effort to rebuild trust in the financial services industry following the Financial Crisis of 2007 – 2008.

In the Irish financial services industry, the Central Bank carried out Behaviour and Culture Reviews (2018a) in the five retail banks operating in Ireland at that time. The Central Bank concurrently conducted Diversity and Inclusion Assessments in the retail banks. These assessments acknowledged the key role which diversity and inclusion has to play in fostering effective culture. Some of the benefits of a diverse and inclusive culture that the Central Bank identified were the avoidance of group-think, protection against overconfidence in decision making and the encouragement of more internal challenge (Central Bank, 2018a). It was found that the Irish retail banks could take additional actions to improve diversity and cultivate an inclusive working environment.

Organisations both in the financial services sector and in the public sector, constantly face pressure to improve their levels of compliance. This research investigates whether actions taken to increase diversity and create an inclusive work environment are an avenue which can help achieve this objective. Secondary data provided by the Report on the Behaviour and Culture of the Irish Retail Banks (Central Bank, 2018a) provided triangulation for the research..

Literature Review

The main sources of information were a review of Irish legislation that related to diversity in the workplace, the Central Bank report Behaviour and Culture of the Irish Retail Banks (2018a), Irish and UK Corporate Governance Codes and UK Corporate Governance Reviews.

The basis for equality in the workplace in Ireland is contained in the Employment Equality Acts (1998 – 2015) which set standards in terms of discrimination covering the following nine grounds; gender, marital or family status, sexual orientation, religious belief, age, disability, race or membership of the Traveller community. The legislation outlines steps which may be taken by employers to promote equality particularly in relation to gender, people over 50, disabled and the Traveller community. The Equal Status Acts (2000-2015) prohibit discrimination in the provision of goods and services, accommodation and education on the basis of the nine grounds.

In 2015 the European Parliament reviewed policy on gender equality in Ireland, exploring changes in legislation, policies and practices with emphasis on the period

from 2012 – 2015. The report concluded that Ireland had a strong statutory legislative framework for gender equality in employment and service access. However, it stated that the policy framework for gender equality was weak with gender receiving little or no attention in the policy-making process within employment or social policy over the period of the economic crisis of 2008 (European Parliament Directorate-General for Internal Policies, 2015). It found that women are hugely underrepresented in the Irish political and decision-making systems. An effect of this underrepresentation is a lack of priority given to key issues affecting women.

The Irish Code of Practice ('the Code') for the Governance of State Bodies (Department of Public Expenditure and Reform, 2016) contains proactive wording on gender diversity in relation to Board composition. The Code stipulates that annual Board self-assessment in State bodies should evaluate the boards composition in consideration of the balance of skills, experience, independence, knowledge and diversity, specifically gender. The Code also states that appointments should be made objectively keeping in mind the benefits of gender diversity. The Inter-departmental Review of Gender in State Boards (Department of Justice and Equality, 2019) recommended that each State Board adopt a diversity and inclusion policy by 2020. It stated that Boards should explain how they are using the policy to comply with gender balance. The Department of Public Expenditure and Reform (2021) reported that over 50% of all state boards had met the goal of having at least 40% female members.

In the UK, an evaluation of women's involvement in Boards took place in the Davies Review (Department of Business, Innovation and Skills, 2011). The Hampton-Alexander Reviews, carried out by an independent review body, built on this work. This organisation conducts annual reviews of gender balance in FTSE company leadership. The recommendations in the 2018 Review included a target of 33% representation of women on FTSE 350 Boards, Executive Committees and in their direct reports by the end of 2020 (Hampton-Alexander, 2018).

In Ireland, the Balance for Better Business Report (Department of Justice and Equality, 2019), set out gender targets for certain companies. There is a target set of 33% female representation on boards of ISEQ 20 companies by 2023 and 25% for other listed companies. There was also a target of no all-male Boards by the end of 2019. In the third report from Balance for Better Business (Department of Justice and Equality, 2020), it has been noted that the target has not been met.

Relationship Between Diversity and Compliance

In defining Compliance, we need to look at corporate governance, which is defined as the internal means by which corporations are operated and controlled (OECD, 2004). Corporate governance as referred to as including Compliance with legal and regulatory requirements, the scope of the risks is shown below in Table 1.

Table 1: Scope of Legal and Regulatory Risk

Compliance	Compliance
Solvency	Risk/Capital management/Actuarial
Tax law/regulation	Finance
Prudential supervision	Finance
Stock exchange requirements	Legal
Adequate financial disclosures	Finance
Accounting standards requirements	Finance
Health and safety regulations	Human resources
Corporate governance legislation	Legal

The definition of diversity used by the Central Bank for the purpose of assessing the banks, is drawn from the Capital Requirements Directive, which states:

To facilitate independent opinions and critical challenge, management bodies of institutions should therefore be sufficiently diverse as regards age, gender, geographical provenance and educational and professional background to present a variety of views and experiences (Directive, 2013/36/EU).

The Canadian Report on Women on Boards argued that there was an additional symbolic reason to have women on boards. Gender balance on boards sent strong signals to stakeholders, with most having a diverse membership, that their voices would be heard at the top level of senior management in organisations (The Conference Board of Canada, 2002).

The Central Bank undertook a review of Behaviour and Culture in the Irish Retail Banks in response to a ministerial request to conduct an assessment following the 2008 financial crisis and the on-going tracker mortgage scandal. The Central Bank clearly acknowledged the importance of diversity in fostering effective culture. They found that diversity reduces the likelihood of group-think and fed into improving the level of internal challenge within organisations. The Central Bank stated that the absence of diversity could result in over-reliance on core assumptions and a downplaying of risks. The discussion of culture is pervasive in Compliance and there has been recognition of the close connection between culture and Compliance (Central Bank, 2018a). A relationship between culture and Compliance has been a recurring theme from articles published and continuous professional development provided by the Compliance Institute, the professional body for compliance professionals in Ireland.

Diversity initiatives may be employed as a method of shaping an organisation's culture in terms of values, norms and practices. There is evidence that gender diversity can influence corporate governance type behaviours. A Canadian study

(Brown et al., 2002) found that Boards with three or more women, showed more positive corporate governance behaviours. Such behaviours included following conflict of interest guidelines, adhering to conduct codes, ensuring better communication and focus on non-financial measures such as employee and customer satisfaction. Another report found that diversity in the workplace results in better financial performance, innovation and team performance, (Catalyst, 2013). Low levels of diversity increase the risk of over-confidence in decision-making, lack of internal challenge and reluctance to change and excessive resistance to external challenge. The Central Bank cites these factors as contributing to the financial crisis, (Central Bank, 2018a).

Influence of Diversity on Risk Culture

Previous studies have identified a relationship between increasing diversity and risk culture. The Behaviour and Culture of the Irish Retail Banks report (Central Bank, 2018a) which assessed culture and behaviour also looked at associated risks and identified actions to ensure banks prioritise customers in future.

Reviews carried out by the Central Bank on Behaviour and Culture in the Irish Retail Banks provide evidence that assessments of diversity are moving onto bank Compliance Programmes (Central Bank, 2018a). The Central Bank have been influenced by initiatives undertaken by De Nederlandsche Bank (DNB), the Dutch Central Bank. The two bodies have collaborated on the development of Behaviour and Culture Reviews in the Irish Retail Banks. In tandem with these reviews, the Central Bank carried out Diversity and Inclusion Assessments of the retail banks (Central Bank, 2018b). DNB used a model for examining behaviour and culture in financial services organisations. The methodology used by the DNB is based on the Iceberg Model, see Figure 2 below:

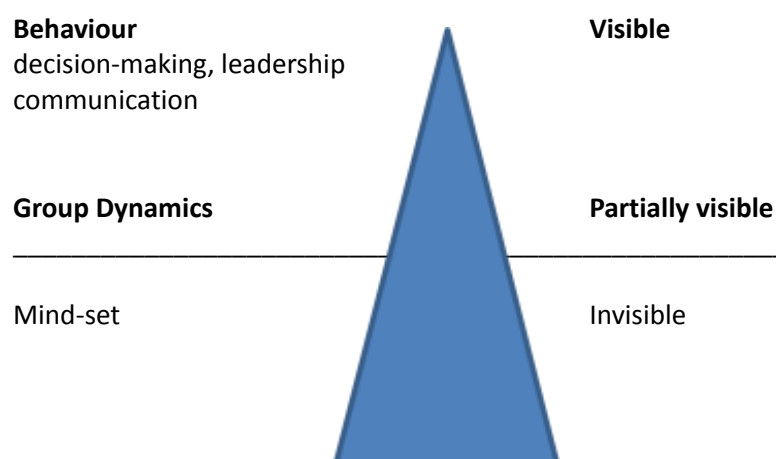


Figure 2: Iceberg model.

The Iceberg Model examines organisational behaviour and culture in three layers. At one level, visible behaviour in terms of decision-making is analysed. At the next level, partially visible elements such as leadership, communication and group dynamics are analysed. Finally, the model examines the underlying mind-set -

factors that are invisible but play a role in shaping organisational behaviour and culture.

DNB emphasises that Compliance should be interpreted to signify conformity with rules but also with the spirit of the rules. Their approach expands what is analysed to include an understanding of risk culture. A risk culture that supports behaviours within a strong risk governance framework is recommended (De Nederlandsche Bank, 2015). Diversity gives rise to positive components of an organisation's risk culture such as a culture of critical challenge and debate. This type of culture can result in better decision-making as teams are forced to accommodate and synthesise multiple perspectives.

The Central Bank, in the Demographic Analysis Report (2018b), took a serious view of diversity in senior ranks, stating that a lack of diversity at both senior management and Board level is a leading indicator of heightened behaviour and culture risks, (Central Bank, 2018b, p.3). Their gender analysis of applications to pre-approval controlled functions ('PCFs') found that 10% of applications were from females in 2012 but this rose to 29% in 2017. This was following a new Corporate Governance Code that made it a requirement to consider diversity.

The UK literature finds some evidence that diversity improves risk culture and reduces the risk of silo behaviours (Hampton-Alexander Review, 2017). To ensure that diversity is manifested in the risk culture, it must be entrenched at Board and senior management levels and in Risk Committees.

The Lehman Sisters hypothesis (Van Staveren, 2014) assessed gender differences along three dimensions of financial behaviour: risk aversion and response to uncertainty, ethics and moral attitudes and leadership. Women were found to be more risk and loss averse and less overconfident. The author of the article, Van Staveren, concluded that substantially more gender diversity in the top levels in finance would have helped to reduce some behavioural drivers behind the financial crisis.

In an address to the Women in Leadership Conference in 2019, The Central Bank Director General Derville Rowland said that when the financial crisis erupted with the fall of Lehman Brothers more than a decade ago, the crash was blamed in part, on a lack of diversity in financial services (Central Bank, 2019b). In the address, the Managing Director of the International Monetary Fund ('IMF') Christine Lagarde was quoted as having said that if it was Lehman Sisters rather than Lehman Brothers, the world might be different today.

How to Ensure that Diversity Becomes Embedded?

In order for these benefits to arise, diversity concerns need to become rooted in the way that business is conducted and mechanisms already in place should be used for monitoring and reporting. The Central Bank (2018a) found that actions taken in the banks to improve diversity are not typically subject to measurement and evaluation. This needs to happen to embed change. The Central Bank (2018a) confirms that some of the banks committed to making changes are focusing their actions on the

ranks below the Board as well as Board level. The Central Bank is using the existing system of Risk Mitigation Programmes to ensure the banks develop action plans to mitigate risks. But who ultimately has responsibility for compliance in organisations?

The Deloitte and Association of Compliance Officers ('ACOI') now Compliance Institute Compliance Survey (2014) articulate that Boards must ensure that responsibility to act compliantly rests primarily with management. However, compliance functions struggle with embedding a compliance culture (Deloitte and ACOI Compliance Survey, 2014).

For real change to happen, it needs to start at the top of the organisation. The Grant Thornton UK Corporate Governance Review places the responsibility for articulating and embedding culture with the Board. The review highlights the key stages where a company may embed values in the recruitment process, rewards structure, performance appraisals, training, internal and external communications (Grant Thornton, 2018). An effective diversity programme should be linked to the organisation's strategy. Individual diversity initiatives should support each other and not work against each other, (Ibec, 2005).

The need to further embed diversity was highlighted in the Irish Banking Culture Board ('IBCB') Employee Survey. The survey findings suggested that the banks had strengths in the areas of honesty, respect and competence. However, areas for potential improvement were identified. These included the organisations' resilience, responsiveness, accountability and openness. The survey highlighted the need to create an open environment where concerns can be raised and taken seriously and where diversity, including gender equality is actively promoted (IBCB, 2018).

The UK Financial Reporting Council (2018) emphasises the importance of a healthy corporate culture and high quality Board composition including a focus on diversity. The responsibility of the Nomination Committee for succession planning is outlined to develop a more diverse pipeline. The EU Commission stated that "sustainable diversity policies are an outcome of a successful change in corporate culture", (European Commission Directorate-General for Employment, Industrial Relations and Social Affairs, 2003, p.11).

A number of studies suggest that a change in culture results in a change in the predominant leadership style in diverse organisations. Leadership styles are evidenced in the behaviours and methods used by figures with management responsibilities in an organisation. A collaborative style of leadership encourages staff to express views and stimulates an inclusive working environment.

In its review of the Culture and Behaviour of the Irish Retail Banks, the Central Bank raised concerns in relation to leadership styles found in the banks. Some of the organisations examined displayed evidence of 'directive' or 'command and control' leadership. These leadership styles were criticised as hindering the development of an inclusive culture where employees felt comfortable sharing their concerns. For the banks to make extensive changes and move to balanced decision-making, there must be an emphasis on collaborative leadership to incorporate many perspectives, (Central Bank, 2018a). The report by the Central Bank posits that increasing

empowerment and decision-making ability of senior staff would decrease executives' decision burden and allow space to make changes. Table 2 outlines the blockages experienced in moving to inclusive leadership.

Table 2: Central Bank of Ireland (2018a, p.3) Behaviour and Culture of the Irish Retail Banks

Factors Blocking a Change to Inclusive Leadership
Executive committees have overloaded agendas as a result of legacy issues, mandatory items, regulatory items, and other environmental pressures
Many executive teams are in the 'forming' stage and members operate independently
Newly formed diverse teams can present challenges as the group needs to learn to listen and collaborate and understand perspectives before becoming effective

The blockages to inclusive leadership outlined above, would not provide an efficient long-term management structure in any organisational setting and would need to be addressed. These factors may be alleviated through fostering effective communication and empowering managers at all levels. The Central Bank has stated that there needs to be a credible threat of enforcement (Central Bank, 2018a). The Central Bank has been increasing the scale of conduct supervision with the introduction of dedicated teams and has stated that they will take robust enforcement action to promote principled and ethical behaviour by and within regulated financial services, (Central Bank, 2018a). To meaningfully address the acute lack of diversity at senior levels the following actions are required:

- Setting more ambitious goals and including targets and measures;
- Addressing the tendency for lip service paid to diversity Programmes;
- Better building of talent pipelines;
- Considering the overall construct and functioning of Executive Management when making appointments; and
- Identifying and reducing the barriers to change.

Literature Review Summary

A number of publications by regulators and governance organisations have reported findings indicating that diversity has a positive effect on compliance behaviours. Additionally, there is growing evidence of the value of diversity in Compliance Programmes. The Central Bank views diversity as vital in creating an appropriate risk culture and in promoting good governance. The Central Bank is the only Irish body which has promoted the incorporation of diversity and inclusion onto Compliance Programmes and thus mainstreaming diversity and inclusion. Diversity has been proven to have a positive effect on risk culture in organisations where diversity promotes internal challenge and independent thinking.

To have a lasting effect, diversity needs to be embedded in organisations to become the way that business is conducted. To ensure that this happens, there is a need for measurement and evaluation of progress (Central Bank, 2018). The most lasting transformation is manifested in leadership style as a change to an inclusive culture is conducive to the collaborative leader.

Methodology

The research carried out sought to answer the question of would the inclusion of diversity as a topic in a Compliance Programme, have any impact on compliance? Primary research generated a body of rich qualitative narrative data which was gathered through semi-structured interviews and then interpreted. A qualitative data collection method was chosen which involved in-depth investigations with small samples. Mono-method qualitative research was conducted through semi-structured interviews. The interpretivist research philosophy employed in the research influenced the choice of data collection method. The aim was to produce more detailed and richer research findings through interviewing data subjects in their natural working environments and drawing out their experiences.

Primary research was carried out with key individuals operating in compliance functions in different organisations at a specific point in time. The aim was to find out what the organisational experiences of the research participants had been in relation to assessing any linkages between diversity and compliance.

The research took place in five separate organisations with each having their headquarter functions based in Dublin; an international bank, an international insurance company, an international funds company, an organisation in the public sector and a semi-state organisation. Table 3 below provides for further detail on the organisations interviewed.

Table 3: Description of Organisations Researched

	Organisation Type	Employees	Location
1	Public Sector	3,000+	Offices throughout Ireland
2	Insurance company	500	6 Irish offices
3	Funds	2,500	Ireland
4	Funds	2,500	Ireland
5	Semi-state	1,000	Offices throughout Ireland

The organisations numbered from 2 – 4, all had an international aspect to their business. It should be noted that the international bank included, is not a retail bank in Ireland.

Results – Key Findings

The limitations of the research strategy used are acknowledged. The use of interviews to collect data consume considerable time and generate large volumes of information. The view of the interviewer may come across in the questions posed which could bias the response from the interviewee. This can be overcome by the interviewer identifying their own biases and then consciously taking on the persona of someone without these biases when conducting interviews.

Categories of Diversity Currently Monitored in the Organisation

Interviewees were asked about the different forms of diversity monitored in their organisation. Among the respondents, there were noted differences in the types of diversity which interview participants identified in their respective organisations.

Interviewee 1 said that their organisation exhibited a subset of all of the categories of diversity outlined in the definition used by the Central Bank being; age, gender, geographical provenance, educational and professional background.

Interviewee 2 reported that diversity in relation to disability, gender, race and age were monitored.

Interviewee 3 reported that gender and age were the categories which were tracked and reported by Human Resources to their Board.

Interviewee 4 stated that gender, disability and LGBT (lesbian, gay, bisexual and transgender) were the main categories addressed by their organisation.

Interviewee 5 reported that all categories outlined by the Central Bank were monitored and that they were also taking steps to track neurodiversity. This is defined by the Autism Awareness Centre as a move towards more equal treatment and acceptance for those on the autism spectrum and for disability in general.

Two of the organisations interviewed discussed their actions on disability and there was evidence of increasing action on disability by one other participating organisation. The Employment Equality Acts 1998 – 2015 allows for organisations to take positive action to promote disability which may have impacted the organisations in question.

Organisational Recognition of Relationship Between Diversity and Compliance

When asked if a connection between increasing diversity and Compliance was recognised at an organisational level there were mixed responses. Some participants reported that their organisation tracked diversity within the organisation, but their activities did not include reporting a relationship between diversity and compliance. A few participants reported that increased diversity enabled factors which are associated with compliance such as internal challenge and the ability for a range of views to be expressed.

Interviewee 1 – Diversity is a concern discussed at Board level. Members review opportunities for progression and recruitment so that a suitable pipeline for diverse composition is in place.

Interviewee 2 – Within the organisation there is a recognition of a correlation between diversity and a broad conception of ‘doing things better’. The explicit linking of compliance and diversity beyond this was not mentioned.

Interviewee 3 – At the level of the Board, there is an awareness of the importance of diversity of thinking and the positive effect of gender diversity on board membership. An explicit link between diversity and compliance beyond this was not mentioned.

Interviewee 4 – Diversity is treated as a priority as well as Compliance. Internally, the organisation has not linked the two as having a relationship.

Interviewee 5 – Ensuring diverse thought is highly important. A relationship between diversity and compliance had not emerged as a topic.

Diversity was not found to be part of Compliance Programmes in the organisations which took part in the research. Two participants, members of the financial services organisations regulated by the Central Bank, have focussed more on diversity in the expectation that they will be reviewed by the Central Bank for performance on diversity measurements in the future.

Formalised Compliance Programmes do not currently exist in the public sector apart from the Internal Audit and risk management reviews. However, compliance constitutes a large proportion of public sector Head Office functions such as Human Resources, Finance, ICT, Corporate Services, Health and Safety and Legal Services. Although Interviewee 5, which is a semi-state organisation, stated that they are very much looking at the effect on compliance in their organisation.

In the private companies interviewed, compliance goals were either linked directly to an annual bonus or there were formal processes in place linked to performance reviews and promotional opportunities.

Costs and Benefits

It was found that few organisations had an analysis completed in relation to the costs and benefits of diversity, see Table 4 below.

The interviewees had different views of the benefit of diversity. None mentioned a direct link with improved corporate governance or compliance. One interviewee explained benefits of diversity in terms of where savings could be made with staff based in cheaper economies. Three interviewees expressed the benefits in terms of a moral case for diversity.

Table 4: Costs of Diversity

Interviewee	Responses in Relation to Cost of Diversity
Interviewee 1	Technology and travel costs to facilitate engagement with colleagues across locations versus the benefit of leveraging staff with different skills in a cheaper environment.
Interviewee 2	Value is more of a cultural interpretation and the costs are worthwhile, the return being new and improved behaviours.

Interviewee 3	An awareness of diversity at the level of Chairman and people see the benefits in terms of diversity of thinking, but it isn't coming through, they aren't walking the walk
Interviewee 4	Haven't been additional costs, existing staff have volunteered for groups and initiatives but analysis of surveys has been a cost. Part of a review of a training programme will involve a study of the return on investment in conjunction with Finance and HR
Interviewee 5	Part of a review of a training programme will involve a study of the return on investment in conjunction with Finance and HR

In terms of benefits of diversity, the participants in the research interviews said that the benefits of diversity experienced in their organisations were;

- Internal challenge;
- Diversity of thinking;
- Increasing innovation;
- Improving employee engagement; and
- Every 1% change in diversity results in a 3% return in revenue.

The benefits reported by the interviewees are reflective of the benefits reported in the literature on diversity. The Central Bank reports improvements in internal challenge and diversity of thinking resulting from the introduction of diversity (Central Bank, 2018a). The increased innovation, engagement and financial results are reported by Catalyst (no date), the non-profit organisation which compiles statistics in relation to gender balanced leadership.

When asked about costs that arose from managing a diverse workforce all interviewees highlighted communications.

Interviewee 1 identified language barriers as a blockage to good communication. The interviewee suggested additional language training could address this challenge.

Interviewee 2 identified communication as a challenge that arose with diverse teams. They highlighted the importance of emotional intelligence in improving communication levels.

Interviewee 5 mentioned communication in terms of supporting line managers through training on flexible working arrangements and the need to focus on productivity rather than presenteeism.

The challenges outlined by the interviewees supports what has been found in other research, evidencing that there are obstacles to managing diverse teams (Central Bank, 2018).

All organisations had been through unconscious bias training.

Interviewee 3 clarified the training had not been delivered from the gender perspective but was part of performance management training.

Interviewee 4 confirmed that the training had been prioritised for senior staff members first and to those participating in interview boards.

Interviewee 5 representing the organisation with a longstanding experience in diversity said that they were developing targeted training for managers in the area of inclusive leadership

All interviewees coincided in saying that there is a need to focus on inclusion in the future. Diversity is described as getting diverse people in place, but inclusion is the essential next step to enable a diverse workforce to work together efficiently

Themes and Recommendations

The following are the themes which emerged from the research undertaken.

Theme One

First of all, from the analysis of the research data generated by the interviews, the following theme emerged.

- Diversity is not currently a topic in Compliance Programmes and organisations do not include diversity as a variable which influences their performance on measures of compliance.

It is clear from the qualitative data derived from the interview participants, that a relationship between diversity and compliance is not being identified in the policies, strategies and mindset of compliance professionals. Diversity of different types is tracked and monitored within the organisation but there are alternative reasons for introducing diversity and inclusion programmes such as the moral case, international headquarters in the businesses and the impact of equality legislation.

Interviewees representing organisations whose core business is dependent on compliance were more likely to articulate a relationship between diversity and compliance. This was evident in the interview responses from the funds company who confirmed that they monitor the developments in the Central Bank to keep abreast of upcoming regulation. The Central Bank, as regulator of financial services in Ireland has the power of enforcement and as discussed in Chapter 2 section 2.2.3, fully intend to use their powers of enforcement in a robust fashion (Central Bank, 2018a). The speed at which change happens in the industry will be dependent upon the Central Bank timeframe to extend their diversity and inclusion assessments to the wider financial services sector.

The Inter-departmental Review of Gender on State Boards (Department of Justice and Equality, 2019) has made a recommendation that all State Boards should be required to adopt a diversity and inclusion policy by 2020. Organisations will need to set out organisation-specific objectives in relation to gender on the composition of the Board which should be reported annually. The review states that Boards should be required to explain how they are using the Policy to comply with the requirement for gender balance. This recommendation may be effective in instigating change in

the public sector. There is no sanction as such for failing to comply with the recommendation but the potential reputational consequences for a State Board which finds itself highlighted for having a poor gender balance may motivate action.

Theme Two

- In terms of risk culture, financial services companies are mindful of the changing regulatory environment and are beginning to take diversity into account in the approach to Compliance Programmes.

In organisations where a core business is dependent on compliance, there was a better acknowledgement of the connection between diversity and compliance. This was evident in the interview responses from the funds company which confirmed that developments in the Central Bank's coverage of diversity are monitored to keep abreast of upcoming regulation.

The financial services sector has given more explicit treatment of the link between diversity and risk culture. One of the research participants, Interviewee 5, made the distinction that diversity of thought is not about being risk averse, but being risk aware. This is an important point in the identification of risk within organisations. If the grouping in the organisation charged with identifying risk is not diverse, they run the risk of groupthink sinking in and the group may prioritise certain risks only. This is supported by the literature and by the Lehman Sisters Hypothesis (Van Staveren, 2014) which concluded that women were found to be more risk averse and less overconfident in their behaviours.

Financial services companies are maintaining a watching brief on the Central Banks activity. The Central Bank will address the higher risk companies first which are prioritised in the risk rating system. The lower risk companies know that those same requirements will eventually cascade to their risk category.

It is not always what an organisation does or the outcomes which it achieves that are the only important marks of success. In the move to address culture, there is increasing focus on the way that business is conducted, which includes the way key project teams and steering groups interact with one another.

Theme Three

- Diverse teams need to be empowered to work better together. Communications and the language barrier came up in the interviews as impediments of diverse teams.

A collaborative type of leadership model is conducive to an inclusive culture where diversity can be embedded. Future focus needs to be on Inclusion. Diversity is just the mix. Inclusion is about making the mix work together. (**Interviewee Two**).

Recommendations

The impact of diversity on a Compliance Programme could considerably strengthen the business case for diversity in the workplace and persuade management in organisations to support diversity and inclusion Programmes.

The following recommendations emerged:

- Align compliance with diversity in a Board approved compliance policy and assess the use of a transformational leadership model which encompasses collaborative leadership in the introduction of diversity and inclusion programmes.
- In the ever-changing business environment, organisations need to be flexible and adaptable and transformational leadership can assist with this goal. Leaders need to pay attention to the development of their staff and have the ability and willingness to provide intellectual stimulation. This is critical for leaders whose organisations are facing demands for renewal and change, (Bass, 1990).
- Develop a more balanced approach to the costs and benefits of diversity including the positive effect on compliance.
- Build the case for aligning diversity and inclusion with risk culture in terms of the identification of risks and positive corporate governance behaviours.
- Integrate diversity into existing Risk Management processes and establish the challenges to introducing diversity programmes in advance of roll-out in organisations and put in place actions to mitigate risks.
- Embed a collaborative management style through training and reinforced messages from senior management and Human Resources.

The Central Bank has been consistent in the messages which they have been communicating. At the Irish Fund Directors Association Diversity and Culture event, Colm Kincaid, Director of Consumer Protection spoke about diversity and inclusion, (Central Bank, 2019a). He said that in the Central Bank's Strategic Plan 2019 – 2021, they highlight diversity and inclusion as an essential part of what makes their workplace effective and fulfilling. He said that it is what will drive further improvements in the governance and risk management of regulated firms in the future.

Conclusion

The emergent themes from the research are outlined:

Diversity is not currently a topic in Compliance Programmes. Respondents are more likely to report a connection between diversity and compliance where the core business is dependent on Compliance.

In terms of risk culture, financial services companies are aware of the changing regulatory environment and are taking diversity into account in the approach to their Compliance Programme.

A collaborative leadership model is conducive to an inclusive culture where diversity can be embedded but the focus needs to be on inclusion in the future.

In an article in *The Irish Compliance Quarterly*, Kelly (2019) stated that diversity initiatives have been implementing inclusion without recognising how that inclusion is based purely on assimilation. The next step is to build inclusion into work environments which needs to happen for diversity initiatives to be effective. The need to build the correct culture and an open environment is mirrored in the IBCB (2018) employee survey results.

The former President of the Compliance Institute, Ms Kathy Jacobs, has stated that equality, diversity and inclusion is clearly coming on to the compliance agenda, at the Annual Conference in 2020. This was a clear indication of the future for diversity and the growing link with Compliance. In the period since this public statement, the Compliance Institute has introduced gender diversity onto their Board membership. A Diversity and Inclusion Committee has been established by Compliance Institute in July 2022. The purpose of the committee is to empower diverse voices through ensuring that the Compliance Institute, in delivering its service, commits to ensuring diverse voices are welcomed, respected and heard.

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