

July 2020

RADICAL ACTIONS THOUGHT PAPER SERIES

Shifting to an evidence-based approach for people decisions

In our [introduction](#) to New Financial's *Radical Actions* thought paper series, we set out our case for the need for radical action to drive a step change in diversity to a new equilibrium. This paper explores one of our proposed actions: a shift towards an increasingly evidence-based process for making people decisions.

Companies consist of people and products, yet few firms apply even a fraction of the methodical diligence to their people decisions as they might to developing, launching and maintaining their products and services. People decisions – even the most important ones – often boil down to one individual and their gut instinct.

As argued by [Iris Bohnet](#)* and [Caroline Criado Perez](#)†, the world of work has by default been designed by and for a certain type of man. The thrust of this paper is to rebalance attention from diversity and inclusion programmes that solely focus on changing individuals to instead de-bias the context in which they operate, in order to challenge and reset that default design.

We look at examples of organisations seeking to inject greater rigour and accountability into the systems, processes and policies underpinning people-related decisions, such as the power of “comply or explain” and other kinds of prompts that force people managers to consider the impact of their proposed decisions.

Rather than leaving inclusion to chance (i.e. depending on the goodwill and commitment of individuals), this paper makes the case for building inclusion into the processes and systems that underpin culture and how things get done. We argue that building in ongoing nudges and pauses to everyday decision-making moments can make the difference in embedding sustainable change.

In this paper, we ask:

- What do we mean by evidence-based decision making?
- What are the common problems with how people decisions are made now?
- What does evidence-based decision-making look like in practice?
- What mechanisms are organisations using to inject rigour into people decisions?

The concept of evidence-based decision making is not new or particularly mind blowing. As is the case with all our proposed actions in our *Radical Actions* series, there are likely to be elements of evidence-based practice that may partly be in place already but are not being executed properly, or without the necessary authority, or inadequate resource. We believe formalising and institutionalising an evidence-based approach to people decisions will make a vital contribution to drive diversity and inclusion to the next level across the financial services industry.

*Click [here](#) for our summary of Iris Bohnet's book *What works: Gender equality by design*

†Click [here](#) for our summary of Caroline Criado Perez's book *Invisible Women: Exposing data bias in a world designed for men*

This paper in summary

Here are our top five takeaways:

1. **A big shift in mindset:** A shift to evidence-based decision making is a radical leap for the financial services industry. This kind of approach is often not embedded in business decisions, let alone for people decisions, but there is an opportunity right now – the Covid crisis is forcing a reassessment of traditional methods for evaluating employee performance and promotion prospects. Creating processes that encourage managers to structure and account for key hiring and firing decisions, performance ratings, pay and promotion recommendations would be a good start.
2. **Injecting rigour:** Despite all the “woke” commentary, when it comes to people matters what we see widely today is highly subjective decision making based on woefully incomplete information that goes largely unchallenged. This allows bias of individuals, groups, organisations and processes to manifest in a lack of diversity and inclusion across the workforce. An evidence-based approach seeks to inject rigour into the decision-making process, slowing it down, compelling consultation, increasing consistency and asking for a reasoned assessment before a decision is final.
3. **Driven by data:** The first sign of a growing appetite for decision-making frameworks for people issues is increased demand for not just more but better diversity data. As Iris Bohnet emphasises, data “helps companies diagnose where the problems are, starting by collecting data, and then come up with possible solutions, often based on behavioural designs.” A data-led approach is particularly suited to the financial services industry, which is all about numbers. But improved workforce data is not the only source to consider – it needs to be viewed in the context of a range of both external and internal data inputs, such as behavioural insights, academic and industry research, peer benchmarking, employee surveys and not forgetting management expertise (including gut instinct). Weighing up a variety of information sources is critical to the evidence-based approach.
4. **When it matters most:** Just as not every people decision needs to be made quickly, nor does every decision require thorough interrogation. We see progressive firms are prioritising employing these techniques where and when they can have the most impact and the expended effort is proportionate – for example, a firm-wide initiative to improve the quality and consistency of performance ratings for a company where ratings are the fundamental basis of pay and promotion prospects.
5. **Controlling (not eliminating) discretion:** The aim of a decision-making approach based on evidence is not to eliminate manager discretion entirely from all people decisions. Instead, the idea is to provide consistent and transparent parameters within which that individual manager can apply their discretion. Much of the work of evidence-based decision making (as with the work of D&I) is to make the implicit explicit, to expose unwritten rules and codes of conduct, and to change them if they don’t make sense or lead to detriment. We are not claiming an evidence-based approach will deliver the best decision every time, but it will improve more outcomes more of the time.

Definitions – what do we mean by evidence-based decision making?

So what do we mean by evidence-based decision making? The concept of making decisions based on data (or “led by the science”) has been bandied about repeatedly through the Covid crisis, with varying degrees of success in terms of outcomes.

For the purposes of this paper, it is the process by which we make better-informed decisions, more aligned to how decisions are made in any other field of business be that finance, marketing, product design. The two definitions below sum up our direction of thought:



i) The Chartered Institute of Personnel & Development uses this definition:

“An evidence-based approach to decision-making is based on a combination of using critical thinking and the best available evidence. It makes decision makers less reliant on anecdotes, received wisdom and personal experience – sources that are not trustworthy on their own. It’s important for HR practitioners to adopt this approach because of the huge impact management decisions have on the working lives of people in all sorts of organisations worldwide.”
(Source: CIPD [Evidence-based practice for effective decision-making](#), February 2019)

ii) Rob Briner, Scientific Director for the Centre for Evidence-Based Management uses this definition:

“Evidence-based management is about actively and systematically searching across a range of sources and types of evidence or information rather than just one or two. These sources include organizational data, professional expertise, scientific findings and stakeholder perspectives.”
(Source: [Interview with Rob Briner](#), Scientific Director of the Centre for Evidence-Based Management)

How these definitions are applied depend on the nature and rigour of the decision-making framework and the different weightings of the key stages of the decision-making process. The chart on the left is a six-step process outlined by CIPD:- asking a question, acquiring evidence systematically, appraising evidence, aggregating and weighting evidence, applying evidence to the decision, and finally, assessing the outcome. The chart also lists the four main sources of evidence: scientific literature, stakeholder inputs, organisational data and practitioner expertise.

Rob Briner’s work additionally focuses on four key questions that need to be answered in order to interrogate the quality and relevance of evidence:

- 1) Where and how is evidence gathered?
- 2) Is it the best evidence available?
- 3) Is it sufficient to reach a conclusion?
- 4) Might it be biased in a particular direction? If so, why?

We are not arguing this is the only or best decision-making framework, our point is that *any* kind of decision-making framework is largely absent from people decisions right now.

So what's the problem?

Here are some of the common themes that we see undermining people decisions because they are **not** based on evidence:

- **Not the language of business:** Business priorities are underpinned by robust data, success measures and incentives for making change happen. The lack of a more evidence-based approach to diversity and people programmes positions these areas as less important or “nice-to-have” rather than as core to the purpose of an organisation and whether it succeeds.
- **Highly subjective:** Too often, people-based decision making relies too heavily on personal preference, gut instinct, anecdotes and personal experience rather than a range of data inputs.
- **A culture that undervalues process:** The culture in some firms is not conducive to evidence-based decision making. Many such firms position themselves as “nimble” to maintain competitive advantage, and they foster the belief that additional process or delaying decision making to interrogate effectiveness is counter to their culture and therefore unlikely to succeed.
- **Cultural acceptance of exceptionalism:** Financial services routinely rewards performance above any and all other factors and give high performers extra room to manoeuvre – including allowing managers to circumnavigate decision-making protocols. Over time, exceptions become the rule.
- **Managers not incentivised to manage:** Across business, and particularly true of financial services, promotion to management is a reward for subject matter expertise or strong performance, rather than an individual's ability to manage a team. And how those managers are then rewarded is again rarely based on how well they manage their team.
- **Over dependence on a single information source:** Even on the few occasions when some kind of evidence does underpin a decision, there is a tendency to rely on one source to the exclusion of others without adequate interrogation. A common example in financial services is prioritising quantitative data regardless of alternative evidence sources, such as qualitative data from stakeholder feedback, employee surveys, practitioner expertise, behavioural scientists or academic literature.
- **Stuck in a rut:** ‘Received wisdom’ and ‘best practice’ are often specific to a place and time, yet the notion of best practice constantly evolves. Few organisations routinely test their processes are still relevant and fit for purpose. For example, using blind CVs may work well in one department or one company but not another where the problem lies at interview stage. There may also be consequences for those who speak up and highlight issues in a new way – the cost of challenging the status-quo is often perceived as career limiting.

All of these factors lead to people decisions being made too quickly, based on incomplete information and the creation of ineffective HR processes and policies, which in turn have a big impact on diversity and inclusion.

New Financial has access to a huge amount of data flow around diversity, via our network and research, and particularly our work with HM Treasury to monitor the progress of signatories to the HMT Women in Finance Charter. While we see evidence of a great deal of activity, we also see a lack of rigour around what, why and how companies carry out actions to achieve their diversity ambitions and a lack of coherent measurement of impact of actions.

Here are some specific examples:

- **Lack of rigour in succession planning:** The Financial Reporting Council's [Annual Review of the UK Corporate Governance Code](#) shows there is little focus on rigour in succession planning: "The reports we reviewed lacked detail on succession planning, with many companies focussing more on their appointment process (including usage of external recruitment agencies) rather than providing information on how they plan for the various types of succession that exist". And if this kind of thinking is not happening at board level, where the seniority is high and number and frequency of appointments is low, it definitely won't be happening anywhere else in the organisation.
- **Lack of time:** A common barrier to adopting an evidence-based approach is that there just is not enough time to think through decisions. Diverse shortlists, tracking the impact of pay decisions or training people from under-represented groups for leadership all take longer than sticking to the status quo. As identified by the Bridge Group's [research](#) on the impact of socio-economic background on career progression at law firms, managers are frequently under intense pressure with tight deadlines which exacerbates the tendency "to promote individuals who are the most visible, or most immediately known to them through professional and informal social contact".
- **Lack of rigour and consistency around pay and progression:** Our [Diversity in Portfolio Management](#) research found that an individual's prospects on pay and progression are often determined by a single line manager and are neither structured nor clearly defined. The line manager may not have had any training or used specific criteria to assess performance, meaning that progression can often be based on the whims and preferences of one person. We also found that within the same organisation, different departments, teams, asset classes and products often take a different approach to how they assess their employees.
- **The myth of meritocracy:** While hard work, educational achievements and intelligence do play an important part in getting ahead, much of what is routinely categorised as 'merit' in financial services is impossible to separate from other socio-economic factors, as shown by sociologist Sam Friedman in his book, [The Class Ceiling](#). Instead, the markers of a middle-class background are often used as a proxy for talent or potential, leading to incorrect and unexamined assumptions about who to recruit and promote. Psychologist Tomas Chamorro-Premuzic also discusses the need to improve how leaders are judged and selected in his book [Why do so many incompetent men become leaders?](#) and how confidence is commonly mistaken for competence.
- **Loss of momentum for diversity programmes:** A common lament we hear from D&I practitioners is that they have tried everything, but little is changing. Unfortunately, this can lead to firms adopting a scatter gun approach to programmes and high turnover of initiatives, with one being dropped in favour of another without clear reasons. A more evidence-based approach identifies the issue that a firm is trying to address, assesses why a particular action may be suitable, and how the impact of interventions might be measured.

Introducing process into people-related decisions is a very different approach to what many managers are used to and is viewed as unnecessary, time-consuming and bureaucratic. Indeed, for some firms and individuals, there is a lack of clear decision-making protocol full stop, whether in relation to product design and marketing, financial planning or client management.

To make the approach stick, firms will need to put in place resources, support, training and incentives to equip managers to seek out evidence, assess it critically, question the quality of information and make the time to adopt an evidence-based approach.

What does evidence-based decision-making look like in practice?

The sector is not starting from zero – we have found a variety of examples where firms have begun to adopt a more evidence-based approach to people-related decision-making in specific areas:

- **Improving people data:** New Financial's research [A forensic approach to diversity data](#) found a growing trend across the industry to improve their diversity data. Analysing data shifts the diversity discussion from anecdotal to evidential and increases understanding of the current workforce. It can then be used to identify where to focus energy and resources for a targeted approach to diversity planning and future recruitment, retention and promotion opportunities. Lloyds Banking Group said: "Having a forensic grasp of data has been the most critical factor in making continuous, sustainable progress." Our [report](#) has many more examples of how firms are applying their own diversity data to add rigour in decision making on recruitment, setting pay, deciding appraisal grades, promotion and work allocation.
- **Transparency on progression requirements:** Making explicit the (usually unwritten) rules that underpin promotion decisions limits the impact of individual bias – for example, partner promotion processes, or how to be allocated to plum assignments, or anything else that might be expected from staff at each level in order to progress to the next level. It also encourages greater rigour in succession planning and improves a manager's understanding. As the Bridge Group states in its [advice to the legal sector \(see p11\)](#): "Introduce much greater transparency relating to decisions about progression, promotion and work allocation. The extent to which performance reviews affect progression is unclear, and there is no formal advice as to what early career solicitors should be doing to make it to partnership. It is currently up to each individual to work out the "rules of the game" and to use a high degree of personal initiative."
- **Work allocation:** There is a growing body of [research](#) making the connection between a lack of diversity and how work is allocated. Progressive firms have begun to implement more robust frameworks around how decisions are made regarding who gets to work on the most interesting and high profile assignments. These can lead to higher visibility with leaders and more career-defining moments that provide the foundation for promotion.

For example, the Bank of England now captures data regarding who gets to present to the executive committees, as this is acknowledged as a key moment that matters when identifying future top talent. Clifford Chance, Ashurst and CMS have introduced 'blind allocation' of work to juniors, using data to monitor what junior lawyers are working on and who has capacity. A survey by Ashurst of its pilot of blind allocation found that both associates and partners felt that it provided a fairer way of allocating work and allowed junior lawyers to have a broader range of experience, according to reports in the [Lawyer magazine](#). This approach is already in place in the big four accounting firms and could be applied to other sectors of financial services to ensure that interesting work is allocated on a fair basis (or at least fairer than now).

- **Team composition:** Research points to the value of diverse perspectives to build innovative solutions to solve thorny issues – this is where criteria for forming teams and committee membership come in. However, a prerequisite to leveraging workforce diversity is an inclusive culture where diverse perspectives are welcomed, and this rarely happens by itself. Processes are required to ensure that people with different perspectives are included in teams, committees and key decision-making moments. For example, one organisation we spoke to introduced a D&I advisory group to provide insight to its executive diversity committee (comprised of heads of functions and business lines). The advisory group ensures that the committee's decisions are based upon wide consultation and provides the opportunity for a variety of perspectives from different divisions and levels of seniority to influence the direction of the D&I programme.

- **Inclusive product design:** Firms are recognising that it is crucial to build a process underpinning the testing of new products and their applicability to a diverse consumer and client base to avoid the pitfalls cited in Caroline Criado Perez's book, [Invisible Women](#). Google has created a new [Product Inclusion team](#) as well as an Inclusion Champion Group with 2,000 employees providing feedback on products. Leaders across product lines also receive inclusive design training to encourage them to factor diversity into product design from the very beginning of a project.

It is interesting to note the growing unease around the use of Artificial Intelligence systems for recruitment decisions. On the one hand, we know humans have bias, but on the other, so does AI. An algorithm requires two elements: a data set and a list of criteria of what good looks like, neither of which are objective. Algorithms, just like any other process, embed the values of the people who create them.

- **Supplier diversity:** Building diversity-related criteria into how an organisation selects suppliers is a more common approach in the US than in Europe. For example, the New York City Comptroller's Office (featured in our [research, p10](#)) has pioneered D&I in its approach, including incorporating diversity criteria into manager selection for its \$200bn pension scheme. Our [Diversity from an Investor's Perspective](#) research includes further examples of pension schemes, such as the UK's LGPS Central, including diversity questions in RFPs and investment consultants digging into the diversity and culture of the managers on their recommended lists.

What mechanisms do organisations use to inject rigour into people decisions?

So how are firms encouraging a more evidence-based approach to people-related decisions making? Here are some examples of the tactics that are being deployed:

- **Layering data sources:** More organisations are turning to a mixture of behavioural science, academic research and industry best practice (in addition to improving their own organisational data) to inform what is working and what they should be doing. For example, one bank removed self-assessment requirements from its appraisal process as research shows that men are more likely to over-rate themselves than women.
- **Proportionality principle:** This is a where promotion or recruitment KPIs must be proportionate to the level below for minority groups – for example, the proportion of female managing director promotions must be the same as proportion of women in the pool of those eligible for promotion to MD. Such an approach is commonly applied to pipeline development initiatives to increase female representation, and reinforced by “comply or explain”. For example, one bank introduced a gender proportionality principle for hiring, with data available to managers on the percentage of women applying, shortlisted, interviewed, offered roles and joining.
- **Comply or explain:** Once a process has been introduced, managers need to comply with it or, if not, explain the reasons why. Such an approach doesn't prevent a manager from using their own discretion to make a decision that is contrary to the company policy, but it does compel them to clearly justify their stance. Being forced to communicate the rationale behind a decision can weed out spurious and subjective reasons such as “fit”. For example, one bank introduced a system where managers had to pick one of six reason codes to explain why staff who were eligible for promotion were not promoted. The reason codes also prompted actions to develop those staff to improve their chances of promotion in the future.

- **Seeing the impact of decisions in real time:** There are an increasing number of firms introducing systems that model the impact of decisions in real time, providing a nudge to encourage decision-makers to pause and review, *before* their decision is final. For example, one bank introduced a gender pay gap tool which shows a manager the gender pay gap across their team based on that manager's draft bonus allocation. Again, such a tool does not stop that manager from allocating bonuses in a particular way, but it does show them the consequences of their bonus decisions on the gender pay gap. One investment bank shares senior managers' draft performance ratings by gender, so they have an opportunity to challenge their own decisions as well as each others' before ratings are finalised.
- **Hypothesis testing:** We came across examples of firms testing hypotheses in order to actively debunk myths and misconceptions about diversity, such as "white men are no longer getting promoted". One head of D&I is using data to shift the default thinking on diversity from managers demanding the D&I function prove that diversity is important, to the D&I function demanding that managers prove to them it isn't. Another organisation sought to dispel the myth that managing directors worked their way up from graduate level and found that half were hired externally.
- **Proactive succession planning:** It really should not come as a surprise that staff leave – yet often when a departure is announced there is a desperate scramble to fill the vacancy and all process goes out of the window because of time pressure. Progressive companies seeking to break the cycle of panic response are undertaking regular, centralised succession planning exercises, so they always have access to an up-to-date list of potential replacements and have time to develop a deep and diverse bench. This is big piece of work, but could reap significant rewards.
- **Pooled recruitment:** Often individual teams hire infrequently, so they do not recognise there may be biases in how they select. In response, some organisations, such as the Bank of England, have instigated a pooled approach to recruitment where appointments are made in cohorts rather than individually, forcing hiring managers to think more broadly and look at a wider pool of candidates than they otherwise would have considered.
- **Market analysis:** This is where a firm (or their headhunters) creates a market map of the universe of available talent in a specific business line across a peer group. This kind of dataset helps set realistic goals (such as a proportionality principle) as well as challenge lazy thinking (such as demanding more effort from a headhunter with a white-male-only shortlist when the market map shows a more diverse candidate pool exists).
- **Diversity criteria in performance objectives:** To show that leaders and managers are expected to take diversity seriously, some firms are building an inclusion-related objective into how performance will be measured and rewarded – as advocated by the [HM Treasury Women in Finance Charter](#). It is important that this objective is weighted accordingly to avoid it becoming a box ticking exercise. Managers will need training and support on how to have a conversation about diversity in relation to performance and to set expectations.
- **Equality Impact Assessments (EIAs):** An EIA provides a framework to systematically take equal opportunities into consideration when decisions are made, and are commonly used in the public sector for big projects. If used properly, EIAs can be a useful mechanism to ensure new policies are reviewed through a diversity lens and that the impact on diverse communities is captured right at the beginning of the policy creation process. Training and support are essential to make an EIA effective. We are already seeing a similar approach in response to the Covid crisis where firms are monitoring the breakdown of furloughed employees and/or those made redundant by gender and/or working pattern (full time/ part time).

The point of all these different mechanisms is to break decisions down into their component parts and inject rigour and time at key stages. We are not claiming an evidence-based approach will deliver the best decisions every time, but it will improve more outcomes more of the time.

Conclusion

On paper, an evidence-based approach seems to make a lot of sense, particularly in an industry such as financial services, which prides itself on being driven by logic and data. However, we [see little evidence](#) of this level of rigour being applied to people decisions, except by a handful of the most progressive companies.

As we discuss in the other papers in our Radical Actions series, partly this is due to the [D&I function lacking resource and/or authority](#) to impose such processes, [diversity data](#) is often not up to scratch, and D&I is not viewed as a [strategic imperative for business](#).

A shift to an evidence-based approach to decision making underpins all the ideas we have proposed in our Radical Actions series so far – and this is what makes it so difficult to fully embrace. It requires a fundamental shift in thinking that openly acknowledges that the way people decisions are being made are [riddled with bias](#). These decisions can, and must, be improved if we are to drive a step change in diversity and inclusion across the financial services industry.

Acknowledgements

With thanks to Jenny Barrow, senior advisor to New Financial's diversity and culture coverage, for co-writing this paper; to Audrey Campbell, head of talent, leadership and inclusion at Refinitiv for the inspiration to focus on this topic; and to all our members and contacts for their contributions. We are particularly grateful to the attendees of New Financial's March 2020 diversity breakfast on evidence-based decision making, whose insight and observations have influenced this paper.

About New Financial

New Financial is a think tank and forum that believes Europe needs bigger and better capital markets to help drive its recovery and growth. We believe diversity in its broadest sense is not only an essential part of running a sustainable business but fundamental to addressing cultural change.

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