

Family Office

Diversity, Equity and Inclusion (DE&I)

The Path Forward

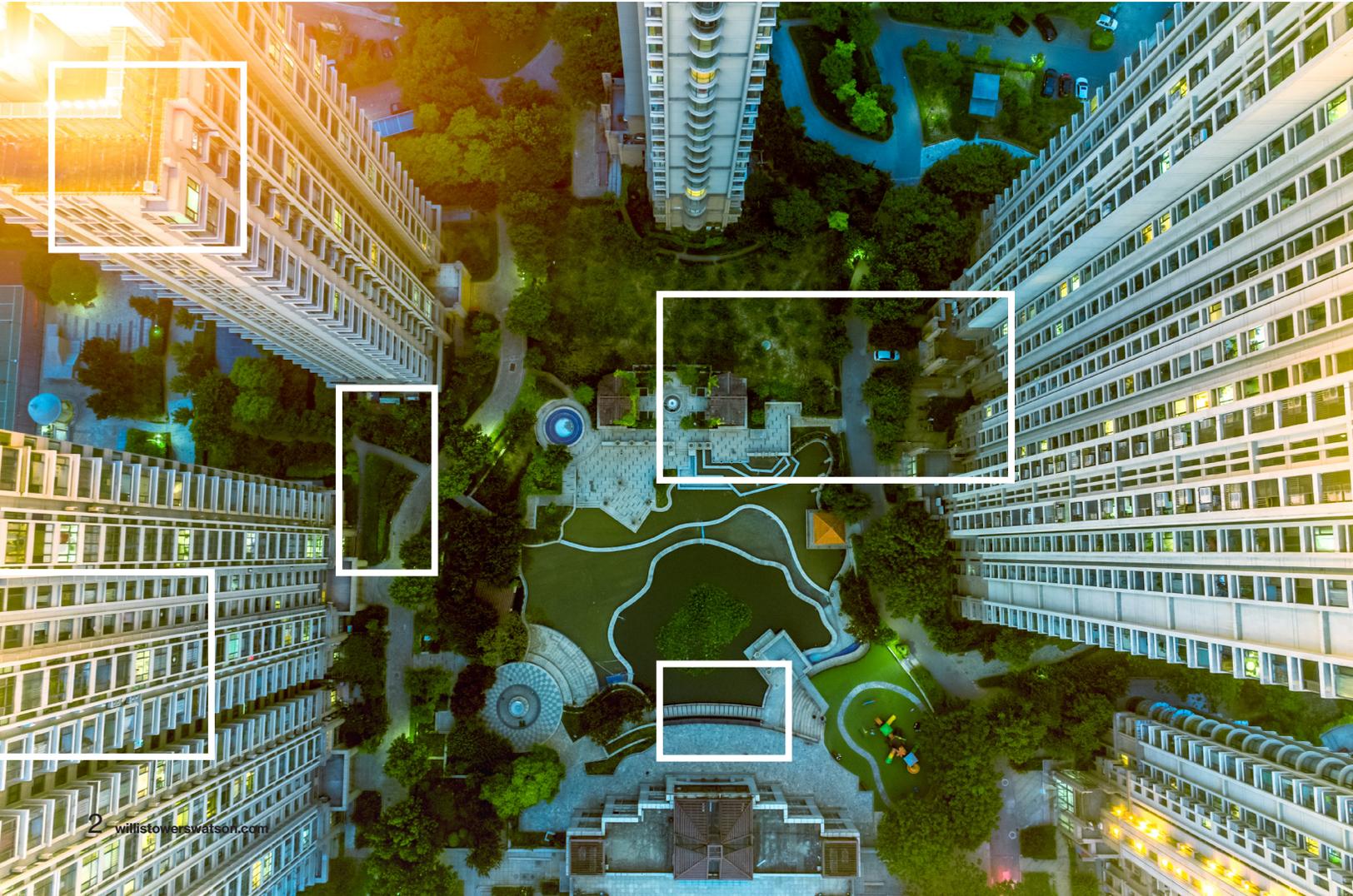


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Background

Family offices, like most organizations in the U.S. and globally, are facing interesting and radically changing times. Not only are family offices growing and expanding along with the wealth under their management, but new ones are being formed each day. Family business exits, the desire to preserve family legacy, the rise of tech entrepreneurs with a new wave of wealth, along with the ever-shifting talent, business, government and social landscapes – each play a significant role in driving this trend. These market shifts are requiring family offices to rethink and realign their purposes, their organizational structures, and their growth and risk-mitigation strategies as they plan for their future.¹

One such area of growing interest and priority is in environment, social and governance (ESG) investments. According to a recent Campden research report, 47% of family offices surveyed are already involved in ESG strategies, and it is expected that the next generation of family office leaders will actively engage in these causes at higher levels, driving investment decisions that will enable them to make a difference while also making money. Much of the focus centers on investments, programs and initiatives that create sustainable solutions that improve quality of life and promote higher levels of diversity, equity and inclusion (DE&I).²

As family office advisors, it is important to highlight these topics and share critical insight and practical advice for “how to” consider the impact of diversity, equity and inclusion in your organization.



Our goal for this white paper is to:

- **Increase awareness** and provide context on this topic for family offices that could be struggling with this matter.
- **Review the business case** and benefits of implementing a thoughtful DE&I plan and how to prioritize these strategies.
- **Share business practices** for how best to implement a comprehensive plan that will help family offices move into action while also minimizing risks.

Awareness

Before jumping right into the content of this whitepaper, we would like to start by sharing common industry definitions of what we mean when we use the terms diversity, equity and inclusion.



Diversity: Recognition that as individuals we each possess characteristics and traits that make us unique. These can be along the dimensions of race, ethnicity, gender, sexual orientation, socio-economic status, age, physical abilities, religious beliefs, political beliefs or other ideologies.



Equity: Fairness or justice in the way people are treated. Fair treatment, access, opportunity, and advancement for all people, while at the same time striving to identify and eliminate barriers that have prevented the full participation of some groups.



Inclusion: A call to action in the workplace that promotes systemic change by actively involving every employee's ideas, knowledge, perspectives, approaches and styles to maximize business success. When employees feel included, they feel a sense of belonging that drives increased positive performance results and creates collaborative teams who are innovative and engaging. Employees that feel included are more likely to be positively engaged in the organization.

Furthermore, having a basic understanding of workplace employment laws and standardized human resource practices and policies associated with how you hire, develop, engage, reward and retain employees is key. In addition, understanding unconscious bias, e.g., social stereotypes about groups of people outside of one's conscious awareness, is more prevalent than most organizations realize. Increased awareness and a cohesive strategy and plan may avoid reputational harm and minimize legal complications.

Why it matters

Business case and beyond

Family offices may be as large, with just as many concerns, as commercial corporations, and held to the same standards and subject to the same scrutiny. With this in mind, it is important to understand how prioritizing diversity, equity and inclusion will lead to better results for your family office to avoid and/or lessen the risk associated with the world as we see it today.

Diversity, equity and inclusion is essential for business and it provides the key to competitive advantage. The business case for demonstrating how DE&I can improve organizational and talent performance is clear. In fact, in recent years this topic has become a top priority across the global business community, with more than 1,400 global CEOs listing this topic as one of their top five organizational imperatives, as noted by the CEO Action™ for diversity and inclusion, the largest CEO-driven business commitment to advance DE&I in the workplace. This includes representation from over 85 industries and 13M employees in the U.S. alone. While much of the focus to date has been on larger organizations and entities, there is a growing interest in ensuring that businesses of all sizes are prioritizing DE&I as both a social justice and a business imperative that leads to improved performance, higher levels of engagement and sustained competitive advantage.³

Research shows that diversity increases creativity and innovation, promotes higher quality decisions and enhances economic growth. Based on this research, diversity is a strategic business driver. As a result, the conversation has transitioned from focusing on the business case and bottom-line tangible results to also focusing on the less tangible impacts. For example, it is known that organizations with higher levels of diversity will have returns that are on average 30% or more above their comparable peer group. In addition, increased levels of diversity promote higher levels of innovation, workplace engagement and overall health and well-being.



Bottom line, diversity drives better results⁴



Companies in the top quartile for gender diversity on executive teams are **21%** more likely to outperform their direct competitors and national industry group.



Companies in the top quartile for ethnic diversity on their executive teams are **33%** more likely to have above-average profitability.



Companies with diverse boards are **43%** more likely to experience higher profits.

As a strategic goal, turning awareness and dialogue into action is more critical now than ever, and it is imperative that we all consider what role we can and will play in advancing diversity, equity and inclusion in the workplace.

How to prepare

Strategy

For businesses and leaders to be effective, they must also have a thoughtful and clearly articulated multiphase and multiyear strategy. A strategy refers to the core philosophies and standards a family office takes to be competitive in its industry. It defines what the business needs to do to reach its goals, which can help guide the decision-making process. In the case of DE&I, the strategy should consider the family office's business, talent and customer engagement strategies and align to how the family office intends to attract, develop, engage, reward and retain diverse talent and respond to the needs of diverse stakeholders. For a family office's DE&I strategy to be effective, it is also important to know what the organization's current state is, and this can be captured through a comprehensive DE&I audit or baseline assessment – the result of which provides a quantitative and qualitative view of enablers and barriers to achieve the desired DE&I strategy and goals.

Plan elements

When executing your DE&I plan, carefully consider the culture of your organization and the people who comprise it. Know your starting point and be clear on what the terms diversity, equity and inclusion mean to you and your organization. Once these definitions are clear in your mind, you can then determine the actions you will take to create meaningful positive change – including policies, programs, standards and behaviors that will drive the desired results you are hoping to achieve, and establish a clear and compelling communications plan and accountability strategy to ensure everyone in the organization is aligned and engaged.



Then remember to track your results over time to determine what is working and what is not and make adjustments along the way.⁵

Case studies

Potential impact and risk

Preparing also involves becoming familiar with potential impact and risk of doing nothing. The below represents cases that have resulted in major litigation and lawsuits costing firms hundreds of millions of dollars in tangible, hard bottom-line costs and intangible costs tied primarily to impact on brand and reputation. No organization, including family offices, are immune to potential lawsuits. It is therefore in the best of interests of family offices to evaluate their current state and become aware and informed of potential impacts to ensure they are not on the list. Because, quite frankly, when we know better, we do better. Be aware of the world as it is today and avoid being a statistic to learn from and instead be an example to live by!

Sample case scenarios

Workplace harassment \$310M settlement – Reputational harm

- The settlement represents one of the largest public commitments to diversity and inclusion efforts by a company and follows numerous complaints from employees about sexual harassment and misconduct.

Race discrimination \$192M settlement – Reputational harm

- Several African American colleagues alleged they had suffered discrimination in pay, promotions and performance

evaluations. They provided statistics showing that the median salary for African American employees was about one-third less than that of whites within the company. The plaintiffs also claimed that “glass ceiling” and “glass wall” policies kept African Americans from rising to top positions and, in particular, departments in the company. Few African Americans had advanced to senior levels in the company, compared to the significant representation of African Americans among all salaried employees.

Sex and gender discrimination \$54M settlement – Reputational harm

- A company allegedly blocked 100s of female employees from promotions and bonuses in its institutional equities division, while rewarding lesser-performing men.

Age discrimination \$10M settlement – Reputational harm

- Company laid off employees over the age of 40 to retain younger workers. The settlement money will go into a fund for the employees who allegedly faced discrimination. Company agreed to provide age-discrimination training to workers and hire a diversity director.



What might these organizations have learned or done differently if they better understood diversity, equity inclusion and had a strategy and plan in place to address these issues prior to the impact?



What's next

Moving forward with a plan in place

We hope that the information and examples shared have provided further insight into what to consider when creating a diverse, equitable and inclusive workplace, while also protecting your assets and brand value. The below information serves as a guide for what to consider when establishing a plan.

Do you have the subject matter expertise and bandwidth to put in place a comprehensive diversity, equity, and inclusion plan?

- If not, engage a DE&I subject matter expert to train and put a plan in place based on your needs. Building a leadership team that aligns with your organizational demographics demonstrates your commitment to diversity and inclusion both within your organization and to the world. Whether you are an organization, team or an individual leader looking to get to the next level, consultants and leadership coaches offer the guidance you desire to fulfill your unique leadership goals. We have witnessed that putting a plan in place lessens the risk of employment practice incidents.

Do you have the right insurance protections in place?

- Discuss with your insurance carrier/broker who specializes in family offices to review your current insurance portfolio and make recommendations regarding what exposures you may have and protection available; for example: place lessens the risk of employment practice incidents.

✔ **Employment practices liability insurance (EPLI)** is a type of liability insurance covering wrongful acts arising from the employment process. The most frequent types of claims covered under such policies include, but are not limited to, wrongful termination, discrimination, sexual harassment and retaliation. In addition, the policies cover claims from a variety of other types of inappropriate workplace conduct, including (but not limited to) employment-related defamation, invasion of privacy, failure to promote, deprivation of a career opportunity, and negligent evaluation.

✔ **Workers compensation insurance (WC)** is a type of business insurance that provides benefits to employees who suffer work-related injuries or illnesses. Specifically, this insurance helps pay for medical care, wages from lost work time and more.

✔ **Professional liability coverage** insures the family office and its personnel against claims made by family office clients. Examples include allegations that the family office or its personnel provided inadequate services or made errors while performing or failing to perform professional services.

✔ **Directors and officers (D&O) liability insurance** protects the personal assets of corporate directors and officers and their spouses in the event they are personally sued by employees, vendors, competitors, investors, customers or other parties, for actual or alleged wrongful acts in managing a company.

In closing, it is our sincere hope that you find this information beneficial and that you leverage it to assess your current state and improve your organizational culture and bottom-line by strengthening your awareness and commitment to diversity, equity, and inclusion.

Acknowledgements

Willis Towers Watson: Our very seasoned employees, consultants, claims experts and carrier partners have contributed and shared their experiences.

We are driven to help our clients succeed: In every interaction and with every solution, we act in our clients' best interests – striving to understand their needs, respecting their perspectives and exceeding their expectations. Our colleagues will be trusted advisors and strategic partners to business leaders.

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Impact Consulting, LLC: Imagine a world where leaders represent the demographics of the customers they serve and the teams they lead, a world where younger generations see role models with whom they relate and aspire to be, a world where opportunity and inclusion are not aspirations but instead a reality!

Website: <https://www.impactconsultingus.com/contact/>

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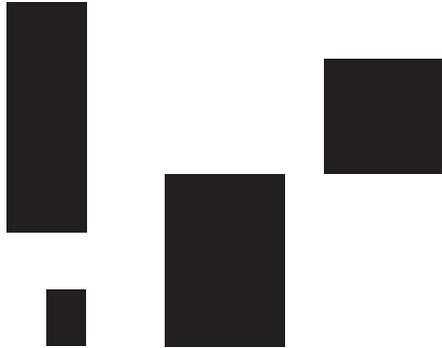
¹ Francois Botha article @ Forbes

² Partial Source: Global Family Office Report 2019 by Campden Research

³ Source: ceoaction.com

⁴ Source: Center for Talent Innovation, McKinsey & Company Diversity reports

⁵ Source: Impact Consulting LLC Consulting 5-Step Framework to drive change



About Willis Towers Watson

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