

STATEMENT TO THE SUBCOMMITTEE ON OVERSIGHT AND  
INVESTIGATIONS

COMMITTEE ON FINANCIAL SERVICES

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Chairwoman Kelly, Congressman Gutierrez, distinguished members of the Subcommittee on Oversight and Investigations. Good morning. I have been invited today to discuss the Status of Diversity in the Financial Services Industry. As Chairwoman Kelly mentioned, I am a Managing Director in the Atlanta Office of Korn/Ferry International. Korn/Ferry is the leading global executive search firm with nearly 70 offices in 36 different countries. In addition to being a member of our global financial services practice, I am a member of the firm's diversity practice. Our diversity practice was started in 1998 to assist our clients in addressing their diversity recruiting needs. Although we use a broad definition of diversity, most of our clients have focused primarily on the recruitment of talented women and people of color.

In looking at the current status of diversity within financial services, it is a story of good news/not so good news. It is very clear that there has been significant progress over the past ten years in the recruitment of women and minorities into this industry. First, the overall attitude has shifted. Diversity used to be viewed as being "altruistic" several years ago. Today, Corporate America realizes that diversity is essential for business reasons. In a recent interview in the **New York Times**, Gil Griffin, Head of Korn/Ferry's Diversity Practice, stated that "having a diverse work force is good business on so many levels, but ultimately, the main reason is that if companies don't do it, their competitors will, and they will be getting more business when they do. Diversity has to be a business imperative. Anyone who is doing diversity for do-goodism will fail."

In Korn/Ferry's 30<sup>th</sup> Annual Board of Directors survey of Fortune 1000 companies, the percentage of corporations with minority Board members rose from 65 percent in 2000 to 71 percent in 2002. Female Board representation rose from 74 percent in 2000 to 79 percent in 2002. In a November survey of corporate officers and top earners, "women represented 15.7 percent of corporate officers in America's 500 largest companies, up from 12.5 percent in 2000 and 8.7 percent in 1995." This survey was conducted by Catalyst, a non-profit research and advisory organization that tracks the advancement of women in business.

Over the past ten years, we have also witnessed the emergence of corporate diversity programs at most major financial services firms. In many firms, Chief Diversity Officers have been appointed with several reporting directly into the office of the CEO. These officers have been designated to drive diversity throughout their respective companies. On the recruiting side of these programs, there is a wide variety in overall strategies. Many firms utilize these programs to focus primarily on the entrance of talented women and people of color at the lower managerial levels. The strategy here is to “grow” their own talent and promote these individuals up through the organization. Some firms, who already have good diversity representation at the lower levels, are looking to recruit middle management talent. By bringing in talent at the mid-level, these firms want to groom these individuals to be promoted upwards in a shorter time frame where they can have a significant impact on the organization. Although there has been some emphasis on recruiting diversity at the senior levels, we have not seen significant movement at this level.

Another sign of progress is evidenced by the expansion of diversity initiatives beyond just recruiting. In the past, many financial services firms focused almost exclusively on recruiting talented women and people of color without addressing the overall career development needs of these individuals. These firms found that, after a few years, many of these diversity managers were leaving their organizations since, in some cases, they believed that they were not really accepted. As a result, most organizations now focus as much on retention issues as they do on recruiting. Internal diversity councils have been established to provide a forum for diversity employees to express their ideas and concerns to senior management. These forums have also provided a mechanism for diversity employees to network amongst themselves and develop support. In addition, many firms have established formal and informal mentoring programs for high potential diversity talent. The intent of these mentoring relationships is to help women and people of color assimilate into the corporate culture of the organization as well as to ensure that these individuals receive challenging assignments to better prepare them for future promotions.

Some financial services firms have even taken a more proactive role in forcing their external business partners to address diversity. For example, some companies have instituted supplier diversity programs to either source business from minority-owned firms or to have majority-owned firms discuss their own diversity initiatives. Financial services firms are also typically requiring the larger executive search firms to present a diverse slate of candidates on all of their executive searches.

Although there has been some positive momentum over the past ten years, the financial services industry is still viewed as lacking significant diversity. Due to the continued consolidation within the industry, we have witnessed several talented women and people of color at the senior and middle levels who have left their organizations. Due to mergers and acquisitions, many of these individuals were passed over for more significant jobs. As a result, many talented people “took a package” or just decided to leave rather than stay in their current organizations. Many of these managers have leveraged their experience and contacts to start their own businesses. In addition, as the economy weakened, women and people of color were particularly impacted in the

middle management ranks. Now, as the economy improves, many companies are realizing that they have a significant void in the middle management ranks. These firms will be feverishly trying to recruit talent to fill this layer. If unsuccessful, this has significant implications long-term if many financial services firms don't have an adequate pipeline of diversity talent to be promoted to the senior ranks.

It is also important to highlight the types of positions that are held by women and people of color within some of the sectors. Many of these positions are influenced by the amount or type of client interaction individuals may have. Following are some of my personal observations based on my experience as an executive recruiter:

- **Asset Management-** In the asset management sector, women and people of color are more represented in the government and municipal areas since there is more interaction with the public sector. Women and people of color are barely represented in the corporate, mortgage, or high yield segments where the overall compensation tends to be higher. Within equities, despite some progress, there are still very few female and minority portfolio managers or equity analysts. Very few women and people of color are in leadership roles in the asset management field, unless it is a socially responsible fund.
- **Investment Banking-** Although there has been an increase in women recruited into investment banking, representation of women and people of color in all areas is still not balanced. More of the diverse talent is located in public/municipal finance. There are still very few women and minorities in corporate finance, mergers and acquisition or industry sectors which are areas with higher compensation. During the recent economic downturn, we witnessed a disproportionate exodus of diversity talent at the Vice President (or middle level). As a result, it appears that the numbers of minorities in some investment banks today are similar to the numbers achieved in the mid-1980s.
- **Private Equity/ Venture Capital-** Private equity/venture capital is another segment where there is scant representation of women and people of color. In fact, most women and minorities in this sector tend to be affiliated with women or minority-focused funds or are part of funds tied to banks, foundations or endowments. We have observed very few women or minorities in private equity funds that have a private partnership structure.
- **Wealth Management-** Wealth management is one of the most active recruiting sectors currently. Many firms are seeking top female and minority professionals to interface with "wealthy" individuals in certain segments or markets. For example, in Florida, it is important for many firms to have Hispanic/Latino wealth management professionals to tap into these "new" markets and generate new business.

Although most financial services firms have instituted corporate diversity programs, the effectiveness of these programs has been mixed. In Korn/Ferry's most recent diversity study, **Best Practices for Diversity**, we examined the effectiveness of these programs. You should have a copy of this study as part of your packet. In this study, we interviewed corporate diversity officers, senior management and senior African-American, Asian American and Latino/Hispanic executives. In general, corporate

executives and minority professionals disagree on the effectiveness of these diversity programs. Executives rate corporate effectiveness much more highly than do the professionals. For example, corporate executives believe that the most effective way to recruit minority talent is by targeting minority organizations. Minority executives stated that internships are a much more effective strategy.

Another significant factor regarding the success of recruiting and retaining top diversity talent is dependent on where the diversity initiative is housed. Is the corporate diversity initiative being driven at the CEO level or is it housed in the Human Resource function? Although most CEOs in the financial services industry have diversity as one of the top corporate initiatives, very few are playing a proactive role in ensuring that diversity is truly achieved since this does impact the overall culture. The most successful organizations in addressing diversity are companies where the CEO is “passionately” committed and has instituted a diversity component as part of the bonus compensation for his/her direct reports. Several firms are now looking to drive this compensation down to the middle management ranks which is typically where the “diversity message gets clouded.” This strong senior management support reinforces that diversity is a critical business objective for the Company. On the other hand, if the diversity initiative is perceived to be housed in the Human Resources function, line management may be more passive in trying to achieve corporate diversity goals.

Most of the sophisticated corporate diversity initiatives are in the larger, more global financial services firms. Mid-size firms that are national or regional (southeast, Midwest, etc.) tend not to have the same level of drive for diversity. Although diversity is important to these medium or small firms as well, the human resource function tends to play a more vital role than senior management. As a result, we have typically observed fewer women and people of color in senior or middle management roles after taking into account the smaller size of these organizations. For example, this seems to be consistent in the banking sector. However, as consolidation continues to occur, many of these firms may be acquired or merged.

In summary, it appears that the financial services industry is moving in the right direction in trying to address diversity. Although there is significant representation in the lower management ranks, the middle ranks will pose a challenge in the short-term. Representation does not appear to be widespread in the senior management ranks as well. With an improving economy, there will be more pressure on these individual firms to “retain” their current diversity talent. As corporate diversity becomes even more competitive, top diversity talent will be desirable. Since there are not significant numbers of talented women and minority in the middle and senior ranks in the financial services industry, these individuals will be aggressively recruited by numerous firms. In addition, even though there is still a discrepancy in the types of positions held by women and minorities, senior management has become more aware and is trying to address this issue. The good news is that the industry has made several significant strides over the past ten years. However, the financial services industry still has a lot of challenges and a long way to go to fully embrace diversity.