

April 26, 2019

Memorandum

To: Members, Committee on Financial Services

From: FSC Majority Staff

Subject: May 1, 2019, “Good for the Bottom Line: A Review of the Business Case for Diversity and Inclusion”

The Subcommittee on Diversity and Inclusion will hold a hearing entitled, “Good for the Bottom Line: A Review of the Business Case for Diversity and Inclusion,” at 2:00 p.m. on Wednesday, May 1, 2019, in room 2128 of the Rayburn House Office Building. The witnesses for this one-panel hearing are:

- **Rick Guzzo**, Senior Leader, Workforce Strategy, Mercer
- **Victoria Budson**, Co-Director, Women and Public Policy Program, Kennedy School, Harvard University
- **Adrienne Trimble**, President, National Minority Supplier Development Council
- **William Von Hoene, Jr.**, Chief Strategy Officer, Exelon
- **Rory Verrett**, Founder and Managing Partner, Protégé Search

Purpose

This hearing will examine data and research about the social and economic benefits that can be achieved when organizations implement robust diversity and inclusion strategies. The hearing will also explore financial services industry and other organizational examples of successful diversity and inclusion initiatives.

Women and Minorities Remain Underrepresented in the Financial Services Industry

Although the United States is becoming more demographically diverse, the financial services industry, especially at leadership levels, remains mostly white and male. For example, from 2007 to 2015, the overall representation of women among managers at financial services firms remained generally unchanged, while the overall representation of minorities among managers marginally increased, except for African-Americans whose representation decreased.¹ After surveying multiple years of data from 279 companies in its 2018 study, a McKinsey report concluded that 1) women remain underrepresented, particularly women of color; and 2) companies

¹GAO, *FINANCIAL SERVICES INDUSTRY: Trends in Management Representation of Minorities and Women and Diversity Practices, 2007-2015*, GAO-18-64 (Nov. 2017).

need to change the way they hire and promote entry and manager-level employees to make real progress.²

Highly Inclusive Organizations are More Productive and Profitable

Recent data provides firm evidence that highly inclusive organizations, especially those that make a concerted effort to be diverse in all aspects of their business, are more productive and profitable. Organizations that make diversity and inclusion a priority see the results of those investments in their bottom line.



Source: Mercer

Other examples from recent research similarly conclude that:

- **Women's employment boosts growth and incomes**
 "Men and women complement each other in the workplace in terms of different skills and perspectives, including different attitudes toward risk and collaboration. As a result, increasing women's employment boosts growth and incomes more than previously estimated, exceeding the improvement that comes simply from adding workers."³
- **Diverse teams outperform on profitability**

² McKinsey, Women in the Workplace (2018).

³ International Monetary Fund, *Finance and Development: Women and Growth* (March 2019).

“Companies in the top-quartile for gender diversity on executive teams were 21% more likely to outperform on profitability. Companies in the top-quartile for ethnic/cultural diversity on executive teams were 33% more likely to have industry-leading profitability. That this relationship continues to be strong suggests that inclusion of highly diverse individuals – and the myriad ways in which diversity exists beyond gender (e.g., LGBTQ+, age/generation, international experience) – can be a key differentiator among companies.”⁴

- **Diversity can drive innovation and new market opportunities**

“Companies with [multi-dimensional] diversity out-innovate and out-perform others. Employees at these companies are 45% likelier to report that their firm’s market share grew over the previous year and 70% likelier to report that the firm captured a new market.”⁵

- **Supporting minority suppliers and vendors generates local jobs and revenue**

In 2017, minority vendors who were included in corporate supply chains generated approximately “\$400 billion in economic output that resulted in the creation and/or preservation of 2.2 million jobs. [They] also contributed \$49 billion in revenue to local, state and federal tax authorities.”⁶

Beyond the Data: What Organizations Stand to Lose Without More Diversity

Data and research confirm the lack of diversity in the financial services industry. Research also shows that if organizations implement stronger diversity and inclusion practices, they can further benefit from increased productivity and profitability—giving them additional competitive advantage. Nevertheless, some organizations, especially those in the financial services sector, have been slow, and even reluctant, to fully pursue diversity and inclusion as a cultural priority, even in the midst of overwhelming evidence about the value of diversity. American Banker reported that “financial firms are keenly aware of the need to bring more women into management and front-line positions. Nevertheless, progress is slow and statistics on gender diversity are disappointing.”⁷ Likewise, McKinsey’s research notes that although awareness around diversity has increased, progress has been slow.⁸ For example, from 2015-2018, the 346 companies (mostly based in the US and UK) included in the studies only increased gender representation on their executive teams by 2 percentage points and ethnic and cultural diversity by 1 percentage point.

Organizations that continue to move slowly on diversity and inclusion initiatives may find themselves losing some competitive advantage and profitability. For example, Forbes reported that nearly half of millennials (47 percent) actively look for employers with diversity and inclusion programs and would take less pay to work for an employer that shares their values.⁹ Good diversity

⁴ McKinsey, *Delivering Through Diversity* (January 2018).

⁵ Sylvia Ann Hewlett, Melinda Marshall and Laura Sherbin, *How Diversity Can Drive Innovation*, Harvard Business Review (December 2013).

⁶ National Minority Supplier Diversity Council website, *Facts and Figures*, www.nmsdc.org/Facts-and-Figures.pdf.

⁷ Maureen Adolf and Jennifer Openshaw, *How to Diversify the Financial Industry*, American Banker (January 29, 2015).

⁸ McKinsey, *Delivering Through Diversity* (January 2018).

⁹ Anna Johansson, *The One Philosophical Difference That Sets Millennials Apart In Workplace Diversity*, Forbes (November 13, 2017).

and inclusion practices can also increase retention rates and keep employees from leaving to seek more inclusive workplace cultures. One researcher noted that with such high costs associated with turnover, successful organizations literally cannot afford to lose employees.¹⁰ Such practices can also strengthen the pipeline of women, minority and other diverse employees for leadership promotions and assignments.

¹⁰ DeEtta Jones, *7 Surprising Benefits of Diversity and Inclusion*, www.deettajones.com (July 10, 2018).