



**Good for the Bottom Line: A Review of the Business Case for Diversity and Inclusion**  
**[House Committee on Financial Services](#)**  
**Subcommittee on Diversity and Inclusion**

Chairwoman Waters, Ranking Member McHenry, and Members of the Committee:

Thank you for the opportunity to testify today about the importance of diversity and inclusion in the Financial Services Industry. My name is Victoria Budson and I am the co-founder and Executive Director of the Women and Public Policy Program of Harvard Kennedy School. In my testimony I will cover some of the key, evidence-based research regarding the business case for including more women in the U.S. Financial Services Industry.

**Benefits for U.S. Competitiveness**

First, let me begin with the importance of gender diversity for our national competitiveness. For America to most effectively compete in the global marketplace, we need to draw on talent from the full talent pool, not just half of it. American women today are more highly educated than men across many levels of the education spectrum, from associates and bachelors degrees to masters and doctoral degrees. Women earn the majority of all of these postsecondary degrees,<sup>1</sup> and approximately 3 million more women are currently enrolled in postsecondary education than men.<sup>2</sup> Whereas in 1964, only about 39% of college students were women, today that figure is 57%.<sup>3</sup> And among the top ten business schools in the United States, women make up more than 40% of the MBA student population.<sup>4</sup> Even though the educated talent is there, the Financial Services Industry has not yet made full use of it. According to the latest Bureau of Labor Statistics data, only 34% of personal financial advisers and 41% of financial analysts are women.<sup>5</sup> Even when women are more equally represented in entry-level roles, they are not making it to the top of the organizational hierarchy.<sup>6</sup> Currently, women overall comprise

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<sup>1</sup> Anthony P. Carnevale, A. P., Smith, N., & Gulish, A. (2018). [Women Can't Win](#). *Georgetown University Center on Education and the Workforce*. p. 9. Women overtook men in associate's degree attainment in 1977-78 (today, women earn 61% of associate's degrees); bachelor's degree attainment in 1981-82 (today, women earn 57% of bachelor's degrees); master's degree attainment in 1986-76 (today, women earn 60% of master's degrees); and doctoral degree attainment in 2005-06.

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Ethier, M. (2018, January 31). [MBA Programs With The Most Women](#). *Poets and Quants*. Across all U.S. MBA programs, women are 36% of the student population.

<sup>5</sup> U.S. Bureau of Labor Statistics. (2018). [Labor Force Statistics from the Current Population Survey](#).

<sup>6</sup> McKinsey & Company and Lean In. (2018). [Women in the Workplace 2018](#). p. 64. In the "Banking and consumer finance" sector, according to their survey of 279 companies in North America (17% of the companies, or approximately 47, were in finance), women's representation was 56% at the entry level, 42% at the manager level, 39% at the senior manager/director level, 31% as VPs, 25% as SVPs, and 24% in the C-suite. Similar numbers from the consulting firm Mercer show that in the financial services industry, support staff is 67% female; professional staff is 46% female; managers are 37% female; senior managers are 26% female; and executives are only 15% female (Mercer. [Gender Diversity is an Imperative for the Financial Services Industry](#)). Finally, according to Catalyst, in 2016 women made up 61.3% of accountants and auditors, 52.5% of financial managers, and 36.9% of financial analysts in the U.S. (Catalyst. (2018, January 5). [Quick Take: Women in Financial Services](#)).



only about 20% of senior leadership positions in the U.S. Financial Services Industry.<sup>7</sup> The numbers are even lower for women of color, who are nearly totally absent in the C-suite.<sup>8</sup>

### **Benefits to the Financial Services Industry**

There are, however, very specific gains of gender diversity for the Financial Services Industry. Women make up just over 50% of the U.S. population<sup>9</sup> and control a sizeable share of wealth in this country, yet they are significantly underrepresented in the financial services sector.

Numerous research studies from the last few decades show that diversity in teams leads to better performance, and that heterogeneous teams solve complex problems and catch errors more effectively than homogeneous teams. Diverse groups perform better even than homogeneous groups of the best problem-solvers because diverse groups of people bring more ways of thinking and more divergent perspectives to the table. This allows them to solve problems faster and better.<sup>10</sup> Adding diversity to teams makes them better at decision-making because they are more likely to process information carefully, remain objective, consider more viewpoints, and re-examine facts.<sup>11</sup> As a result, gender and racial diversity on teams are correlated with the creation of novel solutions, greater innovation<sup>12</sup> and higher collective intelligence.<sup>13</sup> And in the financial services context specifically, diverse teams have been shown to be more likely to price stocks accurately.<sup>14</sup>

### **Benefits to the Overall U.S. Economy**

Finally, increased female participation in the labor force, and in the Financial Services Industry in particular, is beneficial to the overall economy. Simply put, the U.S. economy moves closer to its peak as women's participation in the labor market grows. Evidence suggests that the market is not optimized today as women's participation has declined. As of September 2017, the labor force participation rate of prime-age women was 75%, compared to 89% percent for men, and down from its

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<sup>7</sup> Jaekel, A., & St-Onge, E. (2016, October 25). [Why Women Aren't Making It to the Top of Financial Services Firms](#). *Harvard Business Review*. Analysis based on disclosures from 50 American financial services companies showed that women occupy only 20% of executive committee roles, 22% of board positions, and 12% of chief executive officers.

<sup>8</sup> McKinsey & Company. [Closing the gap: Leadership perspectives on promoting women in financial services](#). p. 5.

<sup>9</sup> U.S. Census Bureau. (2018). [Quick Facts: Population estimates, July 1, 2018](#).

<sup>10</sup> Dreifus, C. (2008, January 8). [In Professor's Model, Diversity = Productivity](#). *The New York Times*. Full argument in Page, S. (2008). *The Difference: How the Power of Diversity Creates Better Groups, Firms, Schools, and Societies*. Princeton, NJ: Princeton University Press.

<sup>11</sup> Phillips, K. W., Liljenquist, K. A., & Neale, M. A. (2009). [Is the Pain Worth the Gain? The Advantages and Liabilities of Agreeing With Socially Distinct Newcomers](#). *Personality and Social Psychology Bulletin*, 35(3), 336–350.

<sup>12</sup> Díaz-García, C., González-Moreno, A., & Sáez-Martínez, F. J. (2013). [Gender diversity within R&D teams: Its impact on radicalness of innovation](#). *Innovation*, 15(2), 149-160. Among 4,277 R&D teams in Spain, companies with more women were more likely to introduce radical new innovations into the market over a two-year period.

<sup>13</sup> Woolley, A. W., Chabris, C. F., Pentland, A., Hashmi, N., & Malone, T. W. (2010). [Evidence for a collective intelligence factor in the performance of human groups](#). *Science*, 330(6004), 686-688. Groups with more females had a higher collective social sensitivity, leading to a higher collective intelligence and better performance on a variety of tasks (visual puzzle solving, collective brainstorming, moral decision-making, bargaining for resources etc.).

<sup>14</sup> Levine, S. S., Apfelbaum, E. P., Bernard, M., Bartelt, V. L., Zajac, E. J., & Stark, D. [Ethnic diversity deflates price bubbles](#). *Proceedings of the National Academy of Sciences*, 111(52), 18524-18529. In experiments in Texas and Singapore, financially literate participants in simulated markets were asked to price stocks. Individuals who were part of ethnically diverse teams were 58% more likely to price stocks correctly, whereas those in homogenous groups were more prone to pricing errors.



peak of 77% in 2000.<sup>15</sup> The impact of these numbers on the U.S. economy is significant. Researchers have shown that there is a connection between the productivity growth observed in a country and that country's progress in increasing female labor force participation. Evidence suggests that adding women to the labor market will increase productivity overall and stimulate wage growth for both women and men.<sup>16</sup> Having people of different backgrounds with different skills and competencies enhances value.<sup>17</sup>

### **Conclusion**

In summary, the research illuminates that more women in the Financial Services Industry is important for the efficiency and competitiveness of the U.S. economy, as well as for financial services companies themselves. Furthermore, gender inclusion needs to become business as usual, not only in this particular industry but across society as a whole. New research highlights the importance of the larger social context when looking at the benefits of gender diversity for a firm. The more we make gender diversity and gender balance a norm overall, the more gender diverse companies will experience market success.<sup>18</sup> So we not only need women in the financial services industry in general; we need them at all levels of the decision-making hierarchy, including at the very top. We need to create a broader environment that supports both women and men's maximal success. Not to mention that utilizing the full talent pool is simply the right thing to do, for all of us and for America.

Thank you again for inviting me today. I look forward to responding to your questions.

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<sup>15</sup> Shambaugh, J., Nunn, R., & Portman, B. (2017, November 2). [Removing barriers to women's labor force participation](#). *Brookings Institution*. Prime-age women are defined as 25–54-year-olds.

<sup>16</sup> Ostry, J. D., Alvarez, J., Espinoza, R., & Papageorgiou, C. (2018, October). [Economic Gains from Gender Inclusion: New Mechanisms, New Evidence](#). *International Monetary Fund*.

<sup>17</sup> Ibid.

<sup>18</sup> Zhang, L. (2019). [An Institutional Approach to Gender Diversity and Firm Performance](#). *Organization Science* (forthcoming). The longitudinal study examines data from 35 countries and 24 industries (n = 1,069 public firms), showing that gender diversity's relationship with firm performance depends on both its normative and regulatory acceptance in the broader institutional environment.