DIVERSITY IN THE FINANCIAL SERVICES SECTOR

HEARING

BEFORE THE

SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

FEBRUARY 7, 2008

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U.S. GOVERNMENT PRINTING OFFICE

41–177 PDF WASHINGTON : 2008

For sale by the Superintendent of Documents, U.S. Government Printing Office
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DIVERSITY IN THE FINANCIAL SERVICES SECTOR

Thursday, February 7, 2008

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT
AND INVESTIGATIONS,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:33 p.m., in room 2128, Rayburn House Office Building, Hon. Melvin L. Watt [chairman of the subcommittee] presiding.

Members present: Representatives Watt, Waters, McCarthy; and Miller.

Also present: Representatives Scott, Meeks, and Allen.

Chairman WATT. This hearing of the Subcommittee on Oversight and Investigations will come to order.

Let me thank everybody who is here with us and apologize in advance that we might get a call for votes at some point, but we'll try to move as expeditiously and with as few interruptions as we can.

I want to start by welcoming back my ranking member, who has been out with some adversity, and we're delighted to see you back. Since he left, I cut my moustache off and he grew something on his face.

[Laughter]

Chairman WATT. So I was joking with him that I was trying to grow up to be like him and he was joking with me that he was trying to grow up to be like me, so we passed in the night, as we often do here in the political world. But it is great to see him back, and I know some of the adversities that he has been through and our hearts and minds have been with him throughout the ordeal, so welcome back.

I am going to recognize myself for an opening statement, and then I will recognize the ranking member for his opening statement.

This is the second in a series of hearings by this subcommittee as we're currently constituted about diversity issues in the financial services sector. Our first hearing held last October explored the role that minority-owned financial institutions play in our economy and the role that Federal banking regulators play in preserving and promoting those institutions.

Today's hearing is also a follow-up to hearings held in 2004 and 2006 by the subcommittee when my Republican colleagues were in the majority, which focused on workplace diversity and especially on the recruitment, retention, and promotion of minorities and women to mid- and senior-level management positions in the financial services sector.

We continue the subcommittee's review of diversity issues in the financial services sector because we believe that being proactive on diversity is legally required and necessary, and because there is growing evidence that diversity is critically important to our global competitive advantage in the financial sector as well as in other business sectors.

In June 2006, the U.S. Government Accountability Office issued a report entitled, "Overall Trends in Management Level Diversity and Diversity Initiatives 1993–2004." And the subcommittee held a hearing to review that report on July 12, 2006. The report was requested after a July 15, 2004, subcommittee hearing that reviewed challenges faced by the financial services industry in obtaining and maintaining a diverse work force and challenges faced in getting access to capital by minority-owned businesses.

The 2006 GAO report examined workplace diversity trends for various sectors of the financial services industry and found that overall diversity at the management level did not change substantially from 1993 to 2004, and that the marginal improvements that had been made were not uniform across various parts of financial services sector or across racial and ethnic minority groups.

Sadly, the GAO's follow-up data for 2006 shows that diversity at the management level in the financial services industry has remained about the same as reflected in its 1993–2004 report. The GAO report suggests that depository institutions such as commercial banks and insurance companies have generally been more diverse at the management level over the years than the securities sector and the holdings and trust sector, which includes investment trust, investment companies, and holding companies.

There is some suggestion, as some witnesses testified at the subcommittee's 2006 hearing, that even the modest growth reported in senior management level diversity may have been overstated due to the fact that the officials and managers category used in the Equal Employment Commission's EEO–1 form included lower and mid-level management positions that may have higher representations of minorities and white women.

The Equal Employment Opportunity Commission uses the EEO–1 form to collect demographic data annually from private employers with 100 or more employees and from Federal contractors who have 50 or more employees and are prime or subcontractors on a government contract over $50,000.

Effective with the 2007 reporting year, a revised EEO–1 form now divides the category officials and managers into two subcategories: The first is the executive senior-level officials and managers; and the second is the first mid-level officials. I'm happy to have Mr. Ronald Edwards representing the EEOC today to discuss this revised EEO–1 form, and to give a preliminary assessment of the utility of the new form in making a better assessment of diversity in the management ranks.

We are fortunate that several groups and foundations in the private sector have also been conducting studies and research about diversity in corporate America and about diversity in the financial services sector in particular. DiversityInc, one such company, is perhaps best known for its annual DiversityInc top 50 list of companies. DiversityInc grades companies on CEO commitment, human capital, corporate communications, and supplier diversity.

In addition to the top 50 list, there are top 10 lists for specific racial and ethnic groups, women and people with disability, and other categories. In 2007, over 300 companies submitted questionnaires and other data to be considered for DiversityInc's list. I am proud that Bank of America, a financial institution headquartered in my congressional district, was rated number one on the DiversityInc top 50 for 2007, and I look forward to hearing from our witness today, Ms. Geri Thomas, Global Head of Diversity at Bank of America, about how they achieved that ranking.

Also testifying at today's hearing is a representative of the Robert Toigo Foundation. Toigo conducts research into specific topics concerning diversity within the financial services industry. It completed a valuable study in November 2006 entitled, "Retention Returns: Insights for More Effective Diversity Initiatives." That study focused on retention of minority finance professionals. The study concluded that retention is increased if minority professionals receive visible significant assignments that are valued at the firm, if they have genuine mentors and receive objective performance standards that are applied fairly and consistently, and if they see visible commitment to diversity from the top, which translates down to middle management.

Fostering a diverse workforce is critically important, not only for minorities and women, but for U.S. firms seeking to compete in the 21st Century global market. With increased globalization, international firms with diverse workforces are competing vigorously with U.S. companies for revenues, profits, and talent. Indeed, the European Commission issued a comprehensive study in September of 2005 on the diversity efforts of leading financial and manufacturing firms in Europe. The European Commission study provides many important examples of innovative best practices in the areas of recruitment and retention of diverse staff and management.

It is noteworthy that in the European Commission study, 83 percent of the respondents believe that effective diversity initiatives positively impacted the bottom line. Among the most important benefits they reported were enhanced employee recruitment and retention from a wider pool of high-quality workers, improved corporate image and reputation, greater innovation, and enhanced opportunities.

Similarly, the DiversityInc representative will testify that the DiversityInc top 50 regularly outperform the S&P 500 in terms of return on investment. In the final analysis, if we can't make the legal, ethical, and moral case for U.S. companies to pursue diversity aggressively, perhaps they'll take note of the impact of diversity on the bottom line.

I have referenced a number of things, and before I yield to you, let me just ask your unanimous consent to insert the following documents into the record:

A letter dated February 9, 2005, from our former House Financial Services Chairman, Mike Oxley; our former Ranking Member and our current Chair of the Full Committee, Barney Frank; the

Oversight and Investigations Subcommittee Chairwoman, Sue Kelly; the Oversight and Investigations Subcommittee Ranking Member, Luis Gutierrez; and Oversight and Investigations Subcommittee member, David Scott, to the GAO, which requested a report on racial, ethnic, and gender diversity in the financial services industry, including professional accounting services firms, and access to capital.

Second is the July 12, 2006, GAO report, entitled "Overall Trends in Management Level Diversity and Diversity Initiatives 1993–2004".

Third, the DiversityInc top 50 list for each year 2001–2007.

Fourth, the September 2005 European Commission study entitled, "The Business Case for Diversity Good Practices in the Workplace".

Fifth, the January 20, 2008, Washington Post article entitled, "Most Diversity Training Ineffective, Study Finds," just to make sure we are giving equal time to all points of view here.

And I would reference, without submitting into the record, House Report 110–278, "Financial Services Diversity Initiative," that accompanies H. Con. Res. 140, which was a resolution that we passed in the House encouraging diversity in the financial services sector.

And finally I will submit, with unanimous consent, summaries of the credentials of each of our witnesses today, and I hope they will forgive me for not reading their entire vitae, resumes—whatever they are called—CVs. That's what they're called? Curriculum vitae. Okay. Whatever they are called, you know what I mean.

I'm going to put them in the record rather than reading them. That's the bottom line, so we can spend most of our time talking about the issues here today.

With that, I appreciate my ranking member's indulgence, and I yield to him for an opening statement in such matters as he may have to say.

Mr. MILLER. Thank you. You sound the same, although you do look different. But the women are keeping you straight on your side, I see, with your language on this, so keep it up, women.

I want to thank you, Mr. Chairman, for holding this hearing today. It's important to discuss diversity in the financial services sector, and this is an appropriate venue to have that happen.

I can only imagine that with the global economy we live in today, it would only benefit a company to diversify their workforce in an effort to meet the financial needs of their clients, customers, and community. As we will shortly hear in testimony from some of our witnesses, there is a clear economic advantage to diversifying companies. Today's white collar work pool is dramatically different than in the past. Educated men and women from a vast array of backgrounds are changing the face of the business world today.

In 2004, however, concerns were raised in this committee that the financial services sector was lacking a diverse workforce. And members had requested at that point in time—I was one of them—that the Government Accountability Office, the GAO, provide the overview of diversity in this industry.

The following year, the GAO reported that during the period from 1993 to 2004, the U.S. Equal Employment Opportunity Commission, the EEOC, data actually showed that management level representation by minority men and women increased overall from 11.1 percent to 15.5 percent.

While I understand that there is some concern with this data, and with the overall recruiting and retention rate of minorities in the industry, I believe that these numbers actually indicate a positive trend toward greater diversity in the financial services sector.

The GAO reported that between 1993 and 2004, the representation of African Americans and Hispanics increased by a percentage, and then Asian representation increased by 2 percentage points in management level positions across the financial services industry. Their report also shows that representation by white women remained constant, and representation by white men declined by 5 percent.

While the stated percentages may not seem extremely significant, I think we need to take into consideration the overall growth of management level positions in the financial services industry.

According to the information I received from the GAO this morning, there was an 18 percent growth rate in total management level positions in this industry from 1993 to 2004. The minority growth rate during this time period was about 65 percent, which is much faster growth rate than the overall development of these positions.

It also seems to me that we need to take into consideration the total population of the United States and take into account that these numbers may actually reflect the minority and non-minority ratios of populations across the country.

In addition to exploring these issues today, I am looking forward to hearing from the industry regarding their important programs and further increased diversity within the workforce. Private-sector initiatives are the crucial component for diversifying the industry.

I also look forward to hearing from Mr. Don Graves, CEO of Progress to Business, about his organization's crucial work to help minorities in the workforce. Mr. Graves is a former director of public policy for the Business Roundtable. In his capacity at the Roundtable, he also served as the executive director of Business Link, a public-private partnership created to encourage business-to-business relationships between large corporations and small businesses, especially minority and women-owned businesses and those located in economically distressed areas.

I am pleased to have Mr. Graves here today in addition to the other witnesses. I look forward to hearing from all of you from the private sector efforts to monitor and increase diversity within the financial services sector.

And I guess, Mel, it's like two people reading the Bible. Both of them come back with a different opinion. I thought it was pretty good and you had some problems with it, so I guess we're going to have some witnesses here that are going to try to tell both of us that we're wrong and point some light on what we're doing that's good and beneficial. I yield back.

Chairman WATT. I'm so happy to have you back. We're going to be a lot more cordial and congenial even than we usually are. So we're just joking, you all; we have a wonderful relationship.

I neglected to welcome one of my Charlotte constituents, Dr. James Daniel, who is a minister and a business person who has done a lot of work in the area of diversity, who found out about this hearing and flew in today just to be here to hear what we were doing, and to keep track of—check on his Member of Congress too, no doubt.

We have been joined by the gentlelady from New York, Mrs. McCarthy, who is a member of the subcommittee. Do you care to make an opening statement? She is an avowed opponent of opening statements. We are delighted that you are here and I hope you won't object to the next unanimous consent request that I am getting ready to make.

Since we talked about my good friend—Mr. David Scott from Georgia—before he arrived, he started this process by joining in the request of the GAO that they do this report, and he is here with us. He is not a member of our subcommittee, but he is a member of the Full Committee on Financial Services, and I would ask unanimous consent, if Mrs. McCarthy won't be too offended, that we allow him to make an opening statement since he got us off to the start on this when he was on the subcommittee.

I will recognize the gentleman for 5 minutes.

Mr. SCOTT. Well, thank you very much, Chairman Watt, first of all for the hearing and for your graciousness in allowing me to be a part of this subcommittee.

As America and as this Nation, our strength is our diversity. That has been the hallmark of our advancement. There's no greater need for that diversity than in the financial sector. That is especially true today as we are witnessing one of the most significant downturns in our economy. And at the core of it is the financial services industry, and at the core of that is some failures within that industry that certainly have diversity in terms of the problem.

If you look at so much of the problems that we are now incurring in our financial services industry, a lot of it has to do with some failures on our parts to really look at inequities in our financial system, and how we structure loans, how we structure mortgages, predatory lending, the "targetness" of it. And needless to say, I have long felt that sometimes you can avoid some of these problems if you have a rich diversity of thought and opinion, and people of different cultures and races within the decision-making capacity.

So this is an important hearing to address diversity in the workplace, or the lack thereof. And this hearing's topic of diversity in the financial services industry, of course, has been of particular interest to me for several reasons, the most important reason being the need to open up access to capital in minority communities. As Mr. Watt has said, I have been on this track for a long, long time, as an entrepreneur, as one who is a graduate and received my MBA from probably, I say the top school of finance and business in the world, which is the Wharton School of Finance at the University of Pennsylvania.

But my thesis work was done in this area, and my title that Mr. Watt—my title of my thesis was, "A Light Out of the Darkness," which was to bring some greater diversity at every level in terms of the workplace.

As I said, America's strength is that it has always been a place of diversity, and we are proud of this fact, and this should be reflected in the workplace, especially in the financial services sector.

I understand the unique challenges facing minorities, being one myself and having gone through this. In the financial services businesses, I know the need. We do not have enough diversity in key decision-making positions within the financial services industry, which is the heart and soul of our free enterprise capitalistic system.

And I hope that this hearing will shed more light and give us a renewed commitment to really make sure diversity is really taking place, and I'm hoping for some new ideas and solutions today, addressing this issue. More must be done to open the doors of opportunity for the rest of America to include all of America, and this is a fight that this committee under the leadership of Chairman Watt and our subcommittee as well the leadership of the chairman of our Full Committee, Chairman Frank, in terms of this fight.

I am pleased, Mr. Chairman, that you have chosen to hold this important hearing. I appreciate the opportunity to participate, and I do look forward to the testimony of our distinguished witnesses. Thank you.

Chairman WATT. I thank the gentleman for his continuing interest and commitment in this area. I wasn't aware of his thesis, but I learn something new about the gentleman every day, which is good. So perhaps we'll look at putting that in the record too, if the gentleman—I know he's too modest to suggest such a thing, but we'll talk about that later, and maybe if it fits—we won't force it, but if it fits, that might be a good thing to do.

I am pleased now to introduce our first panel of witnesses. We have two panels, the government witnesses and the private sector witnesses.

The first witness—and again you all forgive me for the abbreviated introduction, but I don't want us to run out of time this afternoon—our first witness is Orice Williams, who has been with us before. She is the Director of Financial Markets and Community Investment at the U.S. Government Accountability Office, and we welcome her.

And our second witness on this panel will be Mr. Ronald Edwards, Director of the Program Research and Surveys Division with the Office of Research, Information and Planning at the Equal Employment Opportunity Commission.

Welcome, both of you. And we will start with Ms. Williams. Before you do that, let me do my protocol stuff here. Without objection, your written statements will be made a part of the record. Each of you will be recognized for a 5-minute summary of your testimony, and your full statement will be in the record, and of course if you spill over a little beyond the 5 minutes, we'll count that from the time we saved from the introductions.

So you are recognized for 5 minutes, Ms. Williams.

STATEMENT OF ORICE M. WILLIAMS, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Ms. WILLIAMS. Thank you.

Chairman Watt, Ranking Member Miller, and members of the subcommittee, I am pleased to be here this afternoon to discuss

GAO's 2006 report on diversity in the financial services industry, and provide some updated statistics.

In particular, I would like to highlight trends in management level diversity and discuss diversity initiatives, and some of the challenges companies face.

First, our analysis of EEOC's data on workforce demographics revealed that between 1993 and 2004 overall management level representation by minorities and women in the financial services sector had not changed substantially, although there was some variation by racial and ethnic group. In updating similar statistics for 2006, we found that little has changed.

For example, all minorities at the management level had increased from about 11 percent in 1993 to 15.5 percent in 2004. This number had increased to 16.1 percent in 2006. While changes in some of the job categories limits our ability to trend this data directly, the 2006 data are still generally comparable.

Across racial and ethnic groups, African Americans, Asian Americans, Hispanic Americans, and American Indians experienced varying levels of change over this period. The trend for white woman has remained relatively constant at slightly more than one-third. However, it is important to keep in mind that management is defined very broadly and includes everyone from the assistant manager of a small bank branch in Charlotte to the CEO of a Fortune 500 company.

Therefore, these statistics may actually overstate the amount of diversity among senior managers in the financial services industry. However, in 2007 EEOC began to collect this information in such a way that we hope will allow for a more focused analysis on senior management in the future.

In addition to evaluating the industry as a whole, we also looked across sectors and found that certain sectors such as depository institutions and insurance within this industry were more diverse at the management level than others.

Now let me turn briefly to corporate diversity initiatives and programs. We spoke with dozens of firms and trade associations to obtain their views and perspectives about diversity. We found that many had programs or initiatives to increase workforce diversity and that they face a variety of challenges.

For example, we heard from several firms that diversity initiatives cannot be treated as programs. Instead they have to be viewed as long-term commitments that may start at the top, but must permeate the entire organization. We found that many firms had programs that focused on attracting, recruiting, and retaining a diverse workforce. This included offering scholarships and internships to students to attract them to the financial services industry, recruiting from a diverse pipeline and fostering a working environment of inclusion that allowed all employees to thrive.

We found that some firms are trying to develop performance measures to gauge the effectiveness of their diversity efforts, which can be challenging.

Some common measures identified were tracking employee satisfaction survey results, and the representation of women and minorities in key positions.

These measures become more important as some companies are beginning to hold senior managers accountable for fostering a more diverse workforce, including linking managers' compensation to their performance in promoting diversity.

However, we found that financial institutions face a variety of challenges that may provide insights into the statistics I mentioned earlier. In particular, we heard that maintaining a critical mass of minority employees needed to establish a visible presence, effective networks, and mentors for minority and women candidates has been an ongoing challenge.

Finally, firms noted that building a pipeline of diverse talent was also a challenge. Specifically, the financial services industry requires that many senior officials possess certain skills and credentials and the possible pool of candidates may be constrained by this requirement. For example, of accredited business schools, about 19 percent of graduates, one potential talent pool for the industry, are minorities.

This concludes my oral statement, and I would be happy to answer any questions at this time. Thank you.

[The prepared statement of Ms. Williams can be found on page 162 of the appendix.]

Chairman WATT. We thank you very much for your testimony, and we'll first hear the testimony of Mr. Edwards and then we'll open it up for questions.

Mr. Edwards, you are recognized for 5 minutes.

Mr. EDWARDS. Thank you very much. Good afternoon, Mr. Chairman, and members of the subcommittee.

Chairman WATT. We need to either have you turn that on or pull it a lot closer to you.

Mr. EDWARDS. Is this better?

Chairman WATT. Yes.

STATEMENT OF RONALD EDWARDS, DIRECTOR, PROGRAM RESEARCH AND SURVEYS DIVISION, OFFICE OF RESEARCH, INFORMATION AND PLANNING, U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

Mr. EDWARDS. My name is Ron Edwards, and I am the Director of the Program Research and Surveys Division of the Office of Information and Planning at the Equal Employment Opportunity Commission. Among our Division's responsibilities is the implementation of the Equal Opportunity Survey Program, that collects workforce data from employers in various sectors of the economy.

Key among these efforts is our collection of data from the private sector in the EEO–1 report. We appreciate the opportunity to address the subcommittee today.

The EEO–1 report, as the chairman had pointed out earlier, requires private employers to provide account of their employees by job category, race, ethnicity, and gender. EEO–1 employment data are collected annually by the EEOC for its own programs and for those of the Office of Federal Contract Compliance Programs, OFCCP, at the Department of Labor.

Private employers are required to file the EEO–1 report when they have 100 or more employees or when they are Federal contractors or subcontractors with 50 or more employees and contracts totalling $50,000 or more. Data are collected for each employer who meets these criteria; an employer who has multiple establishments is required to file a separate report for each establishment where they have 50 or more employees.

The workforce data are reported on a matrix that captures employee counts by job category, race and ethnicity, and gender. The EEO–1 report must be filed annually. It is filed every year by September 30th; that is the deadline. The employment data comes from a payroll period in the months of July, August, or September.

The Commission is required by law to maintain this data confidentially, and they can only be released under very limited circumstances. In 2006, we collected data from about 50,000 employers that covered about 55 million employees.

Both the EEOC and the OFCCP have used this data since 1966. Our EEO–1 data are used for a variety of purposes. EEOC uses the data to support its enforcement program. We also use the data to analyze employment patterns such as the representation of minorities and non-whites in various industries or regions of the country.

A number of the studies that we have published using the EEO–1 data recently are posted on our Web site, EEOC.gov. It is our understanding that the OFCCP uses EEO–1 data to determine which contractors' or subcontractors' establishments to select for contractor evaluations.

The EEOC also encourages employers to use our EEO–1 data for self-assessment. We post aggregate EEO–1 data on our Web site, and upon request we will provide customized tables to employers so they can compare their own EEO–1 reports and workforce data to data aggregated for their competitors in the labor market.

Finally, a wide range of academic researchers use our EEO–1 data for various research purposes, and the areas come from economics, sociology, public policy, public administration, and they use the data to publish research as a result of that.

Prior to 2007, we collected data using nine job categories, and those job categories were: Officials and managers; professionals; technicians; sales workers; office and clerical workers; craft workers; operatives; service workers; and laborers. And beginning with the 2007 survey, we then divided one of the job categories, officials and managers, into two separate job categories.

Those two job categories are defined as being executive or senior-level officials and managers, and the second category is first or mid-level officials and managers.

Executive or senior-level officials and managers are those individuals who plan, direct, formulate policies, set strategy, or provide overall direction in developing and delivering products, with guidance from a board of directors or some similar governing body.

The job titles that we might expect that come from that job category are things like chief executive officers, chief operating officers, chief financial officers, presidents, executive vice presidents, chief human resources officers, and chief information officers.

In the securities industry, we recognize that these job titles may not be prevalent, and so we might expect to see things like managing directors or job titles like that in this job group.

But the key fact is what is the function of the job. If the job is to provide overall direction for the entire corporation, then we expect these individuals to be classified here.

It's easy to think of the first or mid-level officials and managers as being everyone who is left out of the first category. But more precisely, they are the individuals who oversee and direct the production and delivery of products, services, or functions at a group, regional, or divisional levels in organizations.

This category would include first-line managers, production managers, store branch managers, and in the finance industry, they might even include a job category like vice presidents.

We also made some other more technical changes to the 2007 EEO–1 categorization of jobs by adjusting some of these categories. For example, we took the job title of purchasing agent and moved it into the professional category from the official and manager's category because it is more reflective of the duties there, and we also more clearly defined things like financial analyst and personal financial analyst as being a professional job rather than an official's and manager's job.

However, the key thing to remember is for all these jobs it's the function that defines whether or not they were being included. If they are providing overall direction for the corporation, again they would be in the first category of the executive director, and in the second category it would be those that are providing more local direction.

Thank you for this opportunity to testify today. I look forward to any questions that you may have.

[The prepared statement of Mr. Edwards can be found on page 97 of the appendix.]

Chairman WATT. Thank you so much for your testimony and we will now recognize the members of the committee for questions, and as her reward for not making an opening statement, I will recognize the gentlelady from New York, Mrs. McCarthy, first.

Mrs. MCCARTHY. Thank you, Mr. Chairman. Just to clarify, I don't have anything against opening statements; I just think that they should be reserved for the chairman and the ranking member. Sometimes we sit here for an hour-and-a-half listening to opening statements, and most of us come to actually hear the witnesses so we can learn. So let me clarify that.

Ms. Williams, with your study, did you see any models that were actually working where you saw larger corporations with a better diversity because they made a commitment as far as bringing diversity into their corporation?

Ms. WILLIAMS. Our approach to the work really divided those two issues. We relied on the EEOC for the statistics about the diversity within industry as a whole. We did not drill down to specific company level data. So when we collected information about what companies were actually doing, we gauged those practices against best practices based on work that the GAO had done more broadly on diversity management. We didn't actually do any type of correlation comparison. But there have been other studies that have attempted to do that.

Mrs. MCCARTHY. Well, I'm just wondering because if there are models out there or corporations that are out there that actually have good programs that have been working to bring diversity into the place, that might be something that we could look at and figure out, "Okay, what are they doing and how can we help other corporations bring that onto line?" A lot of times, they probably don't know where to start. I can't answer for them.

When you were talking, Mr. Edwards, about government contracting and trying to bring diversity into the government contracting, when I was on the small education—on one of the investigating panels that we had, we found that a lot of these government contracting that were out there, they had "minority" but actually the minority was a front person for someone else who was actually putting money or getting the contract because they said they had a minority. Did you find out in your research, or do you do that, as far as to see if that's improved since probably about 2/04?

Mr. EDWARDS. Well, I think probably you're alluding to something that the Office of Federal Contract Compliance would do in their review of a Federal contractor as part of their compliance reviews and examining their affirmative action plans and things like that.

Mrs. MCCARTHY. Okay. When you started to look at changing how you set up your—to finding the professional on the different levels, did you find that a difference in the diversity as far as the training programs going back up? You know, you went to a lower level and then you went to the higher level. Being here in Congress, we meet a lot of CEOs, and I noticed that with a lot of the CEOs who come in to see us, there is no diversity whatsoever.

So I am just curious what programs possibly they have, because you do see a lot of minorities in mid level, but no one seems to really make it to the top. And by separating, since you did the examination, were you able to see that more diversity was coming into the top?

Mr. EDWARDS. Well, we haven't had an opportunity to actually examine the data yet; we are still collecting and processing that data. But certainly that is one of the things that we hope to do by having those distinct job categories. In the past, we would have to do a comparison to a lower-level job group like professionals, and now we think we'll be able to be much more precise in our analysis.

Mrs. MCCARTHY. How long do you think that will take?

Mr. EDWARDS. We hope to have the data prepared by late spring.

Mrs. MCCARTHY. This spring?

Mr. EDWARDS. Yes.

Mrs. MCCARTHY. Thank you, Mr. Chairman.

Chairman WATT. I thank the gentlelady, and recognize the ranking member for 5 minutes.

Mr. MILLER. Thank you. We enjoyed both of your testimonies, and I think, Mr. Edwards, you have a near-photographic memory based on watching you review your notes there, and you seem to go page by page.

Ms. Williams, diversity can be very difficult, and based on what your statements were, you have proven that. Are there limits to what Congress and the regulators can do to increase diversity?

Ms. WILLIAMS. I think based on the body of work that we did, we laid out the current situation and in terms of whether or not it is able to be legislated, we really view that as a public policy decision. So our purpose was to provide baseline information for Congress.

Mr. MILLER. I have a personal belief. It's like everybody in my family is union except me, and unions don't like me because I'm a Republican.

[Laughter]

Mr. MILLER. But I have always believed that the best thing I could do to help working people was to create the best business environment we can create to produce more jobs—

Ms. WILLIAMS. Yes.

Mr. MILLER. And more competition for labor. When you look at this, would maybe our efforts be more appropriately applied to creating an extremely robust financial services sector, and would that not create the demand for diversity in and of itself? Or do you have an opinion on that?

Ms. WILLIAMS. I really don't have an opinion on that.

Mr. MILLER. Okay. You have stated here that the diversity initiatives launched by the private sector have faced challenges—

Ms. WILLIAMS. Yes.

Mr. MILLER. Did you get into what those challenges are, and how many of those can be dealt with?

Ms. WILLIAMS. We basically collected information based on challenges that were articulated, and we broke them out into specific categories. We did not then go on to address how they could be best addressed, but laid out what they are based on the information we collected from companies in the financial services sector.

Mr. MILLER. Okay. But you stated in the report that in 2004, the diversity increased to about 15.4 percent for minorities, and in 2006, it increased to 16.1 percent. Is that accurate?

Ms. WILLIAMS. The 15.5 percent is basically what the percentage of the total workforce was at the time for minorities.

Mr. MILLER. And so, it is actually increasing. By 2006, it increased to 16.1 percent.

Ms. WILLIAMS. Correct.

Mr. MILLER. So it seems like we're going in a good direction. I guess we need to better define what these challenges are and how some of these challenges can be met.

Mr. Edwards, included in the GAO report, there is a finite pool with a limited pipeline, as the GAO puts it, of minority women candidates for senior management positions. Given the limited pipeline, is the focus on raw numbers limited to what's being used in this area? Is that what we're dealing with?

Let's see, your EEO–1 form that you're using, it breaks it down into different categories, but we end up looking at a raw number equivalent at the end.

Mr. EDWARDS. That's right. So that form is basically, you can think of as being like a tally. And as far as the EEOC is concerned on some of these issues, we certainly use that as an important screening device, but we look at things like pipelines and movement within companies and things like that in our investigative process, we then go beyond that and get much more detailed data about, you know, more specific job titles and qualifications and things like that when we are conducting an investigation.

Mr. MILLER. Do you think that focusing on counting, measuring, filling out forms gets you to the best way of achieving diversity, or do we impose a burden on organizations by requiring this? Or are there other ways that might better achieve diversity in the marketplace, in your opinion?

Mr. EDWARDS. Well, I am trying to stress the fact that we only use this as sort of an opening or a screening mechanism that gives us an idea about what is going on within an industry or within an employer's workforce. And we then seek much more detailed information, when moving along.

I do think it has a real value for employers in terms of being able to compare their workforce and what's going on with their employees to, you know, other people who are like them and that they compete with for workers in the labor force to see how well they are doing.

Mr. MILLER. It seems like, based on Ms. Williams' numbers, that the numbers are increasing, but we need to get to the bottom of what the challenges are and how to better deal with those if the system is going to continue in that fashion. But it seems like the challenges are the obstacle right now that the sector is dealing with, trying to increase the numbers, but the numbers have increased from the 1990's, when it started at 11.1 percent, to 16.1 percent in 2006. That is a pretty significant increase on their part.

Thank you, Ron. Time has run out.

Chairman WATT. I thank the ranking member for his participation, and I will give myself 5 minutes for questions at this point.

Mr. Edwards, were you involved in the decision to separate the top management category in the two different areas, or was that decision made elsewhere?

Mr. EDWARDS. Well, it was certainly made within the Commission, and our office was involved in participating in that and in the regulatory process of getting comments on that.

Chairman WATT. Can you kind of give us a snapshot of the reasons that was important?

Mr. EDWARDS. Well, mainly for a lot of the reasons that you all have already stated here today, that we felt that the job category was just very broad; it wasn't as probative as we had hoped that it would be, and that we realized that with certain issues, as people are making progress within the workforce that this movement within the officials' and managers' category was very important to deal with issues like glass ceilings that different groups were confronting and those types of issues, and we just felt that it would provide us a much better analytic tool if we could just divide that job group into a move reasonable and workable group.

Chairman WATT. And Ms. Williams, the tool that the GAO used in making its assessment was primarily the EEO–1 reports?

Ms. WILLIAMS. Yes, totally.

Chairman WATT. Totally the EEO–1 reports. Okay.

You have looked at the new categories, I presume?

Ms. WILLIAMS. Yes.

Chairman WATT. Are they sufficiently descriptive, in your estimation, to give us going forward a better picture of diversity, or do we need to look at those? Does the EEOC need to look at those further, and divide them into even more categories?

Ms. WILLIAMS. Well, I think it is definitely a movement in the right direction in terms of narrowing the range for the definition of management. Whether there needs to be additional breakout is unclear at this point because basically the EEOC just started collecting this information in 2007. It will be interesting to see what the statistics show this summer.

Chairman WATT. Did the EEOC consult with the GAO in trying to figure out what the categories ought to be?

Ms. WILLIAMS. No, not to my knowledge.

Chairman WATT. Okay. And Mr. Edwards, has the EEOC had enough time to make even a preliminary assessment of whether this is going to be more effective than the prior mechanism that the EEO–1 forms were using?

Mr. EDWARDS. I'd have to say not. Again, we haven't really finalized the file yet and we won't get that until late spring, probably.

Chairman WATT. And what kinds of things will you look at to assess whether even more differentiation needs to take place?

Mr. EDWARDS. Well, I think we're going to first of all start to look at, to make sure there is some differentiation, what is the distribution of employees among those job groups where those differences occur.

I mean there is an assumption, perhaps, that all of the higher-level executive officials and managers will just be at our headquarters facilities. So we want to check that out and see if that's the case or if it's more widely distributed. Are there variations among industries, so that there's a big cluster in some industries and not in others?

So we want to look at the distribution of employees not only within a firm, but also across industries and perhaps even with different types of establishments.

Chairman WATT. Ms. Williams, you looked initially, I guess, at the EEO–1 reports, but it sounded to me like you had some discussions with the industry participants because you talked about challenges that they are facing. The Securities Industry and Financial Markets Association has suggested that diversity decreases the more senior the level of management. In your discussions with industry participants, were you able to identify any of the reasons that is the case?

Ms. WILLIAMS. This was an issue that came up in conversation because we did rely on SIFMA, the Securities Industry and Financial Markets Association's survey. They did a survey in 2005. They have done one in 2007, and it shows a similar trend that the higher you go in the organization, the smaller the number becomes in terms of minorities.

Anecdotally, we did hear that this was an issue. Some of the reasons offered range from while they may be able to attract minorities and women into the organization, there comes a time that those hires will look around and they won't see people who look like them at the highest levels in the organization. They feel that they don't have a future, and they will leave.

I also mentioned the critical mass issue. So one of the things we heard is that there needs to be a critical mass of minorities in the organization to create a sense of network and connection in order for people to feel that they actually have a future at the organization.

Chairman WATT. Okay. My time has expired. I guess we will be getting into more of these kind of issues with the second panel. I am pleased to welcome to the hearing a member of our subcommittee, Ms. Waters from California, and I know she has had an active interest in this area for years and years, although she is younger than I'm making it sound like. Very much younger, she says.

So I'll recognize the gentlelady for 5 minutes for questioning.

Ms. WATERS. Thank you very much, Mr. Chairman, and I do appreciate that your subcommittee under your leadership is delving into this issue. I must admit, it's one of the most frustrating parts of our work. To constantly have to try and not only seek the information relative to diversity in financial services sector, but to have to do all of the other work that goes along with public policy making.

As I have reviewed the report, and some of the testimony, I think I understand the limits of the research. However, I'm not sure, and I want to ask a couple of questions.

Ms. Williams, it appears that some of the challenges that—well, some of the initiatives that have been taken by some of the firms, such as initiatives in recruitment, partnering with other groups and organizations, given incentives, pay incentives—you reference all of that, but do you have any documentation for any of that?

For example, in your research, if somebody said, "We partnered with these organizations in order to help us do recruitment, to find professionals, etc.", can you identify the organizations that they say they partnered with?

Ms. WILLIAMS. Yes. Well, in conversations that we had with the companies, we generally asked who they partnered with, and then we would follow up with those organizations to get the perspective—

Ms. WATERS. Give me some examples of that.

Ms. WILLIAMS. Some of the organizations partnered with Toigo, for example. If you would like other examples of where there were relationships or connections established, I would be happy to provide that for the record.

When we speak with the private sector, we generally keep a lot of the information confidential because we can't compel them to speak with us. So in order to encourage an open dialogue, we agree to keep the information that we obtain from them confidential.

Ms. WATERS. All of the information that you obtain from them is confidential information?

Ms. WILLIAMS. We find that we are able to collect a lot more information if we collect the information, we assemble it, and we provide it in the aggregate, so that's how we generally provide our information.

Ms. WATERS. What about our GSEs, for example, Fannie Mae and Freddie Mac?

Ms. WILLIAMS. Yes.

Ms. WATERS. You tell them you will keep that information—they are semi-public—

Ms. WILLIAMS. They are slightly different, but the organizations that we met with for this job were private companies.

Ms. WATERS. In the financial services industry?

Ms. WILLIAMS. Right.

Ms. WATERS. All private?

Ms. WILLIAMS. Yes.

Ms. WATERS. And they were able to give you the names of groups and organizations they had partnered with, schools they have done recruitment at, all of that kind of information?

Ms. WILLIAMS. Generally, when we talk to them, we specifically ask—if they said they had partnered with an organization, we would ask who they had partnered with. We often found that it was also an organization that we had contacted during the course of this audit, so we were able to get the information from both perspectives.

Ms. WATERS. If they tell you they recruited at certain schools, for example, they recruited at Spelman and Morehouse, you would know that?

Ms. WILLIAMS. Well, what we could do in that situation if they told us that they recruited at Spelman and we wanted to verify that, we would go to Spelman—

Ms. WATERS. Have you ever done that? Have you ever gone to Spelman or Morehouse to see if they had been contacted by any of these Wall Street firms, for example, and whether or not they had relationships with them, and they give you the number of people who have been hired in the industry from the colleges or universities? Do you have concrete information?

Ms. WILLIAMS. At that particular level, no. Generally at the relationship level, yes.

Ms. WATERS. What does that mean, at the relationship level?

Ms. WILLIAMS. That means if they told us that they had partnered with Toigo, for example, we would know that they had partnered with Toigo when we had a conversation with Toigo about the—

Ms. WATERS. Can you tell us, give me the names of three firms they have partnered with, or nonprofit organizations, without telling me which financial services firm is connected to the organization? I'd just like to get idea of who they are partnering with.

Ms. WILLIAMS. Sure. I would be happy to provide that information for the record.

Ms. WATERS. I want it now.

Ms. WILLIAMS. I am not in a position to give it to you now.

Ms. WATERS. Okay. All right. What can you tell me—and the reason I'm questioning in this manner is that we get a lot of information similar to what you have in your reports that talked about companies using compensation as an incentive to do better in diversity, but we have no examples of it. We don't know what that means. We don't know whether or not a company has a program where they're compensating their mid-level managers in a specific way or given bonuses. I just don't know what any of this stuff means.

Ms. WILLIAMS. Yes.

Ms. WATERS. Can you tell me? Have you found companies that actually use compensation as a way of providing an incentive for their managers or executives, or the CEO, or anybody, to increase its diversity and employment of minorities?

Ms. WILLIAMS. We did find companies that told us they do use compensation as a way to—

Ms. WATERS. Did you have any way of verifying it?

Ms. WILLIAMS. Did we have any of them provide documentation on that issue, specifically?

I'm not in a position right now to say that we actually got specific documentation from them.

Ms. WATERS. You probably didn't, did you?

Ms. WILLIAMS. We were able to collect some documentation, but I am not sure if it is specific to particular companies. What we were told was consistent with what SIFMA reported in its most recent survey, that there has been an increase in the number of companies that are using compensation.

Ms. WATERS. Thank you for your generosity of time, Mr. Chairman. If I display a little bit of impatience, it is because I have been here too long; I've heard too much; and I hear too little.

Chairman WATT. Well, we thank the gentlelady for her persistence and her patience over the years on this issue.

We have two members who are not members of the subcommittee with us. Mr. Scott has been recognized for an opening statement, and I would like the benefit of, since both of them have been long-term involved in diversity issues, if I could ask unanimous consent to allow them to ask questions of these witnesses.

[Laughter]

Chairman WATT. In that case, I will recognize Mr. Scott first, for 5 minutes.

Mr. SCOTT. Certainly, but before I ask my questions, I certainly want to give recognition to the beard that now accompanies my good friend from California. It is very becoming, and go for it, my friend.

[Conversation off microphone]

Chairman WATT. You all missed the classic role reversal before you got here. I became a Republican and he became a Democrat.

Mr. SCOTT. I got it.

Mr. MILLER. And we both did a very poor job at it.

[Laughter]

Mr. SCOTT. Who says bipartisanship doesn't work in this committee?

Let me start by asking you this question, Ms. Williams. What does your research reveal about the relatively flat increase? I mean no increase basically during what, from 1993 up until now? What, and very briefly, what do you say accounts for no increase? I mean that's a long time not to see an increase. Why so?

Ms. WILLIAMS. We basically collected descriptive statistics, so I can't tell you why that number hasn't changed.

Mr. SCOTT. Were you able to get into any defining moment where you could define attitudinal issues, racism, discrimination, prejudice, gender bias? Is there anyway that you could say that is a reason?

Ms. WILLIAMS. In conversations with companies that have been dealing with this issue, the closest we would come anecdotally would be an observation that middle managers are key in bringing about more diverse organizations and the buy-in of middle managers are key because they tend to be the group that has the greatest direct impact on the day-to-day lives of employees who are being brought into organizations.

You can have a CEO who is committed to diversity, and if his middle managers haven't bought into it totally and aren't committed to it, then it makes implementing a diversity program in an organization more challenging. That's one of the things we have heard.

Mr. SCOTT. Okay. I'm glad we have put our finger on one of the problem areas.

Now can you tell me the difference between the categories of officials and managers, senior executives, and first middle level? I mean, these are—what are these? I would think that, you know, what's the difference here? Why this compartmentalization of what looks like to be the same people, but yet, you know—

Ms. WILLIAMS. Actually, I think I'm going to defer to Mr. Edwards on this one—

Mr. SCOTT. Okay.

Ms. WILLIAMS. Because we use the EEOC's categories.

Mr. EDWARDS. Well, that higher level of group of managers, those executive officials and managers, are really the people who are providing direction in their field for the entire corporation. Those are the individuals that we expect to be the highest paid in those corporations and really to yield their effect throughout the organization.

The mid-level, or first-line officials and managers, generally speaking, are low-level managers, that although they manage their operations, they're not going to have the corporate-wide influence over the organization.

Mr. SCOTT. Okay.

Let me go to another set of questions in terms of programmatic things where you're able to discover. For example, are there budgets that have been placed within corporations for diversity, budgets that break down, do they advertize their diversity? Do they show in publications, in their advertising, women and people of color in decision-making positions? Did you find any way of measuring the level of which these companies are communicating this out in their advertising and marketing approaches?

Ms. WILLIAMS. That's not a specific issue that we drilled down on.

Mr. SCOTT. Okay.

How close were you able to get to the issue of linking pay with performance here? Ms. Waters touched upon that, and I just couldn't get a clear answer here. I'm trying to figure, because the one thing about the capitalistic system that we know is this: Money talks.

So if, for example, we have no way of being able to determine whether these companies or those in the financial services industry put their money into budgets to promote diversity, to reward diversity, what good is this report?

Chairman WATT. The gentleman's time has expired, and I'm inclined to cut him off because I know that he's more likely to get a cogent answer or response to that question from members of the second panel of witnesses, because the two people you are asking these questions to kind of put the numbers together but haven't really been involved in the implementation of these programs.

So if the gentleman would yield back, I think he might find more fruitful territory with the second panel with some of these questions.

I will now recognize the gentleman from New York, Mr. Meeks, and I thank him for being here and for his interest and commitment in this area.

Mr. MEEKS. Thank you. I will be brief.

I want to follow up on something that Congresswoman Waters talked about, because in the study—and I want to make sure I understood—you're saying that there's no connections to what universities that any recruitment was done in, that the GAO did not talk to the company and say, "Well, what university did you go to recruit people for positions in the office?" We don't know that, what schools they went to, in the study?

Ms. WILLIAMS. We generally had a more general conversation. For example, we would have asked questions about historically black universities or universities that had a high Hispanic population. In response to an earlier question about three networks that companies told us that they partnered with or outreached to from both directions, we did include in the report, and I now have that information. They were the National Black MBA Association, the National Association of Hispanic MBAs, and Toigo. So those were three, and this is information that we confirmed from both sides—not only the companies but also from these organizations as well that they did have partnerships with the corporations.

But in terms of specific universities, I think in some cases we may have gotten information that they went to a particular university and also some of the companies publicized that information on their Web sites—where they actively recruit.

Mr. MEEKS. Managers are not probably what he wants to happen, then he has the power to make sure that mid-range manager is in place to do a program. What are your results on that?

Ms. WILLIAMS. Well, just one point of clarification. The statistics that we relied on were the statistics from the EEOC, the EEO–1 data, and all of that information is aggregated in the data that we had. So we could only turn to other organizations that had collected information that had a greater breakdown, for example, the SIFMA survey, where they actually showed more of a pipeline trend.

Our analysis really covered that very broad range as defined by EEO–1 in our statistics, so I'm not in a position based on the analysis that we actually did to discuss the internal pipeline. There we relied on other organizations that had done internal pipeline information, and I think EEOC had actually done a study where they looked at the internal pipeline issue.

Chairman WATT. Mr. Edwards?

Mr. EDWARDS. Well, again, we were limited by the data that we had, which was also EEO–1 data, but our study was a little bit different than GAO's study, and what we were interested in was comparing officials and managers to professionals to see if there was, say, equity and the probability that if you looked at women, were women as equally likely to be officials and managers as white men were—those types of analyses.

And we found that there is a lot of variation among—also we did our analysis at the firm level, so we determined that there is a lot of variation among firms that this is difficult to treat this industry as one holistic body, but that within this there are certainly sectors in the industry where non-white groups and women did better than other sectors of this industry.

Mr. MEEKS. So I think that you're telling me, what I'm hearing is that we need a different kind of study then to really evaluate what's going on here. Because if I'm hearing right, the data that you're utilizing is limited. You're really not focused on what the hindrances of hiring is. We may not know whether or not the fruitfulness of recruiting at historically black colleges and universities are.

So there's a lot lacking here. There's a lot more to be done or we need to rely on some different information to really get at the crux of what the problem may be in regards to diversity in the financial services industry. Is that what I'm hearing from you?

Ms. WILLIAMS. I do think data limitations is an issue.

Mr. EDWARDS. I would just add to that that there are certainly a number of researchers who use our EEO–1 data, academic researchers that I mentioned earlier, and these are really, you know, the questions that you're asking are some of the questions they're interested in as well, and they certainly spend—they can spend years doing this, collecting data and doing their analyses, and trying to get at some of the issues you've raised.

Mr. MEEKS. Except as I talk to some, you know, it just seems to be, some of it seems to me we can get there if we're focused on it—

Mr. EDWARDS. Right.

Mr. MEEKS. And it just doesn't seem that we're focused on it.

Chairman WATT. I thank the gentleman for his questions, and I should point out that the staff has advised me that when the ground rules were being written for the GAO study, the committee sanctioned a level of confidentiality because they thought it would yield more openness on the part of the industry, and would enable GAO to go outside just the EEO–1 statistics, and actually talk to some of the companies, but in all probability we won't be able to get specific—I mean we can get general information like Ms. Williams has already give us, but pairing it to particular companies we won't be able to get out of this GAO study, because of the ground rules under which the study was done.

So anyway, we have run out of time to ask questions of this panel. Some members may have additional questions for this panel, which they may wish to submit in writing, so without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

We thank both of these witnesses for your testimony and your openness, and you are excused, and we will call up the second panel.

While this panel is getting seated and assimilated, I wanted the members of the committee to know that we do have the capacity to ask specific questions to the private sector about their practices, so that might be something that we want to look into outside the GAO study, but the GAO study had some constraints around it that were designed to make it easier for them to get information that might not otherwise have been available to the GAO.

So there are still other possibilities that might exist.

The second panel is seated, and for those of you who were not here at the beginning, we made a unanimous consent request and submitted their full CVs, curriculum vitae, into the record. So I'm going to give an abbreviated introduction of the witnesses so as to conserve time.

Our first witness is Mr. Luke Visconti, who is a partner and co-founder of DiversityInc, a Newark, New Jersey, based multimedia company that focuses exclusively on diversity in corporate America.

Our second witness is Ms. Nancy Sims, president of the Robert Toigo Foundation, an Oakland, California, nonprofit organization focused on leadership development in the field of finance.

For our third witness, we are honored to have Representative Allen here from Maine, who is the Representative of the Phoenix Foundation, and I will recognize Mr. Allen for an appropriately short introduction. I don't want him to do his local politics here, but I recognize him for an appropriate introduction.

Mr. ALLEN. Thank you, Mr. Chairman. Would we ever do local politics here? Not at all. Dr. Walter Corey is a friend of many, many years, a former tennis partner, and I just wanted to say a few things about him. He comes as the director of the Phoenix Foundation, which is a nonprofit organization based in my district, with a mission to advance progressive social change. Their ethical leadership training program uses interactive role-playing situations and in-depth group discussions to teach values-based leadership to government groups, secondary schools, colleges, and graduate schools, and increasingly the private sector.

In addition to fostering leadership and discussing corporate ethics and financial literacy, the Phoenix Foundation has made a commitment to gender, racial, and multicultural diversity training. Walter got me involved in a course that he was teaching to the students at Shephards High School, a Catholic high school in Portland, Maine, and yes, I could see the excitement in the eyes of those students. It was really a very dramatic experience.

He is a graduate of Princeton, and in addition to a law degree and master's degree in economics from Yale University, he also has a master's degree in divinity and a doctorate in ministry from the Bangor Theological Seminary, and I just wanted to say to Walter Corey, it is a pleasure to have you here, and I know the committee will be very interested in what you have to say.

Thank you, Mr. Chairman. Was that appropriately brief?

Chairman WATT. It is a pleasure to have you here, Dr. Corey, but you have put me the bind here of having put all of these wonderful credentials of other people in the record and not having stated them publicly. So I'm feeling a little like I owe the other witnesses something.

So anyway, I spoke glowingly of Ms. Thomas, our next witness, Ms. Geri Thomas, global diversity and inclusion executive for Bank of America, which happens to be headquartered in my district, and so I'm exercising some restraint in introducing her too.

Our next witness is Ms. Marilyn Booker, the managing director and global head of diversity for Morgan Stanley Company, followed by Mr. Zaid Abdul-Aleem, vice president of Piedmont Investment Advisors, who is appearing here on behalf of the National Association of Securities Professionals—Piedmont Investment Advisors is based in North Carolina also, so we certainly welcome him here. And our final witness, Mr. Don Graves, Jr., who is a partner in the law firm of—it is a law firm, correct?—Graves and Horton, LLC.

With those abbreviated introductions, we hope we will get through all of this testimony before we get called for votes, and I will quickly recognize Mr. Visconti. Under the same protocol as our first panel was recognized, your full written statements will be made a part of the record, and each witness will be recognized for a minimum of 5 minutes. Hopefully, somewhere in that range, you can summarize your testimony.

STATEMENT OF LUKE VISCONTI, PARTNER AND CO-FOUNDER, DIVERSITYINC

Mr. VISCONTI. Chairman Watt, Ranking Member Miller, and members of the subcommittee, I thank you for the opportunity to testify about the key findings of the GAO report on Workplace Diversity and Financial Services. I'd like to stray a little bit from my written comments, because listening to the questions, I think it would be good to take a step back.

There is a business case for diversity. I run a business publication, and we go to corporate America. The business case for diversity, in short, is that in 1950, our country had nine white people for every one person of color. Today, for Americans under 40, there are less than 2½ white people for every 1 person of color, and for children under 10, the ratio is almost 1 to 1. By roughly 2040, white people will be less than half of the population of the United States.

Going along with that, with the change in demographics, the increase for African Americans, Latinos, and Asians in getting high school, college, and post-graduate degrees is rising much faster than their rise in the population, and correspondingly, household income for households of color has risen at more than twice than that of white households since 1990.

You could make a good economic case that our consumer economy is borne on the shoulders of the rising income of consumer of color and their opening opportunities in our country.

I think that it is worth noting or asking, "Exactly how did this happen?" Because if you think about General Motors in 1960, do you think they really cared about black consumers? Well, most black people in this country in 1960 couldn't vote. Most of them couldn't go to college; they weren't allowed to. And none of them had access to capital like white people did.

In the civil rights era, Dr. King said that there were three things that were necessary to make a citizen out of a human being: access to the vote of the governmental process; access to education; and access to capital. The vote and the access to education was accomplished with the Voting Rights and the Civil Rights Act.

Access to capital was started with the CRA of 1977. That process isn't done yet. If you look at the business case for diversity, companies don't need to look like their customers when they hire, they need to think like them. The difference in building a relationship respectfully with a person as they are is the difference between a high-margin product and a commodity.

That in a nutshell is the business case for diversity. Once a year my company—and I'm responsible for all editorial functions—and one of the two founders of the company, my business partner, handles sales—we have such a strict line between editorial and sales in our company, that when we release the top 50 company for diversity, the press gets it before my business partner does, and there is absolutely no connection between doing business with my company and being on that list. In fact there's a couple of companies on that list that don't do business with us whatsoever.

Once a year we go out with a public announcement and invitations for any company with more than 1,000 employees can apply to be in our top-50 survey. There are about 200 questions that revolve around four areas: CEO commitment; human capital; supplier diversity; and internal and external communications.

In 2003, we had 118 companies participate. This year, we will be close to 400. So the number keeps going up. There's no fee to enter, and we give each company a report card so they get something out of the process.

We promise not to tell any company that doesn't make it onto the list that does apply, but we don't promise to not name companies that don't apply. And I have some of those companies in my written report for you.

The things that we look at to build relationships are three areas: Trust; communications; and nurturing. CEO commitment is the basis around which you build trust. There are companies, all of the companies in our top 50, that bonus direct reports to the CEO, either 10, 15, or 20 percent of those companies in the top 10. Most of the companies also bonus layers of management. And I'll give you an example of how that works when it's an accountable basis.

The companies that bonus the CEOS to bonus direct reports, that's not a give-me bonus. And for example, Pricewaterhouse Coopers bonuses all of its managers on diversity accomplishment, and only 70 percent of those bonuses are given out.

So there is a direct level of accountability in the companies that really mean this.

There are other things that go on. For example, personal meetings with the Diversity Resource Groups, or the Diversity Council, we measure all of these things. Personal association with philanthropies that don't benefit the CEO's own group, etc.

Communications is the second part of this trust, communications, and nurturing. Communications includes things like employee resource groups, otherwise known as affinity groups, whereas although it is true that there is more diversity at the bottom of organizations, that is a natural effect of the age groups and the increasing diversity—people.

Employee resource groups are a way for the top layer to meet with the bottom layer and share ideas. Pepsico, for example, is I think the most aggressive user of employee resource groups. They have gotten their best product launch idea ever from their Latino Resource Group, guacamole flavored chips, and they also had an idea to print the word “cicerones” on the sides of pork rind packages, and they sold $6 million more in pork rinds, in one year, addressing the free market.

Nurturing is the final step, and companies that are on the top-50 list use things like mentoring and supplier diversity to provide nurturing.

The point of this is that the GAO report is too broad. Financial services is too wide of a category. You will notice that there are a number of banks on our top-50 list, but no brokerage firms except for Merrill Lynch. And I think there’s a good reason for that.

The banks, because of the involvement of the CRA, have become involved with the community and are much more, you know to overgeneralize probably, much more involved with diversity management. The banks on our list are very aggressive on this. The brokerage firms, I see no evidence of any involvement with this, and in fact if you look at lawsuits, and we had an interesting article from a woman whose mother is the chief diversity officer of a bank, who was heavily recruited by a brokerage firm, and was treated so horribly that she left corporate America and is now in Princeton Seminary.

There’s an issue here that her mom, knowing what a company should be run like, was horrified as well. This wasn’t one person who maybe had stars in her eyes. This was terrible treatment that was systemic and through that particular company.

We chose not to name the company, because frankly I couldn’t care less about what their side of the story was, and if we were going to write an article that named the company, I felt it was fair to give them their say, and I didn’t think it would add to the article, so we didn’t do it.

If you look at the GAO report and the astounding lack of diversity and attention diversity by the brokerage industry, I could make three recommendations. First is that the brokerage industry should be compelled to release their EEO–1 data publicly. There’s no reason to hide this data. There’s no reason for it at all.

If you look at what has gone wrong in the brokerage industry in just the last year, where they paid $39 billion in bonuses they lost $80 billion in business because of things like the subprime.

Chairman WATT. In the interest of time—

Mr. VISCONTI. I’ll wrap it up—

Chairman WATT. —and fairness to the other witnesses, wrap up as quickly as you can.

Mr. VISCONTI. Public data. The second step is pipelines. It’s not good enough to say you can’t find them. Companies that give out $40 billion in bonuses should be expected to build the pipelines for the people to become educated to go there. And that’s not just going to blue chip HBCUs. That means going to school districts like in Newark, New Jersey, and making sure that the facilities are there for those talented kids to become educated properly.

And the final thing is community involvement. I think there should be a CRA for the brokerage community, because the lack of access to sophisticated finances and financial instruments is hobbling women and minority-owned business who don’t have access to this. It gives an unfair advantage to the insiders that are already part of that industry. That’s my statement. Thank you.

[The prepared statement of Mr. Visconti can be found on page 151 of the appendix.]

Chairman WATT. Thank you for your testimony and we look forward to the round of questioning with you.

Ms. Nancy Sims, you are recognized for 5 minutes.

STATEMENT OF NANCY A. SIMS, PRESIDENT, THE ROBERT TOIGO FOUNDATION

Ms. SIMS. Thank you. Chairman Watt, and members of the committee, I appreciate the opportunity to introduce you to the Toigo Foundation and to share the perspective of this nonprofit educational foundation, whose mission is to change the face of finance.

We support some of the Nation's best and brightest minority students attending the top business schools through professional development, job access, and ongoing career support, the latter being the most important, I think, as we discuss workplace diversity, retention, and advancement.

Of the nearly 700 young men and women who hold the distinction of Toigo fellow, 92 percent of those individuals are in Finance Today. Forty percent of them hold positions of vice president and above, and within that senior group, 12 percent are women of color. These percentages continue to grow as this population matures and excels.

To accomplish our work, we partner with more than 200 financial services firms across all investment sectors, and work with business organizations such as the New America Alliance, the National Association of Securities Professionals, and the National Association of Investment Companies.

Our "Retention Returns" survey presents a unique perspective of the perspectives and viewpoints of individuals for whom these diversity surveys are all about, a perspective that is often overlooked.

Our survey findings indicate two important take-aways. Tomorrow's leaders in finance are passionate about the investments that they have made in their education and the aspirations that they have for successful careers in finance.

And secondly, they want to see as well as be a part of the change that brings about a more level playing field. The "Retention Returns" survey specifically wanted to look at a critical population, respondents in the 4-to-8-year post-grad space, which is roughly 40 to 45 percent of the Toigo alumni. As it is that career marker that represents a critical turning point during which many personal and professional decisions are made around either staying or leaving an organization.

Key qualitative findings from our survey include what we call a cycle of departure, a domino effect that results from experiences that continue to occur, principally for professionals of color that result from either limited access to deals, which lead to limited visibility, limited recognition, and ultimately disproportionate rewards.

We heard clearly from our respondents that these patterns are both recognizable and avoidable. The most prevalent concern that they had was performance management. A feeling that firms in general are doing a very poor job of communicating and defining what constitutes a model of success, and as well if constructive feedback is warranted, a reluctance to be able to share that information, so that they know how to turn their performance around, stay with their organization, and move ahead.

Mentoring and leadership support are vital. Certainly one of the respondents told us, "If you are not picked by a senior person, protected and advocated for, then you are, in short, ruined." The challenge remains that as a person of color, you are less likely to be picked by a senior leader to be mentored.

In my time remaining, I would like to leave you with three considerations. Buy-in and accountability at all levels, which I think has been touched upon already. But the support or lack thereof of direct managers or supervisors who have direct control over the lives of our diversity candidates play a profound difference in their success within an organization.

Small day-to-day indignities, inadequate performance dialogue, and also the failure to assign key assignments, where one can truly demonstrate their abilities, fly well below the radar of any senior management mandate, and that must be seriously and continuously examined.

Secondly, do not develop diversity programs as a quick fix versus building thoughtful programs, which can be managed, evaluated, and improved upon for sustainable and systematic change.

And lastly, I would also offer that as we look and talk further about the diversity workplace issues, that we go beyond the data coming from the GAO report, or the EEOC, as there are growing numbers of young professionals who have invested 3 to 5 years in larger institutional organizations and have chosen now to work for smaller entrepreneurial enterprises. Within my own organization, I have four alumni who are managing $2.7 billion, and I am anticipating that population will continue to grow.

So it is important to look at mid-size and smaller organizations who do not report EEO–1 data and to make sure that we're capturing, because some of that data is a better story to tell. Thank you.

[The prepared statement of Ms. Sims can be found on page 108 of the appendix.]

Chairman WATT. Thank you very much for your testimony.

Dr. Corey, you are recognized for 5 minutes.

STATEMENT OF WALTER E. COREY, DIRECTOR, THE PHOENIX FOUNDATION

Mr. COREY. Thank you. Chairman Watt, Ranking Member Miller, members of the subcommittee, and distinguished Members of the House, Congressmen Meeks and Scott, thank you for the opportunity to be here today.

For the past 5 years, we at the Phoenix Foundation have been on the front lines of ethical leadership training in New England. This 5-year hands-on experience has given us a perspective on the attitudes and values of young, multicultural adults who more and more define a major challenge of 21st Century leadership; and that is how to manage lead teams of diversity, diverse as the culture, race, gender, sexual orientation, and experience.

It is difficult to pick up a business school publication these days that does not somewhere in its pages refer to this modern challenge of managing and leading such teams. Five years of experience with our colleagues teaches us that this cohort of young adults is a pivotal change agent in our society, and especially in work places where an outworn culture confronts them.

In our travels with this cohort, we have learned quite a lot about who they are and how they perceive their needs in a modern workplace, for we encounter them at three critical areas: First, in college and university before they embark on their careers; second, in graduate school as they are embarking on their careers; and third, in seminar sessions after they begin to settle into their careers.

Regardless of the venues in which we find them, these young adults share a similarity of needs, attitudes, and values that set them apart as Gen Yers. As they move from school to workplace, they prize opportunities to do interesting work in environments that welcome them. And they want to stay connected to their values, to each other, and where possible to the values of their employer. Simply stated, that is why they want to fit in, to be members of a team they respect and eventually they come to trust.

What they frequently encounter in run-of-the-mill workplaces, that is a workplace saddled with an outworn culture, is a coercive environment, where employee tastes, values, and attitudes, especially if they are minority employees, are out of step with corporate norms. These cultures often lack a willingness to accommodate them, frequently because most such cultures are without the capacity for training and building teams of diversity, the critical scaffolding in modern organizations.

We are now learning that businesses that lack transparency about corporate values and their consistent application in the workplace are challenged to retain the Generation Yers that they have recruited, often at considerable expense. It cannot be said often enough that the young adults we encounter esteem workplace cultures that value diversity; in fact, in many parts of the country, robust diversity policies have become a critical litmus test to determine the health of corporate life.

We see it in Maine and we hear about it from colleagues elsewhere. This month I heard about it from Michelle Landis Dauber, a professor at the Stanford University Law School and a faculty adviser to a group called BBLP, Building a Better Legal Profession. Though formed on the west coast just last year, BBLP is already a national movement of hundreds of law students at schools around the country, students who are now surveying law firms that recruit on campus, polling them on a broad range of quality-of-life issues, alerted by the fact that associates leave law firms at astonishingly high rates. Does this sound familiar? Forty percent leave by the end of their third year, 62 percent by the end of their fourth.

BBLP ranks over 200 firms and financial centers like New York, California, Massachusetts, Illinois, and Washington on a number of issues, of which the most prominent is diversity hiring among partners and associates. For their purposes, diversity embraces gender, race, and sexual orientation. A low ranking forebodes hiring difficulties for the firm, simply because today's graduate wants to work in a firm that honors diversity on its own account and is a proxy for enlightened lifestyle policies within. It is of such importance in the modern organization today that many graduates are willing to trade dollars in return for an inclusive workplace, one that welcomes them and is willing to accommodate their values.

Plainly put, law students are now connecting with their peers across the country in networks that are calculated to reform the culture of the large law firm. Student activism will not end there, however. What is spreading among law school campuses throughout the country is beginning to shift quietly to business schools as well, first on the west coast and then we have reason to believe eastward. And of course it is from these graduate schools, law and business, that the financial services industry draw their major recruitment.

Like it or not, change is on the way. Where, you ask, does that leave values-based team leadership training? Where we left it last month at Bowdoin College and elsewhere in New England. That is to say, very much in the service of our colleagues, students, and professors alike, who are intent on learning the skills of values-based team leadership that embrace diversity and enable them and their employers to flourish in what is fast becoming the new American workplace.

That is part of the story described in my written testimony, which I share with you today. This concludes my oral testimony.

Again, thank you for the opportunity to testify.

[The prepared statement of Dr. Corey can be found on page 90 of the appendix.]

Chairman WATT. Thank you so much for your testimony, and I now recognize Ms. Thomas for 5 minutes.

STATEMENT OF GERALDINE THOMAS, HUMAN RESOURCES AND GLOBAL DIVERSITY AND INCLUSION EXECUTIVE, BANK OF AMERICA

Ms. THOMAS. Good afternoon, Chairman Watt, Ranking Member Miller, and members of the subcommittee. My name is Geri Thomas, and I am the global diversity and inclusion executive at Bank of America.

I'm glad to have the opportunity today to talk about our commitment to diversity and inclusion, and to providing a workplace in which all associates can reach their full potential and feel valued. I have submitted for the record a much more detailed description of all that we're doing at the bank in regards to diversity and inclusion, as well as our top-down leadership and engagement on these issues.

I am pleased to summarize them for you now. I am also pleased to be here because of personal commitment to diversity and inclusion, not just in the workplace but in every facet of our society. As an Atlanta native, I was involved in the early civil rights movement. I know from my own experience that diversity is about inclusiveness, not exclusiveness.

As the global diversity and inclusion executive at the Bank, I oversee company-wide diversity initiatives and serve as a diversity resource to our senior leaders, business lines, and associates. As you may be aware, Bank of America is one of the world's largest global financial institutions. We have offices in 31 States, in Washington, D.C., and in more than 20 countries. We have clients in over 175 countries, and relationships with 99 percent of the U.S. Fortune 500, and 80 percent of the Global Fortune 500 countries.

We have 59 million consumer and small-business relationships, 24 million online banking users, over 6,100 retail banking centers, 19,000 ATMs, and we are the number one Small Business Administration lender to minority-owned small businesses. We have more than 200,000 employees globally. In short, our customer and employee base is very diverse.

So why is diversity important at Bank of America? Because in order for us to meet our diverse customer needs and be responsive to global business demands, diversity in people, their experience, working styles, and business acumen is critical to our success and growth of all of our businesses.

This diversity also helps us understand and meet the development needs of our associates, and by having a diverse associate base, developing products and services for our equally diverse global customers, we grow as an organization and deliver shareholder value.

Diversity and inclusion is not something that just happens. It takes a deliberate effort and dedicated commitment to make it work. It requires having strong leadership commitment from the top of the organization and having diversity and inclusion integrated into every business practice. At Bank of America we have a strategic organized and formal structure for managing diversity and inclusion.

It starts with our chairman and CEO, Ken Lewis, and expands throughout the organization in a variety of ways, and is an integral part of our core values that guide us as a business.

We approach diversity first through a formal management structure, encompassing a cross-section of senior leaders. Our global diversity and inclusion council members are directly appointed by our chairman, and charged with developing and implementing diversity initiatives that support a work environment in which all associates are welcomed, respected, and empowered to do their best work, and are rewarded for their contributions.

This means ensuring qualified more diverse candidate pools, management accountability in metrics, personal commitment, promoting associate growth, engagement, recognition, and career development through diversity training and other related programs. It means expanding diversity focus beyond race and gender, and helping associates better understand other working cultures and traditions as we continue to grow our global enterprise.

We have diversity business councils that integrate diversity practices in their respective lines of business, and employee networks that bring associates together to network and share cultures internally and in the communities we serve.

At Bank of America, we value each person for what he or she can contribute. We're not really concerned about family backgrounds or what school they attended. It is with this wealth of perspective that we will always be able to take advantage of new opportunities, develop innovative products, and help people find ways to live productive lives.

As mentioned in my written testimony, the Bank of America Charitable Foundation and its community development activities support diverse communities across the country in a variety of ways. In 2007, our charitable foundation invested more than $200 million in communities across the country, making the Bank the more generous financial institution in the world, and the second largest donor of all U.S. corporations in cash contributions.

The Bank supplier to diversity program seeks and provides diverse suppliers an opportunity to do business with our company. Since that program began in 1990, we have increased spending with diverse suppliers each year, reaching $1.3 billion in 2006. In order for us to meet the needs of our diverse customer base, we must develop products and services that address their unique requirements.

The bank actively hires bilingual associates to help us design and deliver services to our diverse customer base around the globe. Our ATMs and banking center materials are translated into multiple languages to better meet the needs of the communities we serve. Our accessible banking program empowers disabled customers to access our banking products and over 11,000 talking ATMs. In addition, our credit card division offers a variety of affinity cards that support a wide assortment of diverse groups.

We have a long history of living our commitment to inclusion, and as mentioned throughout this testimony, diversity is part of the very fabric of who we are as an organization.

As I hope you can tell, I am proud of the Bank's diversity and inclusion efforts. At Bank of America, each person is evaluated on his or her own merits. I'm proud that we have created an environment where associates of diverse backgrounds, viewpoints, and experiences can succeed, and where all associates have the opportunity to achieve their full potential.

That said, we still have work to do. Diversity is a journey. We have the commitment from our executive leadership as well as the right people and the right processes to know that our diversity and inclusion efforts are making a positive difference at our organization. We will continue to actively promote and support diversity of thought and experience. It makes us a better company, a better place to work, and a better corporate citizen in the communities we serve.

Thank you for your attention to this issue, and I'll be happy to take any questions that you might have for me.

[The prepared statement of Ms. Thomas can be found on page 144 of the appendix.]

Chairman WATT. Thank you for your testimony. Ms. Marilyn Booker from Morgan Stanley is now recognized for 5 minutes.

STATEMENT OF MARILYN F. BOOKER, MANAGING DIRECTOR, GLOBAL HEAD OF DIVERSITY, MORGAN STANLEY

Ms. BOOKER. Thank you. Mr. Chairman, Ranking Member Miller, and members of the subcommittee, I sincerely appreciate the opportunity to testify before you today on diversity in the financial services sector. I appreciate this opportunity because it sends a very positive and strong message that your subcommittee is examining an issue that is so important to our industry, so important to Morgan Stanley, and so important to those who are choosing to make their careers in financial services.

Diversity is something that Morgan Stanley and my colleagues in the industry take very seriously, so the opportunity to have an open dialogue with you on this topic will go a long way in reinforcing our collective commitment.

What I would like to accomplish during the next few minutes is to share a few of my thoughts relative to the key statistical finding of the GAO report that from 1993 to 2004, overall diversity at the management level in financial services did not change substantially.

My first observation is that the financial services industry is facing challenges in recruiting minority and women candidates. Several years ago, the primary industries we competed against for talent were other financial services firms and a few companies within corporate America. The competition today now includes hedge funds, private equity firms, technology shops, and consulting firms, just to name a few. All of these industries typically require a high degree of specialization. Therefore, minority and women candidates with the requisite skill sets are highly sought after and often receive multiple job offers.

Further, given that the number of women and minorities entering business school and acquiring the skill set has remained stagnant for the last 5-plus years, combined with the fact that they are spread out over several industries, the end result is a diminished pool from which we have to chose.

It is my belief that recruiting a diverse talent pool takes time and effort. Recruiting diverse candidates is a process that cannot be done successfully in the same manner as general recruiting. Diversity recruiting is about relationships; it is about building trust. And it takes time to build those relationships and time to build that trust. In spite of the progress that has been made, and the presence of more women and minorities in the financial services sector, these groups still have skepticism about whether firms will care about them and their careers.

This means that these candidates do their homework. They dig deep. You have to spend a great deal of time with them because they want to probe your firm. They want to find out about your commitment to meritocracy. They want to find out about your commitment to diversity, and they want to find out about your support systems. Therefore, the firms that do not have the infrastructure to support this investment in time and to support building these relationships will not be as successful as those that do.

My final observation is that the management structure must be engaged in implementing meaningful diversity initiates so that employees at large feel engaged. We have all heard the expression, "People don't leave a company; they leave their manager." Diversity is no different. An organization can have all the top leadership commitment there is; however, if this commitment is not communicated on a regular basis, the people who are responsible for the day-to-day, the broader efforts to have a more diverse workforce will be significantly challenged.

Firms can go a long way here, by being visible in their initiatives, communicating them broadly, and demonstrating that each employee, particularly managers, have a stake in the diversity mandate.

To this end, Morgan Stanley has been proactive in having visible initiatives and communicating them broadly. Some of our visible initiatives include conferences for our minority and women employees, focused on career and "leadershipment". We also have very mature campus-recruiting programs that target women and minorities. And our employee networks have been a great way of building informal networking relationships and providing an additional forum for professional development.

We are also very focused on talent management and leadership development. It is my belief that if you have good leaders in place, diversity will follow. Great leaders know talent when they see it, and they create the conditions under which people, all people, live up to their potential.

Further, we also feel it's important that our minorities and women have access to senior management. Our CEO and other members of top management have numerous events each year where this is possible. This has been very helpful for our firm in making sure that our diverse employees have the opportunity to stay on the radar screens of the decision makers in the firm.

Once again, I would like to thank you, Mr. Chairman, and your subcommittee, for the opportunity to testify here today. Although we have made progress in a number of areas with respect to diversity programs, and they are much more robust now than they have been in the past, we do know that we can always improve upon what is a solid foundation.

I welcome your support and hope that I can be helpful as we continue to work on something that is very important to all of us, diversity.

[The prepared statement of Ms. Booker can be found on page 81 of the appendix.]

Chairman WATT. Thank you. That's about as timed as I could—

Ms. BOOKER. I know.

Chairman WATT. Just as the red light went off.

Ms. BOOKER. I timed it.

[Laughter]

Chairman WATT. Mr. Abdul-Aleem, you are recognized for 5 minutes.

STATEMENT OF ZAID ABDUL-ALEEM, VICE PRESIDENT, PIEDMONT INVESTMENT ADVISORS, ON BEHALF OF THE NATIONAL ASSOCIATION OF SECURITIES PROFESSIONALS

Mr. ABDUL-ALEEM. Thank you. Good afternoon, Chairman Watt, Ranking Member Miller, and members of the subcommittee. I am Zaid Abdul-Aleem, a member of the National Legislative Committee of the National Association of Securities Professionals, also known as NASP. I am also a senior vice president at Piedmont Investment Advisors, a minority-owned asset management firm.

Founded in 1985, NASP is an organization that supports people of color and women in the financial services industry. Based in Washington, D.C., NASP has 10 chapters at major financial centers throughout the United States. Our members include everyone from asset managers to broker dealers and other professionals in financial services.

We have reviewed the GAO report and found that while many firms have initiated programs to increase workforce diversity, these initiatives still face challenges. We firmly believe that the best way to fundamentally impact and accelerate diversity is to do business with minorities and women wherever they are found, both within majority-owned firms and minority or women-owned firms.

We also believe that high-level sponsorship for managerial diversity performance should be linked to compensation.

Beginning as early as high school, I received the necessary high-level sponsorship to realize my potential. I recall one day the CEO of Refco wanted to see me during lunch. I asked him what he did for a living, and he explained that he watched a computer screen all day. I knew there was more to it, and it peaked my interest.

I was 18 years old, and the CEO of Refco had given me a job as a runner on the Chicago Mercantile Exchange. Five years later, I was working on the trading floor at Morgan Stanley, when I heard a commanding voice call me. I turned amidst the crowd of managing directors. The CEO of Morgan Stanley stood over me, a first-year analyst. When he reached to shake my hand, he raised his arm to push me, but I quickly got "inside hands." The CEO knew that I had played college football and was testing my inside-hands technique. There we were, the CEO and I fighting for inside hands.

That day he made a public commitment to my success. Our interaction made it clear that we had a relationship and that he was my sponsor. My colleagues knew that supporting me would be consistent with the goals of the firm. As a result, I was given opportunities to attend client meetings, work on a range of transactions, on an occasion work directly for the CEO.

Through Morgan Stanley, I worked in capital markets, corporate finance, and mergers and acquisitions while living in the United States and globally in Africa, Asia, and Europe.

Eight years later, after leaving Morgan Stanley, I sat in the conference room alongside my partner and CEO of Piedmont Investment Advisors. We were at an introductory meeting with General Motors Asset Management. The previous month I had met the CEO of General Motors, who asked me for information on Piedmont in order to put me in touch with the right people. Those people listened to our pitch that day, and currently Piedmont is one of its most successful money managers.

These stories reaffirm how high-level sponsorship for investment and minorities and minority-owned firms can increase diversity as well as generate successful business opportunities. In each case, sponsorship came from the CEO level. In addition to mentoring, the sponsorship included a high-level public commitment, which ultimately encouraged upper and middle managers to also embrace a diverse approach in developing talent and pursuing good business opportunities.

The CEOs of Refco, Morgan Stanley, and Piedmont are my trusted confidants to this day, and over time their sponsorship has grown to include strategic, operational, and financial commitments.

In light of the industry information on diversity, my individual experiences, and other members of NASP's experiences, I will cite three key steps to improve workforce diversity.

Number one, link diversity components to the mid- and senior management levels' compensation. Number two, target recruiting efforts and establish partnerships with well-known organizations that support women and minorities. Number three, we recommend that the Federal Government include a significant diversity component in selecting financial and investment service providers. The legal service industry has a precedent for this through a call to action adopted in 2004 in which large U.S. corporations required their law firms to implement measurable and quantifiable diversity.

In conclusion, increasing diversity within the financial services industry is critical to the economic growth of this country. A more diverse workplace facilitates competition, pricing efficiency, and product innovation. The United States enjoys the largest multi-ethnic and cultural country population in the world. Realizing the potential of our diverse perspectives, ideas, and solutions is absolutely necessary to compete in the global economy.

Thank you.

[The prepared statement of Mr. Abdul-Aleem can be found on page 56 of the appendix.]

Chairman WATT. Thank you for your testimony.

Mr. Graves, you are recognized for 5 minutes.

STATEMENT OF DON GRAVES, JR., GRAVES & HORTON, LLC.

Mr. GRAVES. Thank you, Chairman Watt, Ranking Member Miller, and members of the subcommittee. I thank you for the opportunity to testify before you today. I am Don Graves, a partner with the law firm of Graves & Horton, LLC, a minority-owned law firm here in Washington, D.C., and chief executive officer of Progress Through Business, a nonprofit corporation with centers around the country, focused on sustaining and enhancing underserved communities.

Progress addresses the needs of low- and moderate-income individuals and communities through a variety of business-based approaches. In focusing on private-sector-led efforts in diversity in the financial services sector, it is my hope that the committee will glean useful and innovative approaches for those within the industry and those of us who work with the industry. There are a number of examples, and you have heard some already today, of corporations that have developed successful strategies in increasing diversity. In many instances, it is not just a single company implementing new approaches that is most successful, but groups of companies, companies from a geographic area, or entire industry.

One of the things that I learned early on during my time working for the Business Roundtable was that in working with the chief executive officers of the Nation's largest corporations, the ability of those chief executives and other senior level executives to focus on any issue, project, or program is limited. Where just 20 years ago, a CEO's tenure averaged more than 8 years, the tenure of a CEO today is around 4 years. A CEO's time, as you might imagine, is constrained to the point that their activities must revolve around increasing shareholder value with a laser-like focus on the bottom line.

I don't raise this as a means of excusing corporations, their CEOs, and senior executives from doing their best to promote diversity, but rather as a means of suggesting that the best way to promote diversity within the senior ranks of corporations, be they within the financial services sector or otherwise, is to prove the value proposition of diversity itself. It is incumbent upon those of us who believe that diversity makes sense for business, for the economy, and for the country as a whole to help those CEOs and their senior executives, their boards, and their shareholders to understand that by increasing diversity within the company, they will also improve the company's long-term financial position.

Former Federal Reserve Chairman Alan Greenspan perhaps said it best: "By removing the non-economic distortions that arise as a result of past discrimination, we can generate higher returns to human capital and other productive resources." I have no illusions about the difficulty inherent in such long-range strategies for today's chief executives and the companies they lead.

Today's CEO is increasingly judged on short-term returns and stock price movements. Business Roundtable President John Castellani has addressed this issue this way: "The fundamental reality that CEOs face today is that they are long-term managers who must depend on the short-term investors for much of their capital and financial strength. That creates the powerful temptation for companies to play to short-term investors with short-term fixes to a company's results; but a growing number of CEOs are putting up more resistance and emphasizing their company's long-term strengths, including non-financial strengths. They are just as committed to earnings growth, but they just have a more grounded idea of how to achieve and sustain that growth over time."

Others on this panel have already provided a rationale for diversity in the financial services sector, so I will use my time to focus on solutions. This hearing was to focus in part on private sector efforts to monitor increased diversity in the financial services sector. In addition to those solutions being offered by members of the panel today, I believe that as a means of sharing learnings and best practices, we must look to a number of existing efforts by the business community that attempt to increase and monitor adversity.

With more than 17,000 members, the Greater Cleveland Partnership is the largest private-sector economic development organization in the State of Ohio, and one of the largest regional chambers of commerce in the Nation. The organization serves as a catalyst to increase economic vitality in Greater Cleveland and the region. In addition, the Greater Cleveland Partnership created the Commission on Economic Inclusion to significantly improve the level of inclusion, the meaningful involvement of minority businesses and individuals in the economic engine that drives Greater Cleveland.

The Partnership and more importantly its leaders were convinced that a key to long-term economic growth and stability in the region was the ability of hometown corporations to bridge the gap between local minority talent and employment opportunities.

The Commission was created to serve as the vehicle that could help build that bridge. What began with 28 large corporations and governmental entities in 2000 has gone to more than 100 large corporations and government members today. The program strives to be a civic model for the development and implementation of diversity and inclusion strategies that advance productivity, innovation, and economic growth.

Additional examples can be found in my written testimony, so I won't spend much further time on those examples.

A discussion of diversity in the financial services sector must also include a discussion of diversity as it relates to the provision of financial services in underserved and diverse communities. Access to credit and capital is dependent upon the ability of an institution to understand the marketplace and provide products that meet the needs of consumers in the community.

My own organization believes that economic development in underserved and diverse communities can only be accomplished through support of scaleable businesses. In the long term, these businesses will be the true job creators and wealth builders in minority communities. The ability of the financial services industry to meet their credit and capital needs will have a major impact on the success of those businesses.

Importantly, the lack of financial and business literacy is one of the leading factors for individuals and businesses to obtain credit and capital. Progress Through Business works closely with employers and entrepreneurs to enhance that financial and business literacy.

Another part of the problem is around the performance and capacity of smaller businesses within those communities. Without better information on performance and capacity, financial markets cannot provide credit and capital and potential business partners cannot in good faith engage those smaller businesses.

Diversity in both the financial services workforce and in the provision of financial services will be crucial to the long-term economic vitality of the industry in this Nation. I firmly believe that by working constructively and in partnership, communities in the private sector can implement the programs and procedures now that will lead to a greater diversity and greater economic stability in all of our communities, leading to long-term economic growth for the Nation as a whole.

I thank the committee for its time and attention to this matter, and I will be pleased to answer any questions.

[The prepared statement of Mr. Graves can be found on page 100 of the appendix.]

Chairman WATT. I thank you, and all of the witnesses for their outstanding testimony, and we will now turn to questions from the members of the subcommittee. I recognize Ms. Waters for 5 minutes.

Ms. WATERS. Thank you very much, Mr. Chairman. And I would like to thank the witnesses who have appeared here today, and listening to their testimony certainly causes me to focus and to examine some of the subject matter that has been presented to us, and it creates more questions, you know, for me about the industry and how it all works.

I must say to the chairman that while we are looking at the financial services industry, I really think we should take more responsibility for seeing what we can do in the public sector as well as the private sector, which leads me to those agencies or GSAs in particular that we have oversight for.

I have spent a lot of time talking with the Federal Home Loan Bank, Fannie Mae, and Freddie Mac about diversity, and we have looked at the information that they have shared with us over a period of time. And then I always learn afterwards that I didn't ask the right questions.

So, I'm going to ask Mr. Abdul-Aleem, vice president of Piedmont Investment Advisors, if I was talking to Fannie Mae or Freddie Mac about increasing their involvement with minority-owned firms that would help do money management or asset management for investment in their firms for their firms, what questions should I ask them? What would I say to them? How would I get to finding out whether or not they are contracting with minority firms to do asset management for them? Do they do that in Fannie and Freddie? Do they use minority firms? Could they use minority firms to help do money management for them?

Mr. ABDUL-ALEEM. Yes, they could. Can you hear me?

Ms. WATERS. Yes.

Mr. ABDUL-ALEEM. Yes, they could. I think first the right question is have a look at the managers that they use, and assess that, and see if that does reflect, you know, good minority representation. And then I would also ask what policies are in place and if there is any documentation of the high sponsorship level for pursing business with minority—

Ms. WATERS. But we do know that they contract with firms to do money management for them? We know that that's what they—one of the things they do.

Mr. ABDUL-ALEEM. Yes, that's one of the things.

Ms. WATERS. So if I ask them about how much of that they do, that would not be a foreign—they never discuss that with us. They come and they kind of discuss the organization chart, and they don't really do that, and they talk about employment of some individuals in various roles, but I did know enough to talk with them about the contracting that they could or should be doing. So we would just simply ask them—

Mr. ABDUL-ALEEM. Yes—

Ms. WATERS. "Who do contract with for money management?"

Mr. ABDUL-ALEEM. Exactly.

Ms. WATERS. Okay.

Let me just ask Ms. Booker.

Ms. BOOKER. Yes.

Ms. WATERS. Morgan Stanley. Are there minorities on the board of Morgan Stanley?

Ms. BOOKER. Yes. Choctaw Phillips, who used to be a managing director in Morgan Stanley's research department—he's now at Oracle—he is a member of our board of directors.

Ms. WATERS. How big is your board?

Ms. BOOKER. I believe it's approximately 13 to 14 people, but I need to get back to you on the exact number for that.

Ms. WATERS. Thirteen to fourteen. And of that, how many women, and how many minorities?

Ms. BOOKER. We have Chuck, who is a minority, and we have a woman on the board.

Ms. WATERS. I beg your pardon?

Ms. BOOKER. We have one other woman on the board.

Ms. WATERS. So one woman and one African-American, is that it?

Ms. BOOKER. That is correct.

Ms. WATERS. Okay.

Bank of America, how big is your board?

Ms. THOMAS. I believe approximately 15 to 16 people. I can get back to you on the exact number.

Ms. WATERS. Okay. And how many minorities are on your board?

Ms. THOMAS. I believe we have three, and two women. But I can get that and get back to you on those specifics.

Ms. WATERS. But you think there may be two women and three African-American and Latino—

Ms. THOMAS. Two African American, I believe, one Latino, and two women.

Ms. WATERS. Okay.

Ms. THOMAS. But I'll get that for you.

Ms. WATERS. All right. Thank you very much.

Ms. BOOKER. Excuse me, Congresswoman Waters.

Ms. WATERS. Yes.

Ms. BOOKER. I'd like to make a correction. There are actually two women on Morgan Stanley's Board. Put that in the record, please.

Ms. WATERS. Okay. I asked that because really the attitude of diversity starts with the board, as far as I'm concerned. When you take a look at a board, and you see whether or not there's diversity there, then you almost can determine whether or not there is a real commitment to it.

The next thing is the organization chart, taking a look at the organization chart. And, you know, when I was Chair of the Congressional Black Caucus, one of the things I did for—whenever the agencies or department came in to talk with us, I said, "Bring the organization chart." Then they would have to bring it, and I would say, "Now tell me who is at every level." And once they did that, I really understood, you know, what they were all about.

We don't have an opportunity to do that, but I think that's something that we may incorporate in our investigation and oversight as we continue with this kind of work. And I know that Mr. Chairman, you have been very generous with the time, and I thank you very much, and yield back.

Mr. ABDUL-ALEEM. Congresswoman Waters, I would like to add something to your question regarding Freddie and Fannie. Their main business line is mortgage securitization, so another question you could ask them is what minority firms they do business with as it relates to their mortgage securitization as well.

Ms. WATERS. Very good.

Chairman WATT. Thank you so much for your steadfast support and continued commitment in this area, Representative Waters, and I will now yield 5 minutes to the ranking member.

Mr. MILLER. I enjoyed the testimony. Mr. Abdul-Aleem—I got that right the first time, I beat Maxine to that one—it is impressive that the CEO of Morgan Stanley selected you, a new guy, and obviously there was a reason you went on to become vice president of Piedmont Investment, so he saw something in you that sparked his interest. Why do you think he selected you?

Mr. ABDUL-ALEEM. I think, well, number one, we share—

Mr. MILLER. Besides the women behind you grinning when I ask. [Laughter]

Mr. MILLER. Okay.

Mr. ABDUL-ALEEM. I mean you would have to ask him that, but—

Ms. WATERS. No, tell him you're smart.

Mr. MILLER. Because I have another question for Ms. Sims based on this, and that's why I want to hear this.

Mr. ABDUL-ALEEM. Well, I think you alluded to it. I think he identified something in me that he thought was talented, and I think he realized I needed a break in order to realize those talents, and some opportunities to bring them to fruition as well.

Mr. MILLER. Well, based on your success, he was right. But Ms. Sims, you stated in your testimony that as a person of color, you are less likely to be picked by a senior leader to be mentored. And I'm looking at this. Can you explain that to me a little bit?

Ms. SIMS. Sure. I would offer that is a tremendous opportunity—

Mr. MILLER. You just turned it off.

Ms. SIMS. I got it. There are definitely isolated situations where individuals with talent and potential are identified, but not sufficiently enough to be able to impact the type of critical mass that we're talking about. With the Toigo population, certainly we are also looking for other markers, and one of the things that we measure as a leadership opportunity is actually running public pension funds. Our group right now works with a variety of public pension funds who also have commitment to diversity and most recently one of our alums from a graduating class of 1994 was just named the CIO for New York City Common Retirement Fund. So again managing $150 billion investment fund for beneficiaries is an important marker.

So again looking at all the various ways in which we can see leadership continue to grow, the opportunities for identifying them within the larger institutions is equally important. It is just not as frequent as we would like it to be.

Mr. MILLER. If you look at the whole financial services industry, based on the stock market, everybody is in deep trouble. I mean, you don't know what a good buy is out there any more. It doesn't matter what the bottom line is. But any business looks at the bottom line, and most business people who have half a brain in their head realize diversity is beneficial to their bottom line, because they want to do business with as many people as possible.

And I think, Mr. Corey, you testified that your training programs are being tested, and can you describe precisely what your training programs are intended to accomplish as they're being tested?

Mr. COREY. Well, we see growth. There's growth from high school curriculum, to college, to university graduate school. We're talking with a law school in northern New England, and we have been asked to go up to Tuck in April, Tuck School of Business at Dartmouth, to teach the course.

In addition to that, a bank in the State of Maine has initiated conversation—

Mr. MILLER. But how are they being tested? This is how they're being tested?

Mr. COREY. Tested? No. Well, there are two ways. The answer I just gave you. But the second and the more important way is that we have designed an evaluation, an assessment questionnaire, which measures 17 different aspects of ethical leadership. We test our students at discreet points along the process of learning values-based leadership training. We test them. So we can see progress or lack of progress. We can see leadership profiles that give us the opportunity as facilitators to step into the process and help them pick up their socks where they droop and recognize them where they're strong.

Mr. MILLER. And that is the private sector doing this?

Mr. COREY. Excuse me?

Mr. MILLER. That is the private sector doing this? Which I think the answer to this—

Mr. COREY. Yes, that is us doing that. That's right.

Mr. MILLER. Yes. That's why I think the answer to this situation is the private sector. And I'm listening to the testimony, and, you know, I'm watching the private sector, whether they're becoming insightful or just looking around and realizing the benefit to their business and it being inclusionary, and it seems to be working.

Mr. Graves, you had discussed your organization and the efforts you put forward to help minorities in the workforce. Can you describe that?

Mr. GRAVES. Sure. You're talking about Progress Through Business. One of the things that we do is work with major corporations to help them identify pools of talent. To give you an example of a company that we work with that I believe has got it, Johnson Controls. It's not in the financial services sector, but it's a Fortune 100 engineering firm that looked at the demographic changes in the United States recognized that its workforce was changing, that its predominantly white male 50-plus engineers were going to be retiring, that its mid-level and senior-level managers were going to be leaving the workforce.

So in partnership with Johnson Controls and a number of other organizations, we are helping them to identify pools of talent within minority communities, because they also recognize that the urban core is their place of business for the future.

Mr. MILLER. You worked at Business Link when you worked to help minorities and women-owned business. Was it very similar to that?

Mr. COREY. There were a number of similar programs around the country and companies that were adopting those. I refer back to what I talked about in my testimony. You have a number of corporations in Cleveland that was the Cleveland Business Link Program, that ended up being the Commission on Economic Inclusion. They're very focused on diversity of the workforce, diversity at the board level, supplier diversity as well. And they've had some pretty meaningful results.

Mr. MILLER. Well, my time has expired. I had something for all of you, but I'm out of time. So thank you very much.

Chairman WATT. And we're almost out of time. You probably heard the bells and whistles going off in the background, which indicates that we have six votes, which according to my calculation would take, even in the best of all possible worlds, 40 minutes before we could get back—more likely an hour and 15 minutes.

So I'm going to let you all off the hook, and promise to ask my questions—

[Discussion held off the record]

Chairman WATT. I'm going to come to you, but I have to ask a couple of general questions that I'm not really asking for a response to right now. But, Mr. Visconti—and this actually helps the corporate people, because you can go back and kind of work some of these things up the corporate ladder.

There obviously is a big disparity between what's going on in banks and in some other parts of the financial services industry. That is apparent from the statistics. Some feeling is that is because of CRA and the requirement that banks are responsive to their communities. So one of the questions I want you all to vet—and we have two wonderful participants here who can vet it, because you do both banking and brokerage—what's the attitude toward what Mr. Visconti suggested about a broader CRA requirement that transcends just banks? Especially since everybody's getting into everybody else's business now in the financial services sector.

Mr. Visconti, I'm going to want you to address why on page 4 of your testimony, DiversityInc has found that the top 50 is 20 percent higher in their bottom line, and I'd like to know what more specifically you attribute this success. But I'm asking these questions. Probably there will be others that will come in writing, and I would ask that in lieu of keeping you here for another hour, you be as responsive to the questions that we ask in writing as you have been to the questions we've asked verbally.

I'm going to recognize Mr. Scott for as long as—we'll keep an eye on the clock on the floor, but we won't miss the votes.

Mr. SCOTT. Thank you, sir. I'll be quick.

Mr. Visconti, I'd like to just ask you a series of questions because—

Chairman WATT. You have to ask him in 2 minutes, though.

Mr. SCOTT. How do you check the veracity or the truthfulness of your survey questions?

Mr. VISCONTI. We have two means. We look at things very statistically. We have a metrics-based measurement system, and we look at—most of the questions are looked at parametrically. So we look for statistical outliers, and we certainly ask questions about that, then we have a team of full-time journalists and we spot-check answers all the way.

We have found over the last 8 years that corporations tend to answer more conservatively than not. We uncover things that they could have answered in a way that would have benefitted them—

Mr. SCOTT. Okay. A good way of measurement to me, as I mentioned earlier, is money, budgets, bonuses, how do you measure that? Have you looked at the Diversity advertising budgets, for example?

Mr. VISCONTI. Yes—

Ms. SCOTT. The recruitment advertising budgets? Give me a little bit on that.

Mr. VISCONTI. We look at several different fiscal measures. We look at bonuses, percent of bonuses, to whom they are paid. We look at plans, accountability, who signs off on them. We look at percentages of supplier diversity spent. And I'll tell you that Johnson Controls is a top company, because they supply the automotive industry, who in turn supplies the Federal Government. And the supplier diversity programs that the Federal Government put into effect with their suppliers caused in turn Ford and GM to turn around to Johnson Controls and act more responsively.

We also look at advertising budget and percentage spent on recruitment. We look at number of new recruits by race, gender, orientation, and age, and we look at promotions, and we look at retention. So all of those things by every parameter, we look at very closely.

Mr. SCOTT. How do they apply the bonuses? How much money are we talking about?

Chairman WATT. Mr. Scott, can I encourage you to submit your questions in writing?

Mr. SCOTT. I will do that.

Chairman WATT. Otherwise, we're going to miss these, at least the first in the series of votes, which we don't want to do, because it's an important amendment, it looks like.

And I will just note that some members, including the Chair and Mr. Scott and others may have additional questions for the panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

I am delightfully grateful to all of you for your testimony. I knew we were going to get to this point where we would have a series of votes, so I have been kind of pushing everybody a little bit more aggressively than I normally like to. But I knew at least one person had a 7:00 flight, so we don't anybody to miss their flight as a result of having to stay here waiting on me to come back and ask questions, because I doubt any other member will come and ask questions. So I will submit mine in writing.

I thank you all so much, and the hearing is officially adjourned.

[Whereupon, at 5:06 p.m., the hearing was adjourned.]

A P P E N D I X

February 7, 2008

OPENING STATEMENT
OF
CHAIRMAN MELVIN L. WATT

Subcommittee on Oversight & Investigations

"Diversity in the Financial Services Sector"

Thursday, February 7, 2008

This is the second in a series of hearings by this Subcommittee about diversity issues in the financial services sector. Our first hearing, held last October, explored the role that minority-owned financial institutions play in our economy and the role that federal banking regulators play in preserving and promoting these institutions. Today's hearing, which is also a follow up to hearings held in 2004 and 2006 by the Subcommittee when my Republican colleagues were in the majority, will focus on workplace diversity and especially on the recruitment, retention and promotion of minorities and women to mid- and senior-level management positions in the financial services sector. We continue the Subcommittee's review of diversity issues in the financial services sector because we believe that being proactive on diversity is legally required and necessary and because there is growing evidence that diversity is critically important to our global competitive advantage in the financial sector as well as in other business sectors.

In June 2006, the United States Government Accountability Office issued a report entitled, "Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2004," and the Subcommittee held a hearing to review that report on July 12, 2006. The report was requested after a July 15, 2004 Subcommittee hearing that reviewed challenges faced by the financial services industry in obtaining and maintaining a diverse workforce and challenges faced in getting access to capital by minority-owned businesses. The 2006 report examined workplace diversity trends for various sectors of the financial services industry and found that overall diversity at the management level did not change substantially from 1993 to 2004 and that the marginal improvements that had been made were not uniform across various parts of the financial services sector or across racial and ethnic minority groups. Sadly, the GAO's follow up data for 2006 shows that diversity at the management level in the financial services industry has remained about the same as reflected in its 1993-2004 report. The GAO reports suggest that depository institutions, such as commercial banks and insurance companies, have generally been more diverse at the management level over the years than the securities sector and the holdings and trusts sector (which includes investment trusts, investment companies and holding companies).

There is some suggestion, as some witnesses testified at the Subcommittee's 2006 hearing, that even the modest growth reported in senior management-level diversity may have been overstated due to the fact that the "officials and managers" category used in the Equal Employment Opportunity Commission's EEO-1 form included lower and mid-level management positions that may have higher representations of minorities and white women. The Equal Employment Opportunity

Commission uses the EEO-1 form to collect demographic data annually from private employers with 100 or more employees and federal contractors who have 50 or more employees, and are prime or subcontractors on a government contract over $50,000. Effective with the 2007 reporting year, a revised EEO-1 form now divides the "officials and managers" category into two subcategories: (1) "executive/senior level officials and managers" and (2) "first/mid-level officials." I am happy to have Mr. Ronald Edwards representing the EEOC today to discuss this revised EEO-1 form and to give a preliminary assessment of the utility of the new form in making a better assessment of diversity in management ranks.

We are fortunate that several groups and foundations in the private sector have also been conducting studies and research about diversity in corporate America and about diversity in the financial services sector in particular. DiversityInc, one such company, is perhaps best known for its annual "DiversityInc Top 50" list of companies. DiversityInc grades companies on CEO commitment, human capital, corporate communications and supplier diversity. In addition to the "Top 50" list, there are "Top 10" lists for specific racial and ethnic groups, women and people with disabilities and other categories. In 2007, over 300 companies submitted questionnaires and other data to be considered for DiversityInc's lists. I am proud that Bank of America, a financial institution headquartered in my Congressional District, was rated number one on the DiversityInc Top 50 for 2007 and I look forward to hearing from Ms. Geri Thomas, global head of diversity at Bank of America, about how they achieved that ranking.

Also testifying at today's hearing is a representative of the Robert Toigo Foundation. Toigo conducts research into specific topics concerning diversity within the financial services industry. It completed a valuable study in November 2006, entitled *"Retention Returns: Insights for More Effective Diversity Initiatives,"* that focused on retention of minority finance professionals. The study concluded that retention is increased if minority professionals receive visible, significant assignments that are valued at the firm, if they have genuine mentors and receive objective performance standards that are applied fairly and consistently and if they see visible commitments to diversity from the top which translate down to middle management.

Fostering a diverse workplace is critically important, not only for minorities and women, but for U.S. firms seeking to compete in the 21st century global market. With increased globalization, international firms with diverse workforces are competing vigorously with U.S. companies for revenues, profits and talent. Indeed, the European Commission issued a comprehensive study in September 2005 on the diversity efforts of leading financial and manufacturing firms in Europe. The European Commission study provides many important examples of innovative best practices in the areas of recruitment and retention of diverse staff and management. It is noteworthy that in the European Commission study, 83 percent of the respondents believed that effective diversity initiatives positively impacted the bottom-line. Among the most important benefits they reported were enhanced employee recruitment and retention from a wider pool of high quality workers, improved corporate image and reputation, greater innovation and enhanced market opportunities. Similarly, the DiversityInc representative will testify that the "DiversityInc Top 50" regularly outperform the S&P 500 in terms of return on investment. In the final analysis, if we can't make the legal, ethical and moral case for U.S. companies to pursue diversity aggressively, perhaps they'll take note of the impact of diversity on the bottom line.

Opening Statement of the

Honorable Maxine Waters, D-35th CA

Chairwoman, Subcommittee on Housing and Community Opportunity

Hearing on "Diversity in the Financial Services Sector"

Subcommittee on Oversight and Investigations

Thursday, February 7, 2007

10 a.m.

Room 2128 Rayburn House Office Building

Thank you, Mr. Chairman.

In 2006, the Government Accountability Office released a report that did not have good news for women and minorities trying to succeed in the financial services industry. The report found that diversity at management level positions has remained virtually stagnant over 10 years. For example, the percentage of African-Americans in management level positions only rose one percentage point: from 5.6 percent to 6.6 percent. That's a one percent increase over 10 years! Perhaps even more shocking are the GAO's findings that minorities and women have difficulty accessing capital with which to start businesses, including investment firms.

The conclusions of the report are clear: the glass ceiling for women and minorities in financial services is very much a reality.

The financial services industry is an extremely lucrative and important aspect of the American economy. Yet, minorities and women are still struggling to get their foot in the door. The industry accounts for 7 percent of total employment in the United States or 10 million jobs. The average hourly wage for these workers in 2005 was $17.94 an hour, $2 more than the total private industry average wage. These are jobs and opportunities that can lift families and individuals from poverty, can improve their living situations, and can assist in building strong, vibrant communities.

The importance of this industry is so critical that the small percentage of women and minorities who are benefiting from it is truly a national disgrace.

It is clear that the financial services industry needs to do more to diversify itself. Last year, I held a brain trust at the Congressional Black Caucus that examined this issue. Many of the participants in that brain trust felt frustrated and marginalized by the industry's treatment of them. These are talented people who wanted nothing more than a fair opportunity and who found themselves rebuffed.

Obviously, we need better and more effective solutions for increasing the participation of women and minorities in the financial services industry. I am looking forward to hearing the views of today's panel of witnesses as to how we go about removing the glass ceiling.

Thank you, Mr. Chairman. I yield back the balance of my time.

TESTIMONY OF
ZAID ABDUL-ALEEM
MEMBER, NATIONAL LEGISLATIVE COMMITTEE OF THE NATIONAL ASSOCIATION OF SECURITIES PROFESSIONALS

BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

"DIVERSITY IN THE FINANCIAL SERVICES SECTOR"

FEBRUARY 7, 2008

Good Afternoon Chairman Melvin Watt, Ranking Member Gary Miller and Members of the Subcommittee:

I am Zaid Abdul-Aleem, a Member of the National Legislative Committee of the National Association of Securities Professionals (NASP). I am also a Senior Vice President, Business Development for Piedmont Investment Advisors, LLC, a minority-owned asset management firm.

I appreciate the opportunity to testify on behalf of NASP and our members concerning our organization's long-standing commitment to encouraging diversity within all facets of the securities industry and the U.S. capital markets. We commend the Subcommittee for recognizing how important this topic is to the future of our economy, our markets, and our industry.

Initially, I will briefly summarize the background and diversity outreach and efforts of NASP. Secondly, I will focus my testimony on my individual experiences as a financial services professional, both in majority and minority-owned firms, and how to effectively impact diversity in the financial services industry through increased recruitment and retention of diverse financial services professionals. During this portion of my testimony, my comments will cover mentoring relationships and related career benefits, access to capital, and opportunities to do business within the financial services industry, and I will offer some suggestions for increasing the recruitment and retention of diverse financial services professionals.

BACKGROUND & HISTORY OF NASP

The National Association of Securities Professionals (NASP) is an organization that supports people of color and women in the financial services industry. We connect members to industry leaders and business opportunities; advocate for policies that create equal representation and inclusion; provide educational opportunities; and work to build awareness about the value of ensuring that people of color and women are included in all aspects of the financial services industry. Founded in 1985, NASP is based in Washington, D.C. with 10 chapters in major financial centers throughout the United States. Our members include asset managers, broker-dealers, pension fund consultants, public finance professionals, investment bankers, securities/bond counsel, commercial bank underwriters, institutional investors, plan sponsors and other professionals in the financial services industry.

NASP in its founding and outreach within the industry over the past 22 years has increased diversity within the financial services industry. Among our various initiatives, we would like to highlight a few of our key programs and initiatives that target increasing diversity within the financial services industry: Wall Street Fast Track; Annual Mentors Luncheon and Online Career Center; and Annual Pension Fund & Financial Services Conference (for further detail, see Appendix A below).

IMPACTING DIVERSITY IN THE FINANCIAL SERVICES INDUSTRY

In the United States Government Accountability Office (GAO) 2006 report, entitled *Financial Services Industry: Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2004* (GAO Report), the GAO found that overall between 1993 and 2004, diversity at the management level in the financial services industry did not change substantially. These findings are not surprising. Over the last ten years, while there have been some positive changes, the industry overall is still viewed as severely lacking and imbalanced when it comes to diversity as noted in various industry reports and surveys (see e.g., U.S. Institute, *Special Report: Workplace Diversity in Asset Management* (Fall 2006;

USI Diversity Report); Securities Industry and Financial Markets Association (SIFMA), *Report on U.S. Workforce Diversity and Organizational Practices* (2007; SIFMA Diversity Report); H. Cisneros, *Presentation: Opportunities, Challenges and Best Practices in Promoting Diversity*, Presented at *CalPERS Workshop Expanding Investment Opportunities Through Diversity* (Nov. 2005)).

The GAO Report also found that while many firms have initiated programs to increase workforce diversity, including in management level positions, NASP believes these initiatives still face challenges. Some reasons are as follows:

1. Preconceived notions and prejudices about the effectiveness of minority and women professionals.
2. The tendency to mentor and promote individuals from the same ethnic background regardless of merit.
3. Lack of access to critical social networks.
4. Most emphasis on recruitment – not as much on retention and promotion of minority managers. As a result, many recruited at the mid-management level fail to fully assimilate into the corporate culture and end up leaving before reaching the executive level.
5. As the GAO study found, getting employees in general to "buy in" to diversity programs is a challenge, particularly among middle managers who are often the ones responsible for implementing key aspects of such programs.

Similarly in focusing on the asset management sector of the financial services industry, the USI Diversity Report made the following key findings and assessments:

- The asset management industry has been particularly slow to respond to the trend witnessed in American industry broadly of fostering diversity in its workforce. Yet a heightened awareness of the role and import of diversity practices is seeping into the asset management space. This awareness has been driven by many factors, including ***(i) changes in asset management client behavior and expectations, (ii) changing demographics of the U.S. workforce, (iii) new trends in investment practices, and (iv)***

new legislation or sustained legislative and governmental focus at the state/local level on the implementation or achievement of diversity benchmarks or milestones..

- Regarding "Attitudes Toward Workforce Diversity," half of the USI Report's research survey questions elicited information on the senior level executive's perspective on how workforce diversity affected the firm's operations. All respondents indicated a belief that workforce diversity had a positive effect on the overall operations of the firm, with 72% of such respondents labeling such effect "significant." The following chart captures "yes" response percentages to questions asking if workforce diversity improved performance of specific functional areas of the firm's business.

Question: Does Workforce Diversity Improve Business Performance?

Business Area	"Yes" Response Percentage
Portfolio Management	90%
Marketing & Client Service	90%
Sales & Retail Service	80%
Operations, Technology & Finance (includes Administration)	85%
Compliance & Human Resources	75%

- ***While 100% of respondents firms indicate a belief that workforce diversity made a positive impact on each area of a firm's business and operations, respondent firms' are substantially non-diverse and their aggregate workforce consists of: (a) nearly 90% Caucasian on the Professional/Executive level and (b) nearly 80% Caucasian on the Professional/Non-Executive level. In stark contrast, the majority or highest levels of workforce diversity in the U.S. asset management sector is concentrated in the Administration/Administrative band or sub-area of the Operations, Technology and Finance function.*** Consequently, the U.S. asset management sector trails U.S. private industry broadly and woefully with respect to minority and women representation on both the Professional/Executive and Professional/Non-Executive employment workforce levels within operating firms and companies.

- There are three primary "key success drivers" in attracting and retaining a more diverse workforce: (1) workforce diversity efforts require a long-term, sustained commitment to be successful; (2) workforce diversity initiatives require a C-Level Executive commitment; and (3) workforce diversity efforts in recruiting and retention—which go hand in hand—should begin very early in an investment professional's career and be consistently supported and maintained by such professional's employing firm or company. Linked to various of these "key success drivers" are ten central best practices, including (i) development of a multi-year plan, (ii) long/short term measuring of success and progress made, (iii) tying workforce diversity goals to executive and managerial compensation, (iv) establishing mentor programs led by C-Level Executive participation, (v) providing ongoing internal training and position/career development opportunities that correspond to increasing business or position demands, and (vi) leverage the expertise of outside organizations, such as NASP which can help with recruitment of qualified minority and women professionals on all career levels.

Likewise in focusing on the investment banking and brokerage sector of the financial services industry, the SIFMA 2007 Diversity Report finds a similarly striking state of affairs based on several of its key conclusions.

- Current workforce diversity remains generally unchanged from 2005 (when the last survey and report was issued). Representation of white men has decreased only slightly from 46% to 45%; whereas, men of color have increased slightly from 10% to 11%, and women of color have stayed level at 11%. Women generally have decreased only slightly or stayed level as compared to 2005.
- ***From the Associate level upward to the Manager and then Executive levels, representation of minority and women professionals decreases at a fairly steady rate at each higher level across the surveyed investment firms.***
- While investment firms surveyed have increased general accountability of managers for diversity performance and results by measuring managerial performance through both performance reviews and management-by-objectives, ***the majority of investment firms***

report that they still do not offer financial rewards for or tie compensation or monetary incentives to diversity performance at the managerial or executive levels.

- ***Investment firms and companies that do not in some way measure their managers' diversity performance are 2 ½ to 6 times more likely to fall below the median for representation of minority and women professionals in their respective workforces.***

It is also a reasonable implication that those investment firms that do in fact measure and periodically assess their managers' and executives' diversity performance but do not tie-in or link a compensation or other financial incentive to such managerial diversity performance are still more likely than not to fall below median levels for representation of minority and women professionals in their respective workforces. In totality across the various diversity studies and reports from the GAO, the USI and SIFMA above, what we see from our industry vantage point is a disappointing, woefully incremental and unacceptable picture of diversity in the U.S. financial services industry, one of the lifeblood and key industries U.S. and global economy as we all move forward into the 21st century and beyond.

We firmly believe that the best way to impact the disappointing and incremental diversity metrics and fundamentally change and accelerate industry diversity implementation is to do business with minorities and women wherever they are found, either within majority-owned firms or minority- or women-owned firms. ***There must be both external and internal economic incentives to positively impact workforce diversity.*** (See generally Appendix B and Key Statistics and related studies cited therein.) As an internal economic incentive to achieve meaningful workforce diversity within majority institutions, managerial diversity performance should be measured periodically and incentivized by being tied to compensation or other economic or financial reward.

Moreover, the path to senior management and corporate board membership in majority firm institutions is job success. Minorities and women must have clients from whom they generate significant revenue. In minority- and women-owned firms, the same concept applies. The growth and viability of these institutions is dependent upon clients with whom they can do business. (See generally Appendix B and Key Statistics and related studies cited therein.) As one external economic incentive to positively impact workforce diversity in the financial services industry, the federal government as "Client" should establish diversity goals across its agencies and pension/investment plans in their utilization of financial and investment services professionals when engaged in financial services and investment activities. More specifically, the evaluation process to hire financial services providers should include a diversity component with weight. For example, as part of the RFP process, firms would have to answer questions about the ethnic and gender composition of their Board of Directors and senior and mid-level managers using EEOC data. All things being equal – performance, fees, continuity of the investment team etc., this additional evaluation mechanism could incentivize firms to improve their diversity profile. Diverse financial professionals (inclusive of people of color and women) would be responsible for and handle the financial services business of the federal government for there respective firms thereby generating significant revenue leading to job success.

INDIVIDUAL EXPERIENCES WITHIN MINORITY AND MAJORITY FIRMS

There have been many individual experiences, which have impacted my development and ability to succeed within the financial services industry. Beginning as early as high school, I have received the necessary sponsorship to realize my potential. The following selected stories are examples of that support:

As I crossed the Chicago River at 5:30 a.m. in 1990, it was pitch dark and freezing. I questioned why I was up so early during my winter holiday break. I had a job that made decent money and I did not want to squander my opportunity to work at Refco. I did not know much about how the traders made their decisions or why they would scream, but I knew I had to learn what futures, options, puts and calls were. The CEO of Refco wanted to see me around lunch so I would pick his brain then. His office was cavernous and to my surprise there were more traders on his floor. He asked me about the day and I asked what he did. He explained that he watched his computer screen all day for the color red and green. I was eighteen and the CEO of a Chicago brokerage firm had given me a job as a runner at the Chicago Mercantile Exchange during winter break.

Five years later I sat on another bustling trading floor at Morgan Stanley. The sound of constant phones ringing with periodic outbursts over background chatter filled the space. I was at my computer working the graphics on a power point presentation to a client when all the noise seemed to fade. It was if time had stopped when I heard his voice calling me. I turned and there was the CEO of Morgan Stanley, and amidst the crowd of Managing Directors jockeying for his hand he stood over me, a first year analyst. When I reached to shake his hand, he quickly raised his arms to my chest and began to push me, but I got "inside hands" on him. The CEO had played college football and "inside hands" was a technique used to gain leverage over your opponent. There we were, the CEO and I fighting for "inside hands" position.

The CEO had interviewed me during my recruiting process and we had met several times. But that day, he made a public commitment to my success. Our interaction made it the clear that we had a relationship and that he was my sponsor. My colleagues knew that supporting me would be consistent with the goals of the firm. As a result, I was given opportunities to attend client meetings, work on a range of deals and work directly for the CEO on several deals. Through Morgan Stanley, I worked in capital markets, corporate finance, and mergers and acquisitions while living in the United States, Africa, Asia and Europe.

Seven years later I was eating with Isaac Green and his partners at the Durham, North Carolina based Piedmont Investment Advisers, where I am currently a senior vice-president. Mr. Green had held several senior roles in asset management in both minority and majority firms. Early in his career, he gained senior experience at a minority-owned boutique, which ultimately qualified him for an upper management role at a majority-firm.

At this point, Mr. Green was CEO of Piedmont Investment Advisors, building his own minority-owned company with two partners from his predecessor firm. They had recently struck a partnership with North Carolina Mutual, which would bring assets under Piedmont management to approximately \$200M. He spoke about a vision and a passion for what Piedmont could bring to the marketplace and it resonated with me. As I discussed my investment banking experience at Morgan Stanley, I knew that Mr. Green and his team were an undiscovered talent and that it was a fantastic opportunity. I was excited because I felt that the opportunity to manage money at Piedmont was very real. In fact, I felt that Piedmont was the perfect situation for me to leverage the skills I had gained at Morgan Stanley, but with the added benefit of being an equity owner, entrepreneur and innovator within the financial services industry. I would have the freedom to realize my talents and my success could go as far as my talents allowed.

One year later, Mr. Green and I had an introductory meeting at General Motors Asset Management. The previous month I had met the CEO, another Duke alumnus at Duke Career Week, and he asked that I contact him for potential business opportunities. Eleven people sat across the table waiting to hear our pitch. The dialogue was substantive and thoughtful. The General Motors team listened to our multi-disciplinary investment strategy and asked probing questions. Today, Piedmont is one of GMAM's most successful money managers. Since 2000, Piedmont has been a recognized leader in innovative asset management and grown to $ 2 billion under management.

My previous experiences on the Chicago Mercantile Exchange, Morgan Stanley and now at Piedmont have made me a well-rounded financial services professional. The common ingredient in each of those experiences has been a powerful sponsor who has supported and shaped my career. The CEO of Refco, Morgan Stanley and Piedmont Investment Advisors, have continued to mentor me to this day.

These stories reflect my career evolution and serve to reaffirm how high-level sponsorship and investment in minorities and minority-owned firms can increase recruitment and retention of diverse financial services professionals. In each case, sponsorship came from the CEO level. As important as the mentoring, was their public commitment to me, which encouraged upper and middle managers to also embrace their responsibilities to develop talent.

In summary, we are excited that elected officials have focused on this issue. Increasing the diversity within the financial services industry is critical to the economic growth of this country. As America becomes more diverse, it must fully utilize the talents of all its professionals to keep up. A more diverse workplace facilitates competition, pricing efficiency, and product innovation. The United States enjoys the largest multi-ethnic and cultural country population in the world. Realizing the potential of our diverse perspectives, ideas and solutions is absolutely necessary to compete in the global economy.

PROPOSED ACTIONS TO INCREASE DIVERSITY IN THE FINANCIAL SERVICES INDUSTRY

In light of the industry information regarding the state of diversity and the individual experiences conveyed above, NASP recommends the following steps to increase recruitment and retention of diverse financial services professionals and to improve diversity in the financial services industry.

- Link diversity components at the mid- and senior management- levels to salary/bonus compensation. This is a way of reinforcing the importance of these programs to the organization's overall business objective.
- Target recruiting efforts and establish partnerships with well known organizations that support women and minorities such as ours along with the TOIGO Foundation, INROADS, Sponsors for Educational Opportunity and the National Associations of Black and Hispanic MBAs
- Establish relationships with HBCUs and Historically Hispanic Serving Colleges and Universities to build the pipeline for pursuit of careers in financial services by diverse individuals.
- Connect with the Executive Leadership Council, the Marathon Club, the New America Alliance and others on recruiting senior-level executives and corporate board members.
- Take all active and supportive steps to fully implement the letter and spirit of U.S. House Resolution, H. CON. RES. 429, which was introduced by Congressman Gregory Meeks, co-sponsored by 81 members of Congress, and adopted on a bi-partisan consent basis in 2007. This Resolution seeks all active measures to increase the demographic diversity of the financial services industry.

(See best practices discussions in USI Diversity Report; SIFMA, *Diving Into Diversity...A Springboard for Getting Started*, available in HR/Diversity section of SIFMA website; and SIFMA Diversity Report.)

We also recommend that the federal government as "Client" in its vendor evaluation, review and selection process incorporate a "diversity-component factor with weight" for all of its financial services and investment services providers as outlined above. One U.S. industry example that is instructive and where a "measurement-incentive strategy" has already been implemented with some meaningful success and progress is within the legal services or law firm industry. Through the combined efforts of two industry trade associations, the Minority Corporate Counsel Association (MCCA) and the American Corporate Counsel Association (ACCA), along with over 100 general counsels from many of the largest U.S. corporations, a Call to Action was adopted and signed in Fall 2004. The essence of a Call to Action, which was adopted by these general counsels and their companies as the "Client", is to require their outside law firms that receive legal business revenues from these large U.S. corporations to implement measurable and quantifiable diversity within their respective law firms at the partner and associate levels in terms of business credit for and responsibility and handling of a corporation's legal matters. Under the Call, if outside law firms decline or otherwise fail to achieve diversity implementation standards of their Client corporations, general counsels and their corporations will either no longer use their outside law firm legal services or restrict or limit the amount of legal business sent to such outside law firms. This has resulted in some instances in the loss to outside law firms of millions or tens of millions of dollars in legal services fees and revenues and has also resulted in some outside law firms losing their corporation Client. (See E. Frater, A *Call to Action Continues: General Counsel Still Leading the Way*, MCCA Diversity & The Bar Magazine (2007; 10th Anniversary Commemorative Issue).)

CONCLUSION

NASP and I are appreciative for this opportunity to add our voice to the discussion of improving diversity in the financial services industry and increasing the recruitment and retention of diverse financial professionals. We stand ready to partner with the House Financial Services Committee, other trade associations, and individual firms to further our stated goal of ensuring that diverse financial services professionals are included in all aspects and at all levels of the financial services industry. We believe that significant progress can be made on these crucial issues, but only when there are clear, defined external and internal economic incentives, direct accountability, and enforcement.

Thank You.

APPENDIX A

- NASP Headquarters & Chapters

National Association of Securities Professionals
1212 New York Avenue, NW, Suite 950
Washington, DC 20005
202-371-5535/ phone • 202-371-5536/ fax

NASP has local chapters in the following U.S. Cities. Visit www.napshq.org for more information.

- Atlanta
- Boston
- Chicago
- Detroit
- Houston
- New York
- Philadelphia
- Baltimore/Washington
- Los Angeles
- San Francisco

- Mission Statement

As a professional organization, NASP serves as a resource for the minority community at large and for the minority and women professionals within the financial services industry, by providing opportunities to share information about the securities markets, including functioning as a repository for information regarding current trends, facilitating fundamental educational seminars, and creating networking opportunities.

- Objectives/Principles

The objectives of NASP are as follows:

- To pursue the highest standards of professionalism and excellence among NASP members

- To achieve equal opportunity for minorities and women in the securities industry

- To foster the growth and development of minorities and women; and, of minority-controlled and women-controlled institutions in the securities industry

- To enhance communication among members

- To increase public awareness, especially among minorities and women, of public and private finance career opportunities

- To pursue progressive and balanced policies affecting public and private finance

In pursuing our organizational objectives, NASP supports the following principles:

- We uphold the law that bans racial, ethnic or gender discrimination in employment.

- We believe that racial, ethnic or gender discrimination in employment, business contracts and related activities is immoral and an unsound business practice.

- We support equal and fair employment practices including, without limitation, the hiring, compensation, training, promotion and retention of African-Americans, Hispanic-Americans, other Americans of color, and women.

- We support the development of training programs that will prepare significant numbers of African-Americans, other minority Americans, and women for management, ownership, supervisory, administrative, clerical, sales and technical positions in all financial services business activities.

- We support equitable participation and equal opportunity in all business dealings.

- Origin & Founding

Established in 1985, The National Association of Securities Professionals (NASP) is a non-profit association of professionals in the financial services industry. NASP brings together the nation's minorities and women who have achieved recognition in the industry as brokers, asset managers, public finance professionals, consultants, investment bankers, bond counsel, commercial bank underwriters, investors, plan sponsors and other finance professionals. Membership is open to any individual or organization regularly engaged in a responsible function in the securities industry.

- NASP History

On February 2nd 1985, in the office of the Metro Equities Corporation in Chicago, 44 men and women from the financial services industry, got together with an idea and a plan of action. Donald R. Davidson, Maynard H. Jackson, Joyce M. Johnson, and Felicia O. Flowers-Smith, came together with the intention to not only inspire change within the financial services industry, but to achieve their aspirations of equality for women and minorities in the field.

The idea: create an organization of like minded people who could exchange ideas and share the successes and frustrations of working in the financial services industry. The name of the organization, as suggested by Maynard H. Jackson, would be the National Association of Securities Professionals.

Two months later, on Friday, April 12th, 1985 the National Association of Securities Professionals reconvened in San Francisco for the second organizational meeting. It was at this meeting that an agenda for action was created.

Now, 21 years later, the National Association of Securities Professionals is still strong, still striving for excellence, and not only celebrating our legacy but charting a new course for our success.

♦ Wall Street Finance and Scholastic Training Program (FAST Track) Program

The Wall Street Finance and Scholastic Training Program, or FAST Track, is a rigorous curriculum that was launched in November 1996 by the New York chapter of the National Association of Securities Professionals (NASP). The program was started in an effort to attract more minorities to the securities industry by identifying high school students with an interest in the field early enough to give them training, internships, and experiences they would need to succeed. In the ten years since FAST Track was started in New York, NASP has expanded this invaluable program across the country.

All chapters are required to incorporate FAST Track into their ongoing work, although chapters are encouraged to structure the program as they see fit. As a result, no two FAST Track Programs are identical. The New York FAST Track, for instance, will differ slightly from the Philadelphia program, and the Houston program may have unique features or components not found in Philadelphia, etc. Several chapters, for example, have expanded FAST Track to include a financial literacy component. Some of these chapters tailor their financial literacy component to fit the students, while others offer targeted curricula for the parents of FAST Track participants. By integrating financial literacy into FAST Track NASP hopes to provide African Americans with the information, confidence, and skills they need to build wealth. (According to a 2002 report issued by the Consumer Federation of America, African American households have less than one-quarter the net worth of other U.S. households – $15,500 for black families, compared to $71,700 for other American families.)

The students who participate in the program are identified through a variety of channels. We work with community organizations, teachers, school administrators, and career and guidance counselors to identify bright, promising students who have expressed an interest in business, finance, or economics. Most of our FAST Track Programs target high school students, although two chapters have chosen elementary and junior high school students as their target applicant pool. The duration of the program can vary, from three months for a summer FAST Track Program to two years. Criteria for acceptance to the program varies slightly from chapter to chapter. However, most NASP chapters require:

- that students complete a written application;
- a written personal essay that demonstrates the student's communication skills;
- a recommendation from a teacher or guidance counselor; and
- at least a B grade point average.

NASP is grateful to the many financial and law firms, corporations, small businesses, and universities that have supported this effort from its inception. These sponsors and allies have generously provided in-kind donations – such as printed materials and meeting space – and have allowed FAST Track students the opportunity to meet with and learn from their senior employees working in the industry. A few firms also have offered summer internship opportunities and have contributed money to scholarships that are awarded to college-bound FAST Track graduates. Finally, individual professionals have stepped forward to volunteer their time as mentors.

Annual Mentors Luncheon and Online Career Center

As part of our community outreach initiatives, NASP seeks to inspire and encourage minority and women students to build careers as finance professionals. In order to do so, we have developed mentoring relationships with our "next generation" that include candid discussions regarding the crossroads and pathways to success in the global financial services industry. The purpose of the Annual Mentors Luncheon, which is in its 9th year, is to encourage minority and women undergraduate and MBA students to pursue careers in the financial services industry. This event, which takes place in New York, features a panel of financial services professionals who share their experiences with the students. Since the inception of the program, we have been able to expose over 2,700 students representing several northeastern universities and colleges to careers in the financial services industry. Additionally, NASP has partnered with Historically Black Colleges and Universities on this initiative. Over the past five years, companies such as Goldman Sachs and Citigroup have been partners in this effort.

In addition, NASP maintains a career center on its website which serves as a clearinghouse and job bank for potential candidates and employer-firms who are interested in expanding their firm's diversity by reaching a broader and more diverse pool of candidates. This website is free to the public and can be accessed at www.nasphq.org.

Annual Pension Fund & Financial Services Conference

The NASP Annual Pension Fund & Financial Services Conference annually attracts the most senior minority and women professionals who come to seek out future business opportunities. Plan sponsors and allied government professionals also attend in order to take advantage of the training and professional development programs. For the past 16 years, this conference has evolved into one of the nation's largest gatherings of successful minority and women professionals engaged in all facets of the financial services industry. This impressive group of finance professionals includes corporate treasurers, public and corporate plan trustees, broker-dealers and investment banking firms, asset management firms, pension/investment consulting firms, and world-recognized economists. For example, our 2006 and 2007 annual conferences—our 17th and 18th annual conferences, respectively—were supported by the following partners and sponsors: AIG Global Investment Group, Alliance Bernstein, Citigroup, Comerica, General Electric Asset Management, Goldman Sachs Asset Management, Invesco, JP Morgan, Lehman Brothers, Lewis & Mundy, M.R. Beal & Company, Nixon Peabody, Siebert Branford Shank & Co., State Street Global Advisors, and UBS among many other financial services firms. For a complete list, please see Partners and Sponsors list below.

Legislative Committee & Symposia

In furthering NASP's goal of being a voice for minorities and women to the executive, legislative and regulatory branches of government, we actively engage in legislative initiatives. In March of 2006, NASP held its First Annual Legislative Symposium in Washington, D. C. which focused on the topic of "Reshaping the Regulatory Landscape – What's at Stake for Securities and Financial Services Firms in a Changing Regulatory Climate." Then-Speaker of the House Dennis Hastert (R-IL), Chairman of the Congressional Black Caucus Melvin Watt (D-NC), House Financial Services Committee member Gregory Meeks (D-NY), SEC Commissioner Roel Campos, Pension Benefit Guaranty Corporation (PBGC) Executive Director Bradley Belt, and Matthew Slaughter from the White House Council of Economic Advisers were a few of our featured speakers. Key financial oversight representatives and decision-makers from Congressional committees, trade associations, and federal and regulatory agencies also participated in this event.

In March, 2007, NASP held its Second Legislative Reception and Symposium entitled "What's At Stake for Financial Services Firms in a Changing Congressional Climate". The Honorable Charles Rangel, Chairman of the U.S. House Ways and Means Committee was our kick-off reception speaker. Also in attendance were Congressional members Luis Gutierrez (D-IL), Melvin Watt (D-NC), Corrine Brown (D-FL), Danny Davis (D-IL), Stephanie Tubbs-Jones (D-OH) and Gregory Meeks (D-NY). Pension Plan participants included William Atwood, Executive Director, Illinois State Board of Investment, Fred Buenrostro, CEO, California Public Employees Retirement System (CalPERS), Joseph Haslip, Assistant Comptroller for Pensions, Office of the New York City Comptroller, and Stephanie Neely, Treasurer, City of Chicago.

- NASP Chairs (Past)

Maynard H. Jackson
Joyce M. Johnson
William H. Hayden
Alphonso E. Tindall, Jr., Esq.
Ernest Green
Marquette Chester
Travers J. Bell, Jr.
David Baker Lewis, Esq.
Raymond J. McClendon
Patricia Garrison Corbin
Eugene J. Duffy
Cheryl E. Marrow

- NASP History at a Glance

1985- NASP founded in Chicago by Maynard H. Jackson, Felicia Flowers-Smith, Joyce M. Johnson and Donald Davidson

1986- First Annual Meeting in Washington featured Paul Volcker, Chairman, Federal Reserve

1988- First Panel on opportunities in Asset Management and Pension Funds at Annual Meeting

1990- First Annual Pension Fund Conference held in Chicago chaired by Henry Parker, former treasurer, State of Connecticut

1991- Travers J. Bell, Jr. Award established in honor of his life and for his extraordinary contributions as a national financial leader and entrepreneur

Joyce M. Johnson Award established in honor of her legacy, dedication and contributions made in the securities industry

1993- Annual Meeting in Washington featured Robert Rubin, U.S. Secretary of the Treasury

1994- NASP board members met with SEC on municipal bond regulation; NASP Washington headquarters opened with first full-time executive director, Teresa Doke

Pacesetter Award established in recognition of individuals that have ensured or promoted the full involvement of women and minorities in the securities industry

1995- 10th Anniversary Celebration and Annual Meeting & Conference featured keynote speaker Andrew Young, Vice Chairman, Law Companies Group, Inc.

1998- Annual Pension Fund Conference in Detroit featured keynote speaker Reverend Jesse L. Jackson, President & CEO, Rainbow/PUSH Coalition and Carol Moseley-Braun, First African American woman elected to U.S. Senate

2000- 15th NASP Anniversary celebrated at Annual Pension Fund Conference in New York

2003- Co-Founder Maynard H. Jackson delivered his last address at the 14th Annual Pension Fund Conference in Atlanta, Georgia

2004- 15th Anniversary of the Annual Pension Fund Conference in Chicago celebrated our NASP legacy with a special tribute to late Co-Founder Maynard H. Jackson

Maynard Jackson Entrepreneur of the Year Award was established to honor the financial service professional that best exemplifies entrepreneurial achievement, community service and high moral standards.

- Partners and Sponsors of the 2006 & 2007 Annual Pension Fund and Financial Services Conferences
  - Citigroup
  - Comerica
  - Invesco
  - Lehman Brothers
  - Lewis & Munday
  - Siebert Brandford Shank & Co., LLC
  - UBS
  - Brown Capital Management
  - Earnest Partners
  - Northern Trust
  - Toyota
  - Goldman Sachs Asset Management
  - Wells Fargo
  - Williams Capital
  - AA Capital Partners, Inc.
  - Advent Capital Management
  - Ariel Capital Management
  - Davis Hamilton Jackson & Associates
  - Holland Capital Management
  - The Edgar Lomax Company

- MR Beal & Company
- ICAP
- Jackson Securities
- Mercer Investment Consulting
- New Amsterdam Partners
- Progress Investment Management Company
- Edwards & Angell
- Alliance Bernstein
- Alpine Global Investments
- Ambassador Capital Management
- Boeing
- Channing Capital Management
- Cooke & Bieler
- Delaware Investments
- FIS Group
- Globalt Investments
- Goode Investment Management
- Greektown Casino
- Gabire Roeder Smith & Co.
- Loop Capital Markets
- Lord Abbett
- Loomis Sayles
- MDL Capital Management
- Merrill Lynch
- Mesirow Financial
- Morgan Stanley
- New England Pension Consultants
- Nixon Peabody
- Oracle Capital Partners
- Paradigm Asset Management
- Piedmont Investment Advisors
- Safeco Insurance
- SBK-Brooks
- Seneca Capital Management
- Shell
- Smith Graham & Company
- Smith Whiley & Company
- Synovus
- Taplin, Canida & Habacht
- Wolf Haldenstein Adler Freeman & Herz
- The Yucaipa Companies

National Association of Securities Professionals

APPENDIX B

KEY STATISTICS

regarding

MINORITY- AND WOMEN-OWNED FINANCIAL SERVICES FIRMS

MINORITIES AND WOMEN EMPLOYED AT MAJORITY-OWNED FIRMS

CORPORATE AND PUBLIC PENSION PLANS BENEFITING FROM MINORITY INCLUSION PROGRAMS

Over 8,600 registered investment advisors registered with the SEC managing $24.3 trillion in assets – *A Dialogue on Emerging Managers & Related Topics: Progress Investment Management (2005)*

More than 80% of these assets are managed by 100 "mega" financial services firms – *PCA Research Brief: A Review of Developing Managers and Developing Manager Programs (July 2003)*

The remaining 20% (or nearly $5 trillion) of assets are managed by more than 8,500 registered investment advisors of which over 7,000 manage less than $1 billion in assets. The industry is really comprised of many small firms not large ones - *A Dialogue on Emerging Managers & Related Topics: Progress Investment Management (2005)*

80% of all registered investment advisors have 10 employees or less. Most firms in the industry are smaller firms with 10 or fewer employees *- A Dialogue on Emerging Managers & Related Topics: Progress Investment Management (2005)*

There is no broad-based difference in investment performance or investment risk between [minority and women and majority] managers. *- PCA Research Brief: A Review of Developing Managers and Developing Manager Programs (July 2003)*

For the five years ending September 2005, roughly 40% of the core U.S. Equity managers in the top performance quartile were with firms managing less than $2 billion. This implies that the minimum firm size requirements typical of large plan sponsor searches immediately exclude a large proportion of the highest performing managers *- T.Krum/Northern Trust, Potential Benefits of Investing With Emerging Managers: Can Elephants Dance? (March 2006)*

MANAGER SIZE BY CLASS

	5 (SMALL)	4	3	2	1 (LARGE)	
Percentage of All Managers	33.0%	22.8%	13.2%	15.3%	15.8%	100.0%
Performance Quartile						
1	39.1%	21.1%	10.5%	14.3%	15.0%	100.0%
2	33.8%	23.3%	10.5%	19.5%	12.8%	100.0%
3	36.8%	24.8%	10.5%	10.5%	17.3%	100.0%
4	22.0%	22.0%	21.2%	16.7%	18.2%	100.0%

Source: Nelson's Marketplace

[The above chart] shows the composition of each of the four performance quartiles and compares it with the composition of the total manager sample. The smallest managers make up 39.1% of the top quartile, even though they make up only 33% of the total sample. No other group is overrepresented in this way - *T.Krum/Northern Trust, Potential Benefits of Investing With Emerging Managers: Can Elephants Dance? (March 2006)*

Why do the smallest asset managers frequently have such strong performance advantage over larger ones? In more than 25 years of working with smaller firms, [Northern Trust has arrived at their] own largely qualitative answers:

- ***Greater appetite for risk among entrepreneurial owner-portfolio managers.***

- ***Less bureaucratic working environment, allowing crisp decision making.***
- ***Greater motivation and less complacency.***
- ***Fewer liquidity problems.***
- ***Greater organizational flexibility to deal with changing market environments.***

T.Krum/Northern Trust, Potential Benefits of Investing With Emerging Managers: Can Elephants Dance? (March 2006)

There are three fundamental reasons to work with [minority- and women-owned firms]: alpha, diversification and diversity. [Minority- and women-owned firms] find and use new and different sources and generate more relative and absolute alpha; [Minority- and women-owned firms] mitigate large firm concentration risk, enhance participation and return opportunity and sustain a robust industry and; [Minority- and women-owned firms] democratize the deployment of capital and its management - *A Dialogue on Emerging Managers & Related Topics: Progress Investment Management (2005)*

MINORITY- AND WOMEN-OWNED FINANCIAL SERVICES FIRMS

Over 70% of firms have been in business more than 10 years (1/3 over 15 years) – *A Dialogue on Emerging Managers & Related Topics: Progress Investment Management (2005)*

41% have an investment team with average experience between 10 and 20 years – *Emerging Managers and other Financial Service Providers Database: Altura Capital*

Of more than 500 minority- and women-owned financial services firms:

- ***more than 30% are African-American owned;***
- ***42% are women-owned;***
- ***nearly 12% are Asian-American owned and;***
- ***more than 6% are Latino-American owned***

- A Dialogue on Emerging Managers & Related Topics: Progress Investment Management (2005)

MINORITIES AND WOMEN EMPLOYED AT MAJORITY-OWNED FIRMS

All statistics are from 2005 SIA Report on Diversity Strategy, Development & Demographics

15% of senior-level management positions are held by men of color, 21% are held by white women and 8% by women of color.
24% of senior level management positions are held by people of color with
14% of this group being of Asian/Pacific Islander origin; 5% being of African-American origin and 4% being of Hispanic/Latin American origin color.

People of color are still employed at lower levels in the organization with 68% of people of color being employed at the Analyst/Associate and mid-level positions.

CORPORATE AND PUBLIC PENSION PLANS BENEFITING FROM MINORITY INCLUSION PROGRAMS

Plan Sponsor	**Assets**
CALPERS	$242 billion
General Motors Corporation	$126 billion
NYC Employees Retirement System	$109 billion
GE Asset Management	$76 billion
Boeing Company	$69 billion
Verizon Communications	$64 billion
State of Connecticut	$24 billion
Shell Oil Company	$15 billion
Illinois State Board of Investment	$12 billion

WRITTEN STATEMENT OF
MARILYN F. BOOKER
MANAGING DIRECTOR, GLOBAL HEAD OF DIVERSITY
MORGAN STANLEY

BEFORE THE
HOUSE FINANCIAL SERVICES COMMITTEE
SUBCOMMITTEE ON OVERSIGHT & INVESTIGATIONS

"DIVERSITY IN THE FINANCIAL SERVICES SECTOR"

FEBRUARY 7, 2008

Mr. Chairman and members of the Subcommittee:
I am Marilyn F. Booker and I am the Global Head of Diversity for Morgan Stanley. I sincerely appreciate the opportunity to testify before you on Diversity in the Financial Services Sector.

What I would like to accomplish during my testimony here today is the following:

1. Address the key findings of the June 2006 GAO Report, *Financial Services Industry, Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2004*, (the "Report")
2. As a Financial Services firm, address some of Morgan's Stanley efforts, challenges and successes in improving diversity at, and special challenges facing, investment banks
3. Discuss how Morgan Stanley measures its business case for diversity

THE GAO REPORT FINDINGS

In June 2006, the GAO issued its report on overall trends in management-level diversity and diversity initiatives in the financial services industry. The key statistical finding of the Report was that, from 1993 – 2004, overall diversity at the management-level in the financial services industry did not change substantially. The population of employees that was reviewed was the

"Officials and Managers" category of the EEO-1. Specifically the report found the following with respect to this group of people:

- Representation by minority women and men overall increased from 11.1% to 15.5%
- African-Americans increased their representation from 5.6 to 6.6%
- Asians increased their representation from 5.6% - 6.6%
- Hispanics increased their representation from 2.8% to 4.0%
- American Indians increased their representation from 0.2% to 0.3%
- Representation by white women remained constant at around 31%
- Representation of white men declined from 52.2% to 47.2%
- Overall white representation declined from 88.9% to 84.5%.

The Report also concluded that within financial services, some sectors have more diverse management-level workforces than others (e.g., commercial banks and insurance companies have a higher degree of representation by minorities and white women at the management-level than securities firms, etc.).

My analysis of the outcome of the statistical findings is consistent with the rationale stated in the Report. In particular, it is my observation that:

- The financial services industry is facing challenges in recruiting minority and women candidates
- Recruiting a diverse talent pool takes time and effort
- Although there are women and minorities in senior level positions, relative to men and non-minorities, the critical mass is not as evident and many junior women and minorities feel challenged in finding role models who can encourage them to enter the industry
- Engaging the management structure in diversity efforts (middle management included) and implementing meaningful programs and initiatives that also allow employees at-large to feel engaged is critical to success.

1) The financial services industry is facing challenges in recruiting minority and women candidates

Today's reality is that the financial services industry as it was once understood is no longer the only game in town. In addition to the limited pools of potential candidates, the competition now includes private equity firms, hedge funds, technology companies and consulting firms, foundation and nonprofit organizations, among others. All of these industries, like the more diversified financial services industry, typically require a high degree of specialization; therefore, minority and women candidates with the best credentials and requisite skill sets are highly sought after and often receive multiple job offers. This plays out at both the campus/entry level and at the lateral/experienced level.

Second, the number of women and minorities who are seeking these specialized skill sets via advanced degrees has remained stagnant over the last 5+ years. The percentage of minorities and women attending accredited business schools in the country is 23% and 35%, respectively. With respect to minorities, that 23% is made up of 11% Asian, 6% African American, 5% Hispanic and 1% American Indian. Knowing that all of these students do not come to financial services and are spread across many industries, the percentage of minorities and women in the financial services industry is fairly consistent with those who have the training to apply for these jobs.

Third, with respect to experienced hires, we in the securities industry often hear about the government's data on the available labor pool and how the number of minorities and women in those pools is higher than their representation in securities firms. It is my view that these statistics are somewhat misleading relative to securities firms because it lumps securities firms into the category of "financial services" which in turn includes a broad range of companies like credit unions, savings and loans associations, insurance companies and commercial banks, to name a few. Investment banks or securities firms with both institutional and retail businesses tend to be more specialized and typically seek more defined skill sets. Combine this with the minorities and women who do have the skill set but opt for other careers and the number of experienced people in this group decreases even more. I do believe this is why there are fewer experienced minorities and women in the labor pool than at the entry level which is why many firms put so much emphasis on campus/entry level programs.

2) Recruiting a diverse talent pool takes time and effort

Recruiting diverse candidates is a process that cannot be successfully managed in the same manner as general recruiting. Diversity recruiting is about relationships and trust and it takes time to build those relationships and develop that trust. In spite of the progress that has been made on the diversity front and the presence of more women and minorities in financial services firms, these groups still have skepticism about whether firms will care about them and their careers. As a result of this skepticism, the following often occurs with respect to these candidates:

- They do their homework
- You must have several people speaking to them about the firm's commitment to a meritocracy
- To get them to accept your offer vs. another firm's offer, they need to know about support systems, mentoring and the firm's commitment to diversity.

This phenomenon takes place because unlike men and non-minorities, they tend to be very cautious about the employment decisions they make as they may not feel they can move with the same ease as those who are not like them. Therefore, the time investment is huge and firms that do not have the infrastructure to support this relationship building will not be as successful as those that do.

3) Although there are women and minorities in senior level positions, relative to men and non-minorities, the critical mass is not as evident and many junior women and minorities feel challenged in finding role models who can encourage them to enter the industry

There is unquestionably a pyramid effect. The Report demonstrates that the number of minorities and women tends to be larger at the lower levels of the organization and as you move up into the more senior levels, the relative representation decreases. Certainly, this isn't unusual for financial services companies alone. Indeed, there was a recent *Fortune* article that addressed the challenge that companies have in trying to maintain diverse workforces. It mentioned that statistical disparities can often be the result of "a complex stew of social, historical and cultural legacies that no company can or should be expected to correct." I do agree that the reasons why organizations are not more diverse, particularly at the senior levels, are quite complex. In addition to the reasons mentioned by *Fortune*, there is also the fact that there are many minorities and women who, for personal reasons, just opt out of what is the unquestionable high-intensity atmosphere that in many ways defines our industry.

That being said, I do not agree that companies should not try to be more diverse despite the social, historical and cultural forces that might be working against them. The reality is that most if not all companies do have senior minorities and women – the representation just tends to be smaller at the senior levels. This creates a two-fold responsibility for organizations:

- It is incumbent upon companies to make the senior minorities and women visible support systems for those coming up the pipeline and ensure that they have the resources to mentor those junior people like them
- In an effort to ensure inclusion in formal and informal networks, it is also incumbent upon companies to also make available to junior minorities and women mentors who do not look like them, i.e., non-minorities and men.

Understanding the need for role models and multiple mentoring relationships can make the difference between a successful career and a failed career. Different people have different lines of access to information. To have people mentor people who only look like them or share a particular characteristic limits those lines of access and eliminates input from different perspectives. Companies need to provide the roadmap for making this happen. They need to ensure that junior minorities and women make the personal connections needed to plug them into the informal networks that are often necessary to navigate that company's culture and advance their careers. The assumption is that this happens with men and non-minorities, so there has to be a systemic way to ensure that this happens as well with minorities and women. If this is done often enough with minorities and women, even more progress will be made.

4) Engaging the management structure in diversity efforts(middle management included) and implementing meaningful programs and initiatives that also allow employees at-large to feel engaged is critical to success

We have all heard the expression "people don't leave a company, they leave their manager." Diversity is no different. An organization can have all the top leadership commitment there is, however, if this "commitment" is not communicated on a regular basis to the people who are responsible for the day-to-day, and if those folks do not have an opportunity to be engaged in meaningful diversity programs and initiatives, the broader efforts to have a more diverse workforce will be seriously challenged. I have found it to be critical that there is top to bottom buy-in and engagement on diversity initiatives and that firms can go a long way in this regard by being visible in their initiatives, communicating them broadly and demonstrating that each employee, particularly managers, have a stake in the diversity mandate.

MORGAN STANLEY'S EFFORTS

Challenges and Successes in Improving Diversity at, and Special Challenges Facing, Investment Banks

As the workforce has become more diverse and companies have sought to ensure that they were getting the best and the brightest from the new and diverse entrants into the workforce, more formal diversity programs have come into existence. They are designed to meet the ongoing challenges of recruiting and retaining the best and the brightest, regardless of the independent and often personal decisions that may be individually made about career options. A few of the programs that we run at Morgan Stanley are as follows:

- We host conferences for our minority and women employees. The goal of these conferences are to focus on leadership development, skill development, networking and enhanced relationships with senior management
- We have very mature campus recruiting programs in all of our business units that specially target women and minorities. These programs, both at the graduate and undergraduate level, have been very helpful in pipelining outstanding talent into our entry level programs
- Our employee networks have been a great way of not just building informal, networking relationships, but we have also had offerings of internal and external speakers that have focused on career and professional development and advancement.

The next area that I believe is important to our diversity success is talent management. About a year and a half ago, our CEO, John Mack, appointed a Chief Talent Officer for the firm. Each of our major Business Units in turn has a designated Talent Officer. One of their major talent initiatives is around leadership. Leadership, good leadership, is just as important to diversity as accountability. It is my belief that if you have good leaders in place, diversity will follow. Great leaders know talent when they see it and create the conditions under which people, all people, live up to their potential. Weaker leaders, by contrast, may gravitate to people who are like them – which can have an impact on diversity in all areas – from recruiting to career development to promotions. It is not that poor managers are ill-intended, they just don't know how to manage people in general and these poor management skills can appear to have a more significant impact on people who are different. Poor management skills often lead to less attractive records on diversity.

Our challenge is that we are in an industry where rewards/promotions are often bestowed upon people because of their incredible production/bottom-line skills. Although good people skills and management skills are considered, they are not typically the first quality considered. Through our talent management team our firm is very focused on leadership training for our managers. Another area of focus is on career development and leadership for our diverse employees. One example of this targeted leadership is that we are working closely with the Simmons Leadership Institute, and its leadership program for women. This program in particular, takes our women offsite for 2 days, focuses on performance review feedback, discusses leadership styles and provides guidance on how our women can enhance their career progression and be valued added assets to the firm. We have had several of our women in the firm attend this leadership program.

What we also feel is important is that our minorities and women have access to senior management. Our CEO and other members of top management has numerous events each year where this is possible. These events range from breakfasts, lunches and dinners to several open forums each year and even a firm county fair where there is heavy senior management presence. This is helpful in making sure that our diverse employees have the opportunity to stay on the radar screens of the decision-makers in the firm.

Another area that is important is employee involvement and engagement, and that typically manifests itself via employee networks. Employee networks are great to have because they help to build morale, assist employees in networking and finding mentors and because of the networking, there is a greater sense of belonging. The networks, including broad efforts to visibly publicize to the employee population at large what's actually going on with the networks, also further demonstrates institutional support for issues that matter to diverse employees. We have six active employee networks at Morgan Stanley – Black, Hispanic, Asian, Women, Parents and Pride, which focuses on our gay, lesbian, bisexual and transgender employees. Our networks are very active and had over 35 activities in 2007.

Related to this, we make great efforts to make sure our diversity efforts, and their importance, are well-communicated throughout the organization. Whether through intranet postings, brochures, recruiting materials, policy documents, or other messaging, we believe it is important to weave these fundamental business principles in many of the things we do and see day-to-day.

Similar to many other firms, we have also done a great deal of diversity training. Training is important because firms need to ensure that people are sensitive on how to treat people who are not like them. That being said, although diversity training is important, it cannot be seen as the be-all and end-all. Diversity training as a stand alone is not effective – it needs to be a part of a more comprehensive program. This is why in addition to diversity training, at Morgan Stanley we are just as focused on management training, leadership development and talent management/career development.

Finally, in addressing the question on special diversity challenges facing the investment banking industry, I do believe there are a few that are quite prevalent. As mentioned earlier, the external challenges revolve around the specialized pool of talent that we often seek in the securities industry and the fact that we are no longer the only game in town and are competing with many other industries for a limited talent pool. The internal challenge of having producers as managers who may not have the best leadership skills is something that we can clearly impact. I know that many firms in our industry are very focused on addressing this challenge and recognize that this can be done through a focus on talent management, training and accountability.

MORGAN STANLEY'S MEASUREMENT OF THE BUSINESS CASE

It is a bit more challenging to measure the business case when your firm is not a consumer products company where you can show market penetration into diverse communities. That being said, Morgan Stanley recognizes that we are operating in a global market place. We have over 600 offices in 33 countries. Because we want to be a firm of choice, we need to understand the markets in which we operate – which means that we need to have people who know those markets. Our clients, both internationally and domestically, are far more diverse than in years past. Internationally, we have a noteworthy presence in places like Africa, Latin America and China. Domestically, there are minorities and women in positions of leadership with our corporate clients and our pension fund clients, to name a few. Not only do we know that enhancing our diversity is critical, our clients are demanding it. Therefore, some of the things we look to in measuring success are 1) our revenues and whether we have significant market share in certain international markets and 2) whether we are winning as clients, those who are demanding that their service providers be diverse. At the end of the day, we know that we could not achieve these landmarks without people in our organization who are diverse and understand those markets and clients. This is how we have to measure the success of our ongoing mission to continue to enhance diversity in our firm.

CONCLUSION

Once again, I would like to thank you, Mr. Chairman and your Subcommittee for the opportunity to testify here today. Having spent time with my colleagues in the securities industry, I can comfortably say that we are all committed to enhancing the representation of minorities and women on Wall Street. Although we have made progress in a number of areas and diversity programs are more robust than ever, we do know that we can always improve upon what is a solid foundation. I welcome your support and hope that I can be helpful as we continue to work on something that is very important to all of us – diversity.

Testimony of

Walter E. Corey, Esq.

Director, Phoenix Foundation

before the

Subcommittee on Oversight and Investigations

of the

Committee on Financial Services

U.S. House of Representatives

February 7, 2008

Chairman Watt, Ranking Member Miller, and members of the Subcommittee, it is a great honor for me to be here this afternoon to share with you some of the work which we have done over the past five years at the Phoenix Foundation, especially as it relates to diversity training.

1. The Phoenix Foundation ("Foundation") – The Foundation is a twenty-year old private, non-profit operating foundation, endowed to pursue social science research and testing in bold initiatives pointing to progressive social change. Over the years it has worked with various levels of government, as well as a wide range of public entities including secondary schools, colleges and graduate schools in fashioning tools for the educational empowerment of citizens of all ages.

   Among the Foundation's recent initiatives is the creation of an interactive, values-based leadership training program. It is (1) designed with the help of consultants from Wharton, Princeton and Bowdoin College, (2) being tested with participants in teams of diversity, e.g., racial, gender, age, cultural and experiential and (3) taught in a versatile curriculum that includes corporate ethics, diversity and financial literacy. I am happy to report that the program is meeting with overwhelming acceptance and success in our expanding number of venues in New England.

2. Synergethics - "Synergethics" is the name of the pedagogy developed by the Foundation to teach ethical leadership to teams of diversity. The name "synergethics" was chosen because it highlights our efforts to introduce synergy into ethical, or

values-based, decision making. It is a highly interactive, values-based pedagogy. Its success lies in the measurable extent to which it engages the participants' values, passion, commitment and creativity.

3. The Synergethics Model rests on three pillars, each eliciting participant engagement and encouraging participant investment:
   a) Emotional investment requires participants to leave their "comfort zone" in order to embark on a voyage of collaborative decision-making.
   b) Intellectual investment encourages participants to identify and share those personal values helpful in tackling ethical dilemmas presented in the seminar.
   c) Behavioral investment calls the participants to a role play in a corporate/community context where ethics and expediency often intersect. The key to a successful role play is trust, full participation, effective team leadership and collaboration.

4. Response to the Program - We have been astonished by the success of the program as participants embrace values-based leadership. Regardless of the venue, it has been the participants' energy, encouragement and insight that have continuously propelled us on this journey. We were struck when one college senior campus leader reported to us, "...I kept on thinking throughout the seminar, "When I am successful, I want to take the time to share these same ideas with those young people who follow me."...

In response to the enthusiastic acceptance of the program by the participants over the past five years, the Foundation has increased its investment in the exploration of multicultural diversity training. To this end, our work continually reminds us that innovation is most often the product of properly trained and creatively engaged teams of diversity. We continue to find that the more diverse the team, the more creative their outcomes. These teams of diversity, properly trained, encourage a cross fertilization of ideas and an open sharing of knowledge, a conclusion independently verified in a series of experiments at Tufts University[1].

5. Typical Case Study - I include a typical case study and its varied resolutions by differing teams to underscore the importance of inclusive training as a platform for any diversity program. Attached as Exhibit A is the written version of "Special Store Managers"; the teaching team will sometimes add "facts" as the role play progresses, e.g. failures in retention have depleted the pool from which minority candidates may be drawn for promotion to more desirable assignments, etc.
   The salient tensions in the case are:
   a) Profit maximization vs. even-handed diversity management;
   b) Bottom line thinking vs. stakeholder interests in the community;

[1] Sommers, S. R. (2006). On racial diversity and group decision-making: Identifying multiple effects of racial composition on jury deliberations. *Journal of Personality and Social Psychology*, 90, 597-612.

c) Illegal discrimination vs. micro-unfairness of tacit discrimination, i.e. behavior that is not legally actionable; and,

d) Recruitment vs. retention of minority employees.

Teaching teams have offered this case study in several different venues; e.g. (i) only gender diversity; (ii) gender and racial diversity; and, (iii) gender, racial and cultural diversity.

Over the years, we note the consensus resolution of this case study (and others like it) has clearly been dependent upon the diversity of the group and has ranged from exclusively economic outcomes to broader resolutions marking a deeper inclusivity within the corporation:

a) One group, composed of coed white participants, adopted an orthodox economic approach. Here, the group favored a "bridge" bonus attached to the management of inner city stores, which might go part of the way in bridging the gap between high bonuses earned by managers of the upscale stores and the lower bonuses coming from stores in the inner city and minority neighborhoods. However, the bridge bonus, as proposed, would raise the level of compensation of the inner city and minority managers only on the condition that it not reduce the compensation of other managers. The consensus also vocalized a warning that failure to agree on the amount of such a bridge bonus might result in the closing of the less profitable stores, i.e., generally the stores in inner city and minority areas.

b) In other sessions in which race was an element of team diversity, there was far more discussion of the impact of these stores on the economy of the surrounding community. Here the analysis highlighted the unique role of Hispanic store mangers in Hispanic neighborhoods, concerns over the health of the community as well as the narrowing of options available to the community should the stores close. The consensus focused on doing what was fair to the community as well as to the employees, especially those who were on the verge of promotion to district management. Consensus in this situation frequently pointed to rotational management designed to keep the employees motivated and the stores open.

c) The most notable outcomes of all occurred in seminar sessions that included teams of both racial and gender as well as cultural diversity, i.e. with young adults raised in a foreign culture. The presence of this added layer of diversity stimulated the other participants to venture beyond conventional thought, leading the teams to collaborative decisions that honored personal values while advancing the interests of the corporation in new directions.

5. Conclusion – Properly understood, diversity should be viewed, not as an impediment, but rather an essential ingredient for organizational understanding and growth. In developing the Synergethics Model over the past five years, we at the Phoenix Foundation have learned that eliminating covert discrimination is difficult. However, when groups of individuals begin to truly understand each other and become emotionally and behaviorally

invested in the outcome, the power of diversity is unleashed.[2] Our experience suggests that this movement only happens when facilitated by a values-based leadership that respects the dignity, while engaging the commitment, of all.

Our five years of developing and testing the Synergethics Model lead us to conclude that:

- Institutional cultures of inclusion, respect and trust create an environment necessary for the collaborative problem solving that is the heart of teamwork and the soul of innovation.[3]
- Engaging the passion, commitment and creativity of team members is the critical prerequisite for empowering and leading teams of diversity.

We find increasing evidence that institutions embracing this model of leadership will uncover unforeseen opportunities for innovation in both local and global economies.

[2] It is our experience that a closely integrated mentoring program can both broaden the perspectives and expand the attitudes necessary for such an outcome.
[3] Several years ago the European Commission reached a similar conclusion. European Commission (2005), The Business Case For Diversity, Good Practices in the Workplace, 7-8, 20-25.

Statement of

Ronald Edwards, Director
Program Research and Surveys Division
Office of Research, Information and Planning
U.S. Equal Employment Opportunity Commission

Before the

Subcommittee on Oversight and Investigations
Committee on Financial Services
U.S. House of Representatives

Hearing on

"Diversity in the Financial Services Industry"

February 7, 2008

Good afternoon Mr. Chairman and Members of the Subcommittee.

My name is Ron Edwards; I am the Director of the Program Research and Surveys Division within the Office of Research, Information and Planning at the Equal Employment Opportunity Commission. Among our Division's responsibilities is the implementation of the Equal Employment Opportunity Survey Program that collects work force data from employers in various sectors of the economy. Key among these efforts is our collection of data from the private sector in the EEO-1 report. We appreciate the opportunity to address the subcommittee today.

The EEO-1 Report – formally known as the "Employer Information Report EEO-1" – is a government form requiring many employers to provide a count of their employees by job category, race/ethnicity and gender. EEO-1 employment data are collected annually by the EEOC for its own programs and for those of the Office of Federal Contract Compliance Programs (OFCCP) in the U.S. Department of Labor.

Private employers meeting the following criteria are required to file the EEO-1 report:

(1) Subject to Title VII of the Civil Rights Act of 1964, as amended, with 100 or more employees; or

(2) federal government contractors and first-tier subcontractors subject to Executive Order 11246, as amended, with 50 or more employees **and** a contract/subcontract amounting to $50,000 or more.

Data are collected for each employer who meets these criteria. Employers doing business at more than one establishment must file a separate report for each establishment or facility employing 50 or more employees. The workforce data are reported on a matrix that captures summary statistics by job category; race and ethnicity; and gender. The EEO-1 report must be filed annually with the EEOC. The annual regulatory filing deadline is September 30. Employment data must be used from one pay period in July through-September of that year. The Commission is required by law to keep individual employer EEO-1 reports strictly confidential, with certain very limited exceptions (42 U.S.C. 2000e-8(e)). In 2006 we collected data from nearly 50,000 employers reporting on more than 55 million employees.

Both the EEOC and OFCCP have used EEO-1 data since 1966. EEO-1 data are used for a variety of purposes. The EEOC uses the data to support its enforcement program. The EEOC also uses the data to analyze employment patterns, such as the representation of female and minority workers within industries, or regions. A number of the studies that we have conducted recently are posted on our web site (www.eeoc.gov). It is our understanding that OFCCP uses EEO-1 data to determine which contractor/subcontractor establishments to select for compliance evaluations.

EEOC also encourages employers to use EEO-1 data for self-assessment purposes. We post aggregate EEO-1 data on our web site and also provide customized tables that employers can use to compare general work force data to their own. Finally, a wide range of academic researchers, from economics, sociology, public policy and public administration utilize the EEO-1 data to develop and publish research.

Prior to 2007, we collected data on nine job categories groups. These included officials and managers; professionals; technicians; sales workers; office and clerical; craft workers (skilled); operatives (semi-skilled); laborers (unskilled); and service workers. In 2007, the officials and managers job category was divided into two categories: "Executive/ Senior Level Officials Managers" and "First/Mid Level Officials and Managers". "Executive/ Senior Level Officials Managers" are individuals who plan, direct and formulate policies, set strategy and provide the overall direction in developing and delivering products or services, within the parameters approved by boards of directors or other governing bodies. We would expect the number of managers who fall into this category to be relatively small. Examples of jobs in this category would be the chief executive officers, chief operating officers, chief financial officers, presidents, executive vice presidents, chief information officers, and chief human resources officers. In the securities industry we recognize that these job titles may be different - managing director, for example, might be a key job title for "Executive/ Senior Level Officials Managers." Also, like other industries, job titles are not always uniform; it is the job function, such as providing overall direction, that is key rather than the job title. "First/Mid Level Officials and Managers" are individuals who serve as officials and managers, other than those who serve as Executive/Senior Level Officials and Managers, including those who oversee and direct the delivery of products, services or functions at group, regional or divisional levels of organizations. This category would also include first line managers, operations and production managers, and branch or store managers. In the finance industry this might also include vice presidents.

Additionally, the revised EEO-1 moved some business and financial occupations from the Officials and Managers category to the Professionals category. With respect to business occupations, for example, purchasing agents were formerly classified as officials and managers; now, purchasing agents are classified as "Professionals." This adjustment more accurately reflects the nature of this job. Of direct relevance here, Professional jobs in the financial industry are now more clearly defined. This includes Financial Analysts and Personal Financial Analysts. Note, however, that for all business and financial occupations reported on the EEO-1, individuals who function as supervisors, managers, or officials should be counted exclusively in the Officials and Managers category.

Thank you, Mr. Chairman, for the opportunity to testify here today. I look forward to any questions that you may have.

WRITTEN TESTIMONY OF DON GRAVES, JR.

BEFORE A HEARING OF

THE SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

OF THE

COMMITTEE ON FINANCIAL SERVICES

OF THE

U.S. HOUSE OF REPRESENTATIVES

ON DIVERSITY IN THE FINANCIAL SERVICES SECTOR

WASHINGTON, DC

FEBRUARY 7, 2008

Written Testimony of Don Graves
Partner with Graves & Horton, LLC
and
Chief Executive Officer of Progress Through Business, Inc.

Before a Hearing of the Subcommittee on Oversight and Investigations
of the
Committee on Financial Services
of the
U.S. House of Representatives

Washington, DC
February 7, 2008

Mr. Chairman, Congressman Miller and other members of the Committee. I am Don Graves, a partner with the law firm of Graves & Horton, LLC and Chief Executive Officer of Progress Through Business, a non-profit corporation with centers across the country, focused on sustaining and enhancing underserved communities through initiatives, research, networking and strategic business partnerships to empower people, and improve conditions within those communities. Progress addresses the needs of low and moderate-income individuals and communities through a variety of business-based approaches. We help in the development and growth of companies located in distressed and underserved urban and rural communities, as well as helping residents of those communities to become entrepreneurs. We assist employees and corporations by supporting new practices and systems that can improve the financial stability of the employees. And we address environmental concerns by working with partners who believe that economic development and sustainability go hand in hand. In essence, we take an integrated approach to addressing the needs of companies and low- and moderate-income people.

I commend the Committee for considering diversity in the financial services sector, and in so doing dealing with the issues of diversity within the financial services workforce itself, particularly in the upper echelons of management, and the link between workforce diversity and access to credit and capital in minority communities.

In focusing on private sector-led efforts, it is my hope that the Committee will glean useful and innovative approaches for those within the industry and those of us who work with industry. There are a number of examples of corporations that have developed strategies that have been successful in increasing diversity, whether within the company or in their clientele base. In many instances, it is not just a single company implementing new approaches that is most successful, but group of companies, companies from a geographic area, or an entire industry.

Workforce Diversity and Senior Executive Engagement
One of the things that I learned early on in working with Chief Executive Officers of the nation's largest corporations was that the ability of Chief Executives and other senior-level executives to focus on any issue, project or program is limited. Where just 20 years ago a CEO's tenure averaged over 8 years, the tenure of a CEO today is around 4 years. A CEO's time, as you might imagine, is constrained to the point that their activities must revolve around increasing

shareholder value, with a laser-like focus on the bottom line. As Booz Allen Hamilton posited in their report on CEO turnover, the most successful CEOs are ones that are inclusive, engaged and involved in the corporation. Senior executives no longer believe they have the luxury of spending large amounts of time on the boards of multiple social, civic or issue-oriented organizations if serving leads to a lack of engagement in the corporation.

I don't raise this as a means of excusing corporations, their CEOs and senior executives from doing there best to promote diversity, but rather as a means of suggesting that the best way to promote diversity within the senior ranks of corporations, be they within the financial services sector or otherwise, is to prove the value proposition of diversity itself. It is incumbent upon those of us who believe that diversity makes sense for business, for the economy and for the country as a whole to help the CEOs and senior executives, their boards and their shareholders to understand that by increasing diversity within the company they will also improve the company's long-term financial position. Former Federal Reserve Chairman Alan Greenspan perhaps said it best, "By removing the non-economic distortions that arise as a result of [past] discrimination, we can generate higher returns to human capital and other productive resources."

I have no illusions about the difficulty inherent in such long-range strategies for today's chief executives and the companies they lead. A CEO is the steward of the corporation's invested capital and other resources, and is expected to produce long-term growth and consistent returns to shareholders. Today's CEO, however, is increasingly judged on short-term returns and stock price movements. Business Roundtable President John Castellani has addressed the issue this way: "The fundamental reality that CEOs face today is that they are long-term managers who must depend on short-term investors for much of their capital and financial strength . . . That creates the powerful temptation for companies to play to short-term investors with short-term fixes to a company's results. But a growing number of CEOs are putting up more resistance and emphasizing their companies' long-term strengths, including non-financial strengths. They are just as committed to earnings growth. They just have a more grounded idea of how to achieve and sustain that growth over time."

Pipeline of talent for major financial institutions
As has been stated by people within the industry, and discussed in the GAO report on this topic, part of the problem of diversity is an apparent lack of minorities who are prepared to step into higher level positions with the corporation. While I am not in a position to agree or disagree with that statement, it is clear to me that the only way to solve the problem is to ensure that there are no blockages that exist within this talent pipeline. This leads me to an earlier point about CEO and board level engagement. There is anecdotal evidence suggesting that some diversity programs, led by well-intentioned CEOs have failed because of a lack of buy-in by mid-level managers who operationalize the programs. It is clear to me that these managers, and others that balk at diversity-focused efforts, have not been given the correct pitch by senior executives as to the need for diversity and don't understand the economic imperative for the corporation.

As has been stated by academics, economists, and others on this panel, and much like with a diverse supplier network, engaging in a diverse workforce protects a company's ability to deliver. Developing a diverse workforce with the consonant diverse set of experiences, backgrounds, talents and market knowledge can help safeguard the corporation from sudden market shifts. This same workforce depth can also help a corporation tap growth opportunities in previously untapped markets. Further, diversity within the workforce can also create an affinity with those same emerging markets. Employing minorities improves employment opportunities in minority communities, increasing their purchasing power and, potentially, creates an affinity for a company's brands or products within these fast-growing markets.

In thinking about the ways corporations perceive and act on issues of diversity, it is helpful to understand the process by which the companies come to grips with the issue. Simon Zadek, a senior fellow at Harvard's Kennedy School of Government and CEO of the London-based AccountAbility, developed a "Civil-Learning Tool" that melds the maturity of an issue in the broader society with organizational learning curves. Zadek uses a scale – developed by pharmaceutical company, Novo Nordisk – that identifies stages of issue development. Businesses typically go through these stages of learning in response to issues, according to Zadek's model. Corporations typically move from a defensive and compliance based mindset where they adopt a policy-based compliance approach as a cost of doing business, to a managerial stage where the issue is embedded in their core management processes as a means of mitigating the erosion of economic value in the medium term, and then finally to a strategic stage where the issue is integrated into the corporation's core business practice as a means of enhancing economic value in the long term and to gain first-mover advantage by aligning strategy and process innovations with the issue. It is the large gap between the more defensive, compliance based mindset and the more strategic approach to diversity that is at the core of industry's ability to change. Rather than spending additional time and energy on new regulatory schemes and compliance structure, we should focus on eliminating the structural problems that I just mentioned and some of the endemic problems for minority communities associated with accessing the credit and capital markets.

Existing Solutions
This hearing was to focus on private sector efforts to monitor and increase diversity in the financial services sector. In addition to those solutions being offered by members of the panels today, I believe that as a means of sharing learning and best practices we must look to a number of existing efforts by the business community that attempt to increase and monitor diversity.

The Greater Cleveland Partnership
The Greater Cleveland Partnership and one of its programs, the Cleveland Commission on Economic Inclusion, were created as an outgrowth of three business-oriented organizations in that city, the Greater Cleveland Roundtable, Cleveland Tomorrow and the Greater Cleveland Growth Association. With more than 17,000 members, the Greater Cleveland Partnership is the largest private-sector economic development organization in Ohio and one of the largest regional chambers of commerce in the nation. The organization serves as a catalyst to increase economic vitality in Greater Cleveland and the region. The Commission was created by the Partnership to significantly improve the level of inclusion – the meaningful involvement of minority businesses and individuals – in the economic engine that drives Greater Cleveland.

The Partnership and, more importantly, its leaders were convinced that a key to long-term economic growth and stability in the region was the ability of hometown corporations to bridge the gap between local minority talent and employment opportunities. The Commission was created to serve as the vehicle that could help build that bridge. What began with 28 large corporations and governmental entities in 2000 has grown to more than 100 large corporate and government members today. The program strives to be a civic model for the development and implementation of diversity and inclusion strategies that advance productivity, innovation, and economic growth. The program does so in four distinct areas:

- Board Composition and Engagement: The Partnership embraces board diversity as a calculated strategy to enhance organizational creativity, promote competitiveness throughout its markets, and ensure responsible and responsive corporate governance.

- Operational Objectives: The Partnership and its members endeavor to develop a workforce that reflects the diversity of the region. By creating wealth and opportunities through purposeful economic inclusion efforts, the Partnership believe that it will strengthen the local tax base, create a more diverse and competitive supplier base, and provide a viable incentive for greater racial and ethnic cooperation.

- Member Commitment: Through our Commission on Economic Inclusion, a growing network of local employers committed to a shared set of business priorities, the Partnership works to foster economic inclusion as the operating norm for businesses and organizations in Northeast Ohio.

- Social Equity: For the economic prosperity for the region, the Partnership supports initiatives that, among other things, promote the improvement of our urban education systems and facilitate effective preparation of our local workforce to meet the needs of current and emerging industries.

On an annual basis, the Commission selects for-profit and non-profit organizations who are "Best in Class" in Board Diversity, Senior Staff Diversity, Workforce Diversity and Supplier Diversity based on its annual survey of employer diversity. These awards provide an additional incentive for its members to strive for excellence in their organization's diversity programs.

The Commission has also developed a useful forum for its members through its Diversity Professionals Group which is composed of senior-level staff who are responsible for developing and implementing diversity management goals and initiatives within their organizations. The group holds quarterly meetings for constructive problem-solving, the sharing of best practices, and networking and educational programs about diversity and inclusion issues.

Johnson Controls
Johnson Controls, Inc. (JCI) is a Fortune 100 engineering firm that is taking a unique approach to corporate expansion. Recognizing the demographic shifts in the nation and more specifically in urban areas where JCI's Controls Division gets a large proportion of its business, the company began developing and implementing a plan whereby it could enhance its balance sheet through local economic and workforce development. By coordinating new development projects in underserved communities and working hand-in-hand with local civic leadership and non-profit organizations, JCI plans to undo urban blight while also creating new business opportunities for itself. Moreover, the company has become a first-mover by recognizing that its own workforce and that of its local business partners is largely white, male and increasingly reaching the age of

retirement and that a pipeline of talent does not exist to replace that workforce. Simply as a means of maintaining its market share, JCI is focused on recruiting and training minorities to fill jobs that are soon to be vacated by retirees. As a result, JCI has developed training programs for these employees and also customizes job and management training for adults in the community directed to meet the needs of the local community and its own workforce.

Executive Leadership Council

The Executive Leadership Council is an independent, non-profit 501(c)(6) corporation, whose mission is to provide African-American executives of Fortune 500 companies with a network and leadership forum that adds perspective and direction to the achievement of excellence in business, economic and public policies for the African-American community, their corporations and the community at large. The Council is a membership organization representing the most senior African-American corporate executives in Fortune 500 companies.

Initiatives and programs are developed by the Council and funded by The Executive Leadership Foundation, the 501 (c) (3) affiliate of The Council, with support from members and their companies. They include Senior Leadership development, Public Recognition, Mid-Level Pipeline & Talent Management, Technology & Assessment, and Higher Education. These educational and professional development programs are helping to make the case for diversity as a business imperative, and are developing the next generation of African American corporate executives, and model inclusive corporate leadership in companies working with The Council to gain insight about the complexities of the diverse workforce and barriers to inclusive leadership.

Over the years, CEOs and other corporate leaders have found that programs and initiatives supported by The Executive Leadership Foundation offer valuable career development, leadership opportunities, and dynamic public forums where CEOs and executive leaders can express their support of diversity and best diversity practices.

These types of efforts by the private sector are the right approach toward increasing diversity in the financial services sector and elsewhere. There are also countless MBA and financial services industry-led programs that have recently been developed as a means of growing the pool of trained and qualified minority candidates for senior level corporate positions. In addition to those training programs, corporations are increasingly recognizing the non-traditional career development paths that can lead to successful employment of minority candidates in senior-level positions. By looking at individuals in parts of the organization that are not normally seen as traditional paths to management, corporations often find individuals with a different skill set that is very conducive to management positions.

Access to Capital & Credit

As I mentioned at the outset, a discussion of diversity in the financial services sector must also include a discussion of diversity as it relates to the provision of financial services in underserved and diverse communities. Access to credit and capital is dependent upon the ability of an institution to understand the marketplace and to provide products that meet the needs of consumers in that community. As former Chairman Greenspan stated that "It is important for lenders to understand that failure to recognize the profitable opportunities represented by minority enterprises not only harms these firms, it harms the lending institutions and, ultimately, robs the broader economy of growth potential. In this regard, we need to make further progress in establishing business relationships between the financial services sector and the rapidly growing number of minority- and women-owned businesses."

In October of last year, this Committee held a hearing on minority-owned banks. Much of the discussion revolved around what regulators did and did not do to support these institutions. It is also important to understand the unique set of circumstances with which they and other institutions that spend much time on underserved communities in urban and rural areas are confronted. As was stated in the testimony of Robert Cooper on behalf of the National Bankers Association at that hearing, financial institutions in these communities must offer the types of retail services that meet the particular needs of the un-banked and under-banked, including personal "high-touch" services provided at odd hours. Delving further into the problem it becomes clear that there are several inherent problems facing those who provide financial services products, including a lack of information about the community, an inability of the institution to develop creative products that can and will be used by the consumers, and financial resource and literacy constraints that prevent consumers from taking advantage of existing products.

Cultural affinity issues are also a concern. Whether or not people in the community choose to seek credit, has much to do with whether a financial institution is recognized in the community as being a good and simple source for the products that are needed by the consumer, hence the prevalence of check cashing stores and payday lenders. As a result of employment instability in these communities, access to credit becomes a much more important issue for minority borrowers either individually or for businesses, particularly given the current market constraints. Restriction of credit for non-economic reasons can be devastating to communities, but without the understanding of how to take advantage of credit opportunities, the problem is compounded.

Small Business Data

My own organization believes that economic development in underserved and diverse communities can only be accomplished through the support of scalable businesses. In the long-term, these businesses will be the true job creators and wealth builders in minority communities. The ability of the financial services industry to meet the credit and capital needs will have a major impact on the success of those businesses.

One of the problems facing those of us who look at business development issues then is the inability to get good data on businesses, and the financial services options for those businesses. Part of this problem relates to the Federal Reserve's Regulation B which prohibits financial institutions from tracking commercial lending based on race as is done in the home mortgage arena. Still, another part of the problem is around the performance and capacity of smaller businesses within those communities. Without better information on performance and capacity, financial markets cannot provide credit and capital, and potential business partners cannot in good faith engage those smaller firms. As Federal Reserve Bank Chairman Bernanke has stated, "free markets can be a powerful source of economic development, but markets work less effectively when information about potential opportunities is absent or costly for private actors to obtain."

As a means of reducing the barriers to business and economic development and of reducing the risk related to lack of business information and access to credit in underserved markets, corporations, industries and community organizations can develop mechanisms that can succeed. Progress Through Business has formed a partnership with the International Franchise Association, the Franchise Diversity and Development Initiative (FDDI). We believe that the franchising industry is a prime opportunity for business development and sustainable job creation in minority communities due to the abundance of performance data and reduced risk for franchised businesses. In creating the FDDI, we are developing a mechanism for the sourcing and referral of qualified women and minority prospects, turnkey financing programs, untapped tax credit and incentive programs, location services to develop urban franchises, and technical assistance, training and mentoring for entrepreneurs.

New Markets Tax Credit Program
A number of government programs have been developed to focus investment on these underserved communities, most notably the New Markets Tax Credit program. Many in the financial services community and on Capitol Hill would agree that the program has been very successful. Majority financial institutions have used a substantial proportion of the credits to enhance their own investments in underserved communities. In fact, the President's budget includes a reauthorization of the program for one year at $3.5B. However, I believe the program has a structural flaw in that though it was created as an incentive for business development, it has been used largely as a vehicle for real estate based development. Investors, wary of the rules regarding recapture of the tax credits, are less inclined to invest in entities that are focused on the types of products like working capital, leasehold improvements (and to some extent equipment improvements) that are necessary for the types of businesses within the communities they are meant to target.

Conclusion
Diversity in both the financial services workforce and in the provision of financial services will be to the long-term economic vitality of the industry and this nation. I firmly believe that by working constructively and in partnership, communities and the private sector can implement the programs and procedures now that will lead to greater diversity and greater economic stability in all of our communities leading to long-term economic growth for the nation as a whole.

We thank the Committee for its time and attention to this matter. I will be pleased to answer any questions you may have.

ROBERT TOIGO FOUNDATION

U.S. HOUSE OF REPRESENTATIVES FINANCIAL SERVICES COMMITTEE

Diversity Practices within Financial Services – Retention Returns Survey 2006

Speaker: Nancy A. Sims, *President*
Alternate Representative: Andrew Chapin, *Director of Research*

February 7, 2008

Nancy Sims

President

Robert Toigo Foundation

Nancy Sims brings more than two decades of finance industry and organizational leadership experience to the Robert Toigo Foundation ("Toigo") in her role as President of the Oakland, California-based non-profit. During her ten-years as President of Toigo, Sims has spearheaded the non-profits' evolution from a small, grassroots organization to a recognized partner to the finance industry.

Sims' vision and strategic leadership has established Toigo as an organization recognized for developing and delivering highly qualified, sought-after diversity talent as well as a team that provides valued insights into issues relating to diversity, inclusion, and leadership development. Sims is the driving force behind Toigo's relationship-driven operating model and its commitment to constantly forge and foster connections among *Toigo Fellows, Alumni*, industry partners and finance firms as a way to change the face of finance.

Since Sims joined Toigo as President in 1998, the Foundation's network of Fellows and Alumni has grown from approximately 240 to more than 600 today. Under Sims' leadership, Toigo's sponsor base has grown exponentially, as have the services and advocacy/outreach initiatives that position Toigo as the premiere diversity organization focused on leadership development within the field of finance.

Sims brings finance industry experience to her role at Toigo. Prior to joining the Foundation as its President in 1998, Sims served on the non-profit's Board of Directors and as a mentor to Toigo Alumni. Prior to joining the Foundation, she served as Senior Vice President and Director of Marketing for McNeil Capital (1996 – 1998), and Vice President / Client Relations for the RREEF Funds (1981-1996).

Key accomplishments during Sims' tenure as Toigo's President include:

Industry Relationships & Support

- Expanding industry support to include more than 200 finance firms in sectors ranging from investment banking and asset management to institutional investors, alternative investment firms (hedge, private equity and venture capital) and real estate investment/development. Most recently, Sims is leading Toigo's efforts to reach the finance divisions of Fortune 500 corporations that are seeking to attract and retain diverse finance talent.
- Increasing significantly the financial support of the organization, with 2007 sponsor pledges reaching nearly $6.0 million.

- Fostering continuing support among Toigo Alumni, giving back to the Foundation via financial contributions or volunteer efforts.
- Identifying and forging key relationships with like-minded business organizations—including NAA, PREA, REEC, NAIC, NASP, and AAAIM— all committed to increasing diversity leadership within the finance industry through education and manager access to capital.
- Establishing Toigo as a credible thought leadership partner with industry conducting studies and forums aimed at providing finance firms with valuable insights regarding diversity recruitment and retention issues.

Talent Outreach

- Extending Toigo's reach to include undergraduate and young professionals (via ToigoTalks™) and online resources (www.ready-for-finance.com) in response to the industry's pressing and growing need to hire diverse talent.

Leadership Development & Career Services

- Developing and launching a leadership development curriculum and career services that provide support throughout a Fellow's entire finance career—a service commitment that remains unmatched by other non-profits dedicated to diversity and leadership.
  - Spearheaded the development, launch and continued expansion of Toigo's APEx™ (Advancing Professional Excellence) program, a robust training and professional development initiative that provides "soft skill" training and addresses workplace and leadership challenges unique to minority professionals. The APEx™ curriculum was developed and is delivered in cooperation with a team of top-ranked MBA professors.
  - Led development of ToigoPRO™, an online career bank dedicated to connecting employers to Toigo Alumni and Fellows.

Governance & Management

- Transforming the organization's governance structure; mobilizing a 37 member Board of Directors into a highly engaged and effective unit, including the establishment and management of working committees and ambassadorship focused on addressing strategic areas of growth for the Foundation.
- Reshaping the organization from a small grassroots effort to a vibrant professional entrepreneurial operation of 15 professionals represented within three U.S. offices.

Sims received her Bachelor of Arts Degree (dual degree) from Mills College in English and Administration & Legal Processes and attended UC Davis Law School in 1977.

U.S. HOUSE OF REPRESENTATIVES FINANCIAL SERVICES COMMITTEE

Diversity Practices within Financial Services – Retention Returns Survey 2006

Robert Toigo Foundation

INTRODUCTION

Mr. Chairman - Congressman Frank, and members of the Financial Services Oversight Committee, my name is **Nancy Sims**. I am the President of the **Robert Toigo Foundation, a non-profit educational organization committed for the past 19 years to increasing diversity in the financial services industry through support of the top minority students entering careers in finance.** I thank you for inviting me and am honored to participate in this hearing addressing an issue that **the Toigo Foundation believes has critical economic and social ramifications for our society.**

The Toigo Foundation strives for a colorblind finance industry—an industry in which all professional levels reflect our nation's—and the world's—demographic diversity. Our Foundation focuses on facilitating and supporting ethnic diversity (or what some term, identity diversity) because **we are passionate in our belief that a more diverse workforce means more varied perspectives, experiences and thinking, and more equitable access to the capital that creates jobs and other services that enable communities to thrive.**

We promote the role of diverse leadership in decision-making around investments and place great emphasis on the values of ethical behavior, integrity, transparency, and accountability as well as a strong sense of return to community. These values are best seen in our definition of leadership embodied in the nearly 700 talented young men and women of color who hold the distinction of *Toigo Fellow*.

The Toigo Foundation primarily addresses diversity in finance through our Fellowship program for first and second year MBA students, currently almost 130 strong, **and, once a Fellow enters the finance industry as a member of the Toigo Alumni, we support their career trajectory with life-long leadership development, mentoring and career services.** We recognize the need to address the entire spectrum of finance careers, including attracting more minorities to the profession and building the pipeline to all levels of the industry. Expanding our overall approach, last year we launched a program promoting careers in finance directed at college undergraduates, just as their career decisions are taking shape.

The Toigo Foundation collaborates with many prominent business and industry organizations to foster opportunities for our students and alumni, and to push the diversity dialogue forward within firms and the industry as a whole. Our reputation and collaborative approach are strongly regarded in the industry, and we have forged relationships with more than 200 of the top finance firms, more than 30 top MBA programs, as well as organizations including the New America Alliance (NAA), National Association Securities Professionals (NASP), National Association of Investment Companies (NAIC), Association for Corporate Growth (ACG) and Real Estate Executive Council (REEC). More than 15 of the nation's largest pension plans—plans that together manage many billions of dollars for teachers, policemen, firemen and other public servants across the nation—have recognized Toigo and its work in bringing diverse talent to finance careers with formal board resolutions. Today there are seven Toigo alumni working for some of the nation's biggest pension funds such as CalPERS and New York State bringing the investment talents in the truest form of community giveback – to serve the beneficiaries of these funds. Our talent is emerging in all facets of finance. Given this early stage success of our students, we remain vigilant in our efforts to help the finance industry ATTRACT and RETAIN diverse talent and diverse thinking, and foster advancement to senior leadership in the industry.

The focus of this testimony is on diversity practices within the financial services industry as reflected by young minority professionals, those principally in the 4-8 year post-graduate space. My remarks that follow build on two recent studies—the first, the 2006 GAO report entitled *Overall Trends in Management- Level Diversity and Diversity Initiatives, 1993-2004*, and the second a survey conducted by the Toigo Foundation entitled *Retention Returns*. In addition, the Foundation has taken note of subsequent data presented by the Securities Industry and Financial Markets Association (SIFMA) released in 2007 to offer key insights into recent trends relating to minority talent within the finance industry. **The Toigo Retention Returns study stresses the impacts on and insights of the very people diversity initiatives are intended to serve, top minority talent in the finance industry.**

THE DEMAND FOR DIVERSITY

It is increasingly recognized that diversity is not only a social good, but an economic imperative. Bringing diverse experiences and perspectives to inform creative decision-making – will generally out-perform homogeneous teams. With the tremendous power and influence of finance, an industry that manages billions of dollars daily and determines who has ready access to capital and who does not, this concept is critical for equitable distribution/access and broader return to communities. This concept of diversity also relates directly to financial firms' ability to do business and compete in the global marketplace. The diverse control of capital leads to not only greater and more diverse opportunities for economic growth it also leads to healthier and more prosperous communities/societies.

Finance firms, like all businesses today, need to attract and retain young professional talent, including those from the Millennial Generation (born 1980–2000) who are just now entering the workforce. The finance industry, like so many other service and manufacturing industries in our country, are just now beginning to understand the new workplace demands and expectations of this next generation of workers. Millennials, based on published research, expect diversity—in part, because that is what they have known all their lives. They have been raised, schooled and socialized in multi-cultural environments. For them, diversity is a given. For those that enter the finance industry workplace and find a different world—their loyalty to their firms and to the profession will surely be questioned and jeopardized. As Lynne Lancaster and David Stillman write in their book When Generations Collide, "Millennials are way beyond *accepting* diversity; this is a generation of future workers that will *expect* it." Firms that fail to deliver will fail in their ability to attract the next generation of talent.

The demand for diversity in the finance industry is reaching a critical juncture. Finance must embrace diversity as a core management principle to ensure it is best equipped for the future.

SIGNIFICANCE OF GAO FINDINGS

The GAO report released in June 2006 focused on diversity trends at the management level in the finance industry from 1993-2004. The Toigo Foundation finds the conclusions of this report generally accurate and we make special recognition of several key points.

1. Diversity has not significantly increased and diversity initiatives in the finance industry aren't having the desired or needed impact to significantly increase the representation of diversity within the industry.

The report concluded that general diversity at the management level in the finance industry did not change considerably during this period, although some racial groups experienced a greater increase in representation than others. The report also projects that, despite progress in terms of increases in minority representation at the middle management level (from 1993 through 2004, the percentage of minorities in management level positions increased from 11.1% to 15.5%--an annual average rate of increase of just 0.4%): "If the representation of minorities continues to increase at a rate of 0.4% per year, people of color will account for 32.3% of managers within the finance sector in 2050."[i] This finding shows that diversity initiatives in the industry, particularly retention of minorities, are not having the desired or needed impact to significantly increase the representation of diversity within the industry. For the investment of time and financial resources by some firms to this imperative, the process has unfortunately been inefficient and less effective than intended. We cannot afford for this process to creep along at this pace and undermine the economic and social potential a diverse finance industry offers.

2. Financial firms lack top to bottom buy-in for diversity initiatives, impacting minorities through lack of mentorship, poor day-to-day performance management, and even insufficiently designed diversity programs.

The report notes that a key detractor of diversity initiative success is the lack of buy-in through the ranks of finance firms. While there is much discussion and support at the highest levels, the day-to-day practice of cross-cultural management falls short. The Toigo Foundation agrees with this conclusion and we note that minorities and women are in much greater need of mentoring and gaining advocates on their behalf than their non-minority counterparts. In addition, we emphasize that many diversity initiatives have been insufficiently designed to address the issues around diversity and retention. For example, diversity training, as some firms have implemented, often has a negative effect by imposing ideals on mid-managers with limited structure, often no actual accountability, and in most cases vague intended outcomes. Another example is seen through the creation of diversity committees within firms to address the above concerns. Ironically, these committees often consist entirely of senior staff, which is representative of the homogeneity at the senior levels of the firm.

3. Though the GAO data doesn't directly show this, levels of minority representation decrease as the seniority of the levels increase emphasizing the importance of retention of top minority talent.

The GAO report recognizes that the data presented by EEOC does not disaggregate the "officials and managers" category – which includes the lower and mid-level management positions as well as the most senior levels. A recent SIFMA survey presented data more closely aligned to the classifications reported by the Retention Returns survey. Specifically, the SIFMA data showed clearly that the level of minority representation dropped at each higher level of management, with the lowest percentage of minorities at the highest level (the average people of color representation at finance firms is 14.5% at the Senior Manger level; 8.4% at the Managing Director level; and 6.5% at the Executive level). This data reinforces the findings of the Retention Returns survey that critical support mechanisms for retaining minority talent are not widely effective. It also reinforces the focus of the Toigo Foundation on retention methods versus recruitment as the most pressing issue for the finance industry.

4. A critical mass of minority talent at senior levels as role models and mentors is a critical goal that will lead to even greater diversity.

The conclusions of the GAO report present the need for role models to stimulate even more minorities to enter the field. Toigo believes in building this critical mass through our full range of programs, including our educational campaign on careers in finance at the pre-MBA level (ToigoTalks™). We also encourage firms to reconsider sometimes rigid recruiting and performance management systems that do not allow for creativity in identifying high achievers or for developing talent of color for advancement within the industry. Flexibility and creativity in recruitment models can go a long way in drawing talent to firms and retaining it.

TOIGO FOUNDATION STUDY FINDINGS

In Toigo's 2006 survey: Retention Returns, we examined issues affecting minority talent within the finance industry—issues relating to recruitment of talent, and, of even greater importance, regarding retention of minority professionals. Our goal in conducting the survey was to provide the industry with candid perspectives and insights from the very individuals the firm's diversity initiatives were intended to serve. To conduct the survey, Toigo reached out to more than 450 mid-career minority professionals and received responses from more than 300 (more than 60%) emphasizing the urgency and importance of the issue. We compiled and analyzed the data/information and conducted follow-up focus groups to delve deeper and to confirm our conclusions. Recently, we also held two further follow-up focus groups to examine key issues raised. The following is a summary of the key conclusions of the Retention Returns survey and analysis and note that some of the information provided here is also provided in support of our comments regarding the GAO survey above:

- **There is a recognizable patter to the Cycle of Departure experienced by minority professionals.** For the *Retention Return* respondents, the domino effect resulting in voluntary departure follows a similar path or pattern of events, including limited access to key deals which leads to a lack of visibility, and in turn leads to a lack of recognition and proportionate rewards. Ultimately it all leads to the employee's departure.

- **There continues to be a lack of commitment and follow through related to diversity issues.** Though there is much rhetoric surrounding diversity in the finance industry, even many diversity initiatives being implemented, the impact of those initiatives is limited.

    - 34% of respondents in the *Retention Returns* survey noted that no efforts are being made by their firm to specifically retain people of color.

- **Performance management is a critical factor in an individual's decision to stay or leave a firm.** Firms are not doing a good job of clearly defining and articulating what a model of success looks like, or of communicating constructive feedback to support the advancement of people of color. There is still more subjectivity than objectivity in the process that often works against minority professionals.
    - more than half of the *Retention Returns* respondents feel they are moderately, somewhat, or not at all awarded and recognized in a similar fashion compared to non-minority peers.

"The review process should be transparent. If I am average, why am I average? And more importantly, how can I move forward and excel? — Toigo Alumni

- **Mentoring and leadership support are vital to the career of minority professionals.** If you are not picked by a senior person and protected, or advocated for, then you are, in the words of several *Toigo Alumni*—"ruined." The challenge remains that as a person of color you are less likely to be picked by a senior leader to be mentored.
    - As reported in *Retention Returns*, only 21%—or roughly one in five—survey respondents indicated their firms have formal mentoring programs in place to aid to minority retention efforts.
    - Of those surveyed with formal mentoring programs in place, less than 20% believed that mentoring was considered extremely or very important with their firm.

The turning point for minority professionals is the four to eight year mark post MBA (nearly 35% of *Toigo Alumni* fall in this category). Through Toigo's career counseling services, we know that this career "marker" represents a critical turning point during which many personal and professional considerations are made, when individuals consider leaving a firm or even the industry, thus impacting retention. Most importantly, it's at this stage in a minority professional's career when mentoring, constructive feedback and advocacy regarding an individual's performance and potential have the greatest impact. Not coincidentally, this is also the time when a professional within the finance industry would know if he or she was either on track to become a senior leader—or not. Focusing particularly on mid-career professionals, these conclusions must be addressed by any finance organization to affect meaningful change in its workforce.

We recognize the aggregate diversity data varies by industry sector (from investment management to private equity to investment banking, for example) and by size of firm. We believe that by recognizing and addressing our general conclusions, firms can strengthen current operations or engage in new and improved practices for retaining diverse talent.

NEXT STEPS: TIME FOR CHANGE IS CRITICAL

The time for change could not be more critical. Discussion of the future of diversity calls attention to the populations that are served by the Toigo Foundation. The views of the next generation of leadership within finance on the environment in which they can demonstrate their talents and thrive should be of interest and concern to all involved in the dialogue around inclusion. In particular, attention should be given to the newest generation in the workforce – Millennials, who, as noted above, are putting forward new workplace demands and expectations to employers. The Toigo Foundation has adapted our programs to address the soft-skill training and awareness to this group of future leaders who don't understand exclusion in the same way as their predecessors. Finance firms must also recognize this shift.

Since the release of the Retention Returns survey in 2006, Toigo has continued our analysis of workplace diversity practices, including incorporating the Millennial generation. The survey itself gained considerable momentum in 2007 leading to the Foundation's invitation to host alumni panels for several prominent financial organizations for senior executives to hear, first hand, the candid perspectives of young professionals and their recommendations on how the finance industry can improve its day-to- day efforts to attract and retain diverse talent.

Despite some progress in the industry, many findings and conclusions of our survey have been reinforced in recent months. The 2007 SIFMA workforce diversity survey shows that a representative group of financial firms still do not have specific diversity initiatives with goal setting and performance measurements outside of basic recruitment targets. We note that many of those that do, particularly those with Diversity Officers, don't have direct accountability to the CEO. As a result, the efforts become tangential with limited potential impact and too often are funded (or not) based on the organization's profitability.

The SIFMA data, as we noted above, also confirms a steady decline among representation of professionals of color as one looks to higher levels of management, with the lowest representation at the Sr. Manager to Managing Director level(s). **The Retention Returns survey offers that this trend will continue if greater focus is not placed on the Associate to MD progression and what methods of performance management, mentoring and professional development are required to increase the pool of potential talent for promotional consideration.**

"I have an outstanding track record at my firm, experienced steady promotion and am given frequent accolades on my work. However, at this point in my career – 7 years post MBA with this firm – I have no clarity as to what my next steps are to achieve executive leadership." — Toigo Alumni

KEY TAKEAWAYS

In reviewing the GAO report, Toigo's Retention Returns findings, and other industry reports, I offer the committee three important themes to consider as you think deeply about the finance industry, the need for inclusion and the critical importance of attracting and retaining more diverse talent at all levels of leadership.

1. Day-to-Day Matters. The support—or lack of—of a direct manager or supervisor has the greatest impact on the careers of diverse talent. Often small (and to some, seemingly insignificant) day-to-day indignities add up to feelings of frustration—and eventually to a tipping point leading to departure. These day-to-day issues range from avoiding performance dialogue to limiting access to certain clients and deals. And we found that too often, these type of interactions and missed opportunities fall outside of senior management mandates to cultivate a more diverse workplace. Buy-in and accountability at all levels—from the boardroom to the business units and line managers— are critical to the success of diversity initiatives.

2. Change Must be Systemic. Many diversity programs that are in place are going for a quick fix versus identifying and implementing change that will become part of the organization's DNA—part of the way it naturally operates and works. Organizations must engage in critical self-assessment to really affect change. Just as manufacturing firms embraced total quality management as a way to be more competitive on a global basis, finance firms must find ways to make diversity a core part of the way they operate. In a seminal article published in the Harvard Business Review entitled "Making Differences Matter: A New Paradigm for Managing Diversity", Professor David Thomas and Professor Robin Ely point out that expectations play an important role in the outcome of teams or groups that are "identity" diverse (or ethnically diverse). "If people belonging to an identity diverse group expect to generate benefits, they are more likely to realize those benefits," according to their research. If finance firms promote the value of diversity from a business standpoint and from the top down communicate the value of diverse teams working together, the results—based on research findings—will surpass teams that are less identity diverse.

3. Finance firms must implement diversity initiatives with accountability. This means placing diversity at a higher level, as a management issue rather than a diversity issue, recognizing that it impacts the bottom line. Meeting specified retention goals should be one of the key metrics for effective management—and as a result, should be linked to compensation and bonus awards. Only then will managers take steps to cultivate and keep their teams in place. Alternatively, firms might consider incorporating a component of the incentives to managers who excel at retention (versus recruitment) of diverse employees. This latter approach would eliminate the punitive aspect of tying retention to bonus/compensation packages. Toigo understands the process of linking retention goals and compensation is a complex and challenging process however, it is worth exploring methods to implement.

4. Mentoring Makes a Difference. For those of us who have benefited from the guidance and wisdom of a great mentor, we know this. Importantly, for professionals of color, mentoring is a key component for career advancement and support over the obstacles the can lead to disenchantment and the cycle of departure. Despite the studies and thought leadership, including the work of Professor Dave Thomas at Harvard Business School, reinforcing the importance of mentoring as a way to ensure minority (and all) professionals will thrive, formal mentoring does NOT exist within many finance firms today. And if it is in place, it is often done with a "check the box" approach and not directly tied to efforts to RETAIN and advance diverse talent. Strong and committed mentoring, both formal and informal, is a critical element to assisting minorities through challenges surrounding diversity in the industry. Firms need to find ways to mentor—and make it matter. Retention Returns offers that mentoring should be focused at the mid-career level, bridging the critical gap where the GAO study and the SIFMA data present the largest drop-off minority representation. Through support at this level there is greater potential to realize the objective of appropriate representation of diverse leaders at all levels of the industry.

The Toigo Foundation plans to continue to study the career trajectory of Toigo and other diversity talent in the finance industry. Building on the traction gained by the initial Retention Returns survey we also intend to conduct a follow-up study in 2009. The Board and the Staff of the Toigo Foundation are encouraged by the open dialogue today. We feel strongly that the support Toigo is providing to our Fellows and Alumni as they navigate through their finance careers - in soft-skill training and career guidance - is having a positive impact and facilitating a more diverse leadership in finance. **We recognize this success seeing nearly 40% of Toigo talent in senior roles; with others poised to follow. We also know we must continue this momentum by ensuring our talent is both achieving the model of leadership we discuss above and also positively contributing to achieving the diversity and inclusion goals discussed here.**

I thank you again for inviting The Toigo Foundation to be part of this important dialogue and look forward to any questions you may have, either today or through follow-up inquiries.

Retention Returns:
Insights for More Effective Diversity Initiatives

A Report by the Robert Toigo Foundation

November 2006

Retention Returns:
Insights for More Effective Diversity Initiatives

Preface

Retention of talent—specifically professionals of color—has long been a challenge for many firms and industries, and finance is no exception. After investing significant resources, time and energy to bring in the best and brightest talent, too often organizations are faced with an unpleasant and costly reality: the candidates they worked feverishly to recruit are leaving.

For the past few years, the Toigo Foundation has witnessed a disconnect between what young professionals perceive as valuable at their workplaces relative to where finance firms often invest their resources. Our hope is that Retention Returns provides insights or reaffirms to finance firms and Fortune 500 companies alike where diversity recruiting and retention initiatives are succeeding and where, in fact, they may be contributing to a sense of disenfranchisement that ultimately leads to an employee's departure.

As you will discover in Retention Returns, it is often a series of events—feelings of disconnection, limited access to deal flow, not being heard, of being passed over for significant opportunities, and compensation issues—that send many talented employees elsewhere. Not surprisingly, the fact that a firm heavily promotes its commitment to diversity, yet fails to substantiate that commitment (by linking business operations, management compensation and bonuses) is contributing to the retention issue. While similar factors also come into play with retention of non-minority employees, they appear more acute when it comes to young professionals of color.

A critical point of difference between Retention Returns and other diversity surveys is that it presents insights from the very people diversity programs are intended to attract and retain. As we were developing the survey, we found that the vast majority of studies and surveys available to date focused on gathering insights from the HR department or executives, rather than from people of color within the organization. We hope that by offering this differing viewpoint, we can help inspire or encourage continued dialogue, new thinking, new ways of working and help garner meaningful results. This survey is intended to offer perspective to various sectors of the finance industry, realizing that each sector may be at different stages of development and implementation around diversity.

Creating, orchestrating and analyzing a survey of the magnitude Toigo envisioned were lofty goals. To help us achieve them, we worked in collaboration with Heidrick & Struggles, an international executive search firm. Together, our teams polled over 300 ethnic minorities within the finance sector, including Toigo Alumni, Fellows and other professionals of color employed by finance firms and Fortune 500 companies throughout the United States.

In analyzing and reflecting upon the data, we found the insights addressing issues of retention to be of the greatest significance and, as a result, have dedicated the majority of this piece to that strategic business challenge. Throughout Retention Returns, we have identified areas in which the Toigo Foundation can continue to provide guidance and services to the growing network of minority professionals we support, as well as the organizations in which they work. We have also cited other resources and studies that may be of interest.

Changing the landscape will take time, but we believe that by working together and engaging in a collaborative dialogue we can better tackle issues facing professionals of color. As a result, we believe firms will see measurable returns, most notably a more loyal and diverse workforce. With a close pulse on the lives and feelings of our Alumni and an unwavering commitment to help firms recruit and retain top minority talent, Toigo has a unique vantage point on diversity retention challenges.

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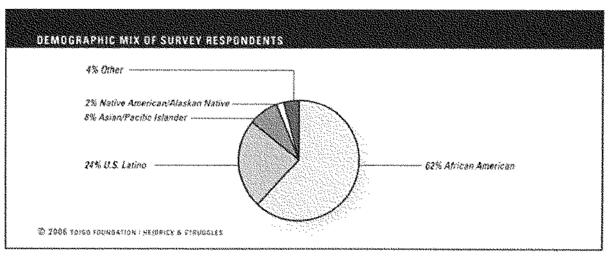
About the Survey | Demographics

To gather insights presented in "Retention Returns," more than 490 professionals of color were contacted to participate in the survey. Over 300 responded (60%), a remarkable response rate which Toigo views as an indication of these professionals' commitment to finance and their strong desire to have an active voice in helping to make their firms and the industry more successful in this area. The respondents included full-time professionals (260 total) and second year MBA candidates (40 total). The data and themes presented in this report focus on issues raised by the 260 respondents employed full-time.

Outreach of survey respondents focused on Toigo Foundation Alumni and their colleagues. While it represents a fraction of professionals of color in today's finance firms, we believe their responses and input are representative of the opinions of a broader base of professionals of color working within the field of finance.

All Retention Returns respondents are MBA graduates from the nation's top 25 graduate business school programs—all are people of color. More than 60% of respondents are African American, 24% Latino, 8% Asian/Pacific Islander, and 2% Native American/Alaskan Native. The respondents are employed in a range of finance sectors (see Appendix II for charts indicating firms by sector represented in survey responses.) Over two-thirds of respondents have been with their current employer for less than four years—a critical employment timeframe from the perspectives of both the employees and employers. The success (or disappointment) during this career phase can significantly impact the retention of minorities in finance today. Seven percent (7%) of respondents have spent more than eight years with their current employer, perhaps representative of the comparatively high turnover and abbreviated tenure of employees in the finance industry.



In addition, focus group sessions were conducted for survey participants to share added insights regarding recruiting, mentoring, leadership development, performance reviews and more. Information gathered during those small group sessions has been incorporated into this report.

Executive Summary

In analyzing the findings from the Retention Returns survey and the subsequent conversations from the focus groups held with professionals of color regarding firms' retention efforts, key themes emerged. These findings represent important issues that finance firms committed to improving retention of diverse talent are hopefully considering as they evaluate their current practices—and are inspired to adopt new ways of working.

- **The Cycle of Departure**: Recognizing the Pattern. For the survey respondents, the domino effect resulting in voluntary departure follows a similar path or pattern of events, including limited access to key deals which leads to a lack of visibility, and in turn leads to a lack of recognition and proportionate rewards. Ultimately it all leads to the employee's departure.

- **Mentoring Matters—When Done Right.** Formal mentoring and support network initiatives were unanimously cited as critical elements of support in a firm, yet less than 20% of respondents perceived their firms to have a firm-wide commitment to mentoring.

- **Performance Management: Be Clear, Be Open.** Having a plan in place to manage expectations (and disappointments) is a fundamental part of a robust and open performance review process. Failure to gain access to systematic feedback and support leaves candidates with a feeling of disillusionment—and often serves as the impetus to move on.

- **Institutional Priority and Individual Execution Are Critical.** The majority of our respondents do not believe retention is recognized as a strategic priority in their firms. Why? It may be communicated at the top, but day-to-day interactions indicate a disconnect between leadership and line managers. In order to drive real and tangible results, firms need to link HR/diversity efforts with overall operations, including linking a portion of line managers' compensation to diversity-related recruiting and retention goals. This approach has its champions and its detractors—and will likely be an area of continued focus for finance firms as they evaluate their diversity efforts.

Minority Retention: The Cycle of Departure

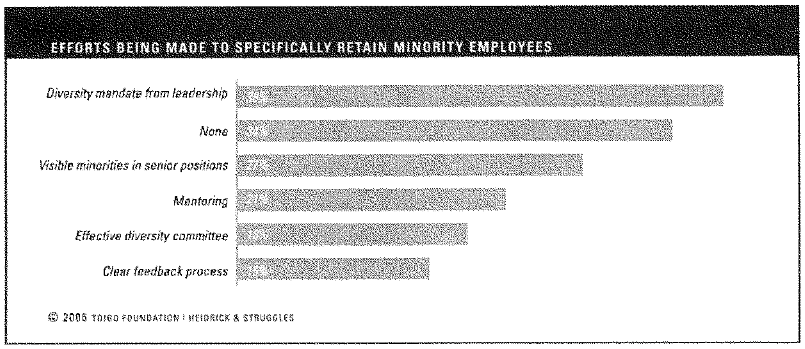
34% of respondents indicated the firms in which they work have no formalized diversity efforts in place.

For many professionals of color, the decision to seek employment elsewhere comes after a series of predictable—and often avoidable—events. Understanding the need to watch for patterns and what factors trigger the domino effect are important steps for firms as they tackle the challenge of retention.

According to a recent Conference Board study, employees want more than great benefits and compensation from their employers (those ranked 8th on the expectation list.) Interestingly, challenging work was the most mentioned expectation of employees, followed by open, two-way communications and opportunities for growth and development.[1] As Generation Y individuals—those born after 1982—come into the workforce, HR experts and organizational management professionals believe this issue of "workplace experience" will become an even more prominent decision factor for joining and staying with an employer.

While more than one-third indicated their firms communicate a diversity mandate from the most senior levels of leadership, a nearly equal number of Retention Returns respondents also indicated that their firms have no institutional efforts in place to address minority retention. Fewer than 20% indicated that their firms effectively utilized diversity committees as a way to solidify its diversity efforts. Based on Toigo's work with firms of varying size and industry focus—from investment banking to alternative investing, private equity to real estate investment—the commitment of professional time and resources toward diversity initiatives varies widely. Toigo is investing in programs aimed at helping firms that will most benefit from establishing more formalized diversity programs.

As you see in the following chart, only 15% of respondents indicated that clear feedback processes were in place as part of efforts to retain professionals of color. As part of its APEx coursework and Career Services advisory sessions, Toigo reinforces the responsibility that each professional should assume for identifying appropriate ways to seek ongoing feedback while promoting their potential and demonstrating excellence in their work. In short, to forge their own open channels of communications.



How the Domino Effect Starts

Based on respondents' feedback regarding the few formal or structured efforts that are in place to retain professionals of color, we see a pattern of departure emerging:

- **Key Deal Access:** Assignment to plum deals with high revenue-generating potential is limited. Focus group respondents felt this limitation is primarily driven by many firms use of an informal process of allocating deals that appears to be heavily tied to membership in the "old boy network."

- **Internal Exposure/Visibility:** Exclusion from lucrative deals leads to a lack of visibility in the organization. Research and thought leadership published by Laura Morgan Roberts of Harvard Business School and Dr. Stacey Blake-Beard, Associate Professor of Management at Simmons School of Management and member of the Research Faculty at the Center for Gender in Organizations, sheds light on the challenges—and importance—of the issue for professionals of color. "...the most effective means for managing visibility is to adopt a combination [of] knowing how to stand out in critical moments and slip under the radar when needed. In taking a more nuanced, or 'tempered,' approach to managing visibility, anyone operating as 'the only' in his or her organization, will have a powerful tool to demonstrate competence, establish credibility, build connections, counter negative stereotypes, and stay true to themselves while playing the tournament game of career advancement."[2]

- **Recognition:** The lack of access to key deals and lack of visibility results in professionals of color not being recognized for their contributions. Professors Laura Morgan Roberts and Stacy Blake-Beard note: "There are several reactions to the minority professional who seeks and/or receives this heightened visibility: her every action is scrutinized; her judgment may be questioned; her performance is evaluated closely and criticized vigorously. Small errors are held up as proof of this leader's incompetence rather than seen as opportunities to learn from their mistakes and hone important skills."[3]

- **Effective Advocacy:** It is critical to have a sponsor to advance in the competitive finance culture. Many of the established firms—particularly in the investment banking space—have formalized programs for internal mentoring, coaching and advocacy in place. Yet, many firms do not. As more professionals transition from other industry sectors where they have benefited from formalized mentoring programs, the value of these programs will become even more apparent to finance firms of all sizes and focus.

To solve a complex problem at work, professionals predominately turn to colleagues rather than computers.[4] Studies at MIT in the area of social networking show that "people with rich networks tend to solve problems faster, and with better results."[5] In finance firms, where the business of relationships is as critical as analytical and technical knowledge, establishing a social network is critical to a professional's short- and long-term success. And, by extension, to the professional's career satisfaction and loyalty to their employer.

"Leaders need to understand how social identities influence the way employees experience the organization's work and culture," write the authors of a Harvard Business Review (HBR) article, "Rethinking Political Correctness." "By developing a deeper understanding of those who differ from them in gender, race, ethnicity, sexual orientation, and so on, leaders learn to anticipate how employees are likely to read situations... leaders can intervene early and respond effectively when situations arise, as they inevitably will." To develop that type of insight, the authors note, requires leaders "to build trusting personal relationships with senior-level staff who represent the organization's diversity."[6]

Importantly, professionals of color are (or perceive themselves to be) outside of the "informal" mechanisms of information sharing and social networks, including lunch or coffee with peers, being invited to drinks, socializing with managers. Both Rob Cross (University of Virginia) and Wayne Baker (University of Michigan) are exploring the role that the quality of a professional's network has on the person's performance. In one study, the colleagues found that the "energy spent between people during interactions is four times a greater predictor of performance than the information we bring to bear.[7] Clearly, this set of findings supports the old adage emphasizing the importance "who" you know, an adage that remains increasingly relevant—a challenging obstacle for professionals of color that firms need to be increasingly aware of and work toward resolving. Toigo's APEx training offers key strategies to its participants on building their "social capital."

Only 1 in 5 survey respondents indicated their firms have formal mentoring programs in place to help retain minority talent.

Reversing the Trend

The following recommendations are presented to firms committed to finding ways to forge tighter integration between daily operations and diversity retention goals throughout their organizations.

- **Communicate a Clear Path for Advancement.** Communicate clear, objective metrics for an individual to achieve career advancement and secure positions of growth and leadership within the firm. Improve channels of communication—both informal feedback and formal review processes—to help guide employees along this identified career path. When it comes to a clear path for advancement, the variables, of course, are many.

  At smaller firms, for example, the path may not be clear since it has never been forged before (or, in fact, there may not be room for growth at all.) For those firms that believe they have clearly stated metrics for advancement (and many do), issues can arise when the metrics are not objectively applied by all in leadership positions. Communicating the path is the first step, without an objective application of the metrics; your efforts will be undermined.

- **Adopt More Transparent Review Processes.** Strive to preserve objectivity in meaning. Begin to objectively measure an employee's movement or progress along the clear career path. Among our respondents, Asset Management was often cited as a more egalitarian environment since a money manager can always be judged on the basis of his/her portfolio performance, eliminating the subtle inequities that impact minorities' access to deals/visible positions/access to senior management in other areas of finance like investment banking. The lack of clarity, or transparency, in how deals are assigned was raised frequently as a point of frustration by survey respondents.

- **View Performance Review as a Development Opportunity.** Effective appraisal programs represent more than a time to set a person's salary. The programs should incorporate skills development via coaching from supervisors or others on the team. Rather than viewing the interactions in formal performance reviews as an opportunity to reflect on past performance, this benchmark should be used as a training opportunity with a focus on the employee's future development and growth. Just as training is focused on achieving growth and professional development, performance management can be viewed in the same light.

- **Provide More Options.** In an effort to retain strong professionals of color who are not positioned to succeed in their current role, firms might consider a formal process for evaluating these employees for other opportunities that might be a better "fit." The concept of internal mobility, and a focus on core competencies that are transferable between lines of business, has been gaining traction within firms. Communicating to professionals that options exist—and that an exit is not the only answer—may be one way to keep talent in-house and ensure that both the professional and the firm are realizing the most from the relationship.

- **Foster Social Networking.** For professionals, personal networks deliver tremendous advantages—ready access to private information, the ability to tap into diverse skill sets, and power. For professionals of color, research shows that the value of mentors and networks is critical to their success and longevity with a firm. There are many ways in which professionals can build and capitalize on their networks. Firms that foster networking efforts, including the active support of affinity groups and alignment of these groups with strategic goals, will in turn boost their diversity initiatives.

  Just as a company relies on its board of directors for objective and expert advice in a broad range of functional areas, professionals should view and actively manage their network as a source of wisdom and insights. Professionals should consider reaching out and building connections with individuals with varying degrees of professional experience or years "in the field." Importantly, as each person's roles, responsibilities and perspectives change, so will their advice. The result will be a richer contribution of differing points of view. In a networking piece in HBR, the authors advise, "If you've introduced yourself to your key contacts more than 65% of the time, then your network may be too inbred."[8]

  Additionally, recognizing the importance of forging both strong and weak ties is critical. While strong connections give you considerable rapport, there are also benefits to be gained from having a network with weak ties—people you don't know well but who may be helpful. Research suggests that one of the most common ways people find jobs is through information and connections from the weak ties in their networks. Mark Granovetter at State University of New York, Stony Brook writes in "The Strength of Weak Ties: A Network Theory Revisited," that "weak ties provide people with access to information and resources beyond those available in their own social circle; but strong ties have greater motivation to be of assistance and are typically more easily available."[9]

Mentoring Matters—When Done Right

Mentoring and networking have become cornerstones of talent development. While many firms have formal mentoring programs in place, the survey findings and focus group feedback indicates that it may be time for organizations to carefully evaluate these programs to ensure they are realizing maximum benefit. The structure of the formal mentoring program, who is involved, how accountability is assigned and reviewed are all factors in the overall success of the program.

Protective hesitation—the fear of being called racist or sexist—can prevent mentors and supervisors from sharing information and providing critical feedback regarding an individual's performance or actions.

At the core of every mentoring relationship is trust—a willingness of partners to authentically engage one another. Mentoring provides "real world" information, advice, encouragement, and access to networks that might otherwise be unavailable to women and people of color. Mentor relationships can contribute significantly to the development of a professional of color's confidence, competence, and credibility, or what Professor David Thomas of Harvard Business School labels the "three Cs." In Thomas's groundbreaking research, he shows that in a professional environment, mentoring relationships are critical to all professionals, but for professionals of color, they play an even more vital role in career development.

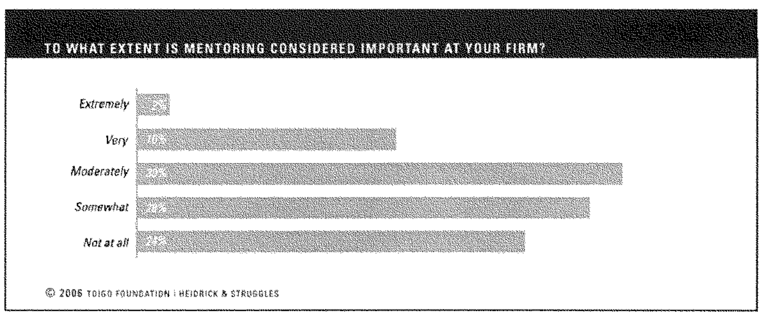
Enabling the type of trust needed to foster meaningful mentor relationships often becomes more challenging as mentoring partners cross-racial lines, according to Blake-Beard. A member of the Toigo Foundation's APEx faculty and a recognized authority on mentoring, Blake-Beard works closely with Dr. Regina O'Neill of the Sawyer School of Management at Suffolk University to address mentoring issues and provide robust mentoring training. Both note that several challenges related to mentoring across dimensions of diversity may emerge for professionals of color, including issues such as "tokenism," challenges that can come into play because people of color or women are often one of a few and subject to stereotyping. This dearth of other minority colleagues naturally places them in a spotlight, making learning more challenging as a result of the added scrutiny.[10] Blake-Beard and O'Neill work with Toigo Fellows and Alumni to recognize other issues when it comes to the care and nurturing of mentoring relationships. Protective hesitation—the fear of being called racist or sexist—can prevent mentors and supervisors from sharing information and providing critical feedback regarding an individual's performance or actions. Instead, mentors and supervisors can default to a comfort zone, avoid potentially difficult conversation and tell their protégés they are doing fine.

Work to Be Done

The findings of Retention Returns indicate that while only 21% of finance firms have mentoring programs in place, the majority of firms fall short when it comes to the care and feeding needed to make these programs productive for all. Of those surveyed, 18% indicated that mentoring was considered either extremely or very important in their firms, with the remaining 75%-plus indicating only a moderate (or worse) sense of importance. Nearly one-quarter of respondents said mentoring was not considered important in their firms. Feedback from Retention Returns also indicated that less than one-third of employers actively monitor their mentoring programs to ensure that benefits are being realized.

To truly be effective, organizations cannot approach mentoring as a "check off the box" or a stand-alone program. While mentoring programs can represent a very important part of an organization's diversity efforts, they should not be the first and only effort.

Investing resources, specifically, the time and energy of key executives, is fundamental to the success of any formal mentoring program. The survey responses indicate that even when there are formal mentoring programs in place, limited monitoring and structure provided by the organization means the full value of the program is not being realized.



Elements of Success

The dynamic established between the mentor/mentee is fundamental to the long-term value of the relationship. Based on survey respondents' feedback, key elements to foster include:

- **Access:** Having a powerful or influential mentor only mattered if the mentee had sufficient or consistent and frequent access to the mentor. A powerful mentor might be too busy to provide real and substantive mentorship. Over 90% of the respondents considered "access to the mentor" to be "very" or "extremely" important. Interactions should occur in different formats. In-person meetings, based on Toigo's experience, are essential at the start of the relationship to establish trust. Moving forward, scheduled calls as well as in-person meetings prove valuable, with email providing a convenient way to exchange quick thoughts.

- **Constructive Feedback**: Honest, candid feedback is the cornerstone of successful mentoring relationships. According to survey respondents, 94% indicated that their assigned mentor's ability to provide feedback was of paramount importance.

- **Advocacy:** A mentor's ability and willingness to sponsor or advocate on behalf of a mentee also ranked as a top attribute in the relationship, with 83% of the respondents ranking this attribute as "very" or "extremely" important. Respondents also provided insight into qualities in the mentor/mentee relationship that had little or no bearing on the benefits they gained from the interactions. These factors should be considered as firms work to either establish formal mentor programs—or retool existing ones:

- **Gender**: Only 10% of the survey respondents considered having a mentor of the same gender "very" or extremely "important", with 40% ranking this quality as "not at all" important.

- **Ethnicity:** Only 16% of the survey respondents considered this quality to be "extremely" or "very" important, with 29% ranking this quality as "not at all" important.

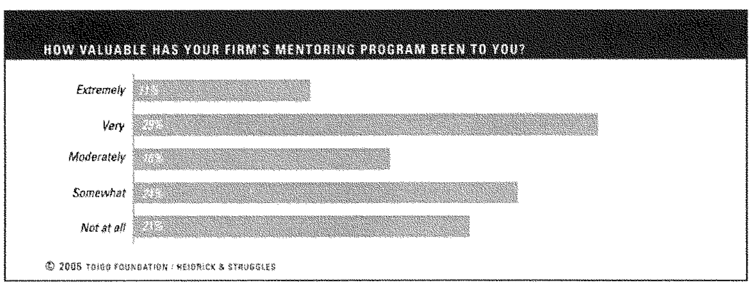
The Value of Informal Mentors

Over 80% of the respondents indicated their relationships with informal mentors—individuals they rely on who are not a part of the employer's formal mentoring program—have proven to be either "extremely valuable" or "very valuable." This compares to just 40% who rated their relationships with their formal mentors with the same value levels.

The high value placed on informal mentoring relationships is not surprising. Oftentimes, these relationships are forged through social processes of attraction and career similarity—the mentee/mentor are drawn to each other and, as a result, tend to invest added energy and commitment in building the relationship. One-third of the respondents in this section ranked the fact that informal mentors were in the same or a similar field as "very" or "extremely" important.

More than two-thirds of respondents identified their informal mentors through colleagues, while 39% identified their informal mentors through workplace, professional and social affinity groups.

"Formal programs allow you to meet more people, but unless you make a connection with a mentor it will not be successful. Informal mentoring works better." — Toigo Alumni

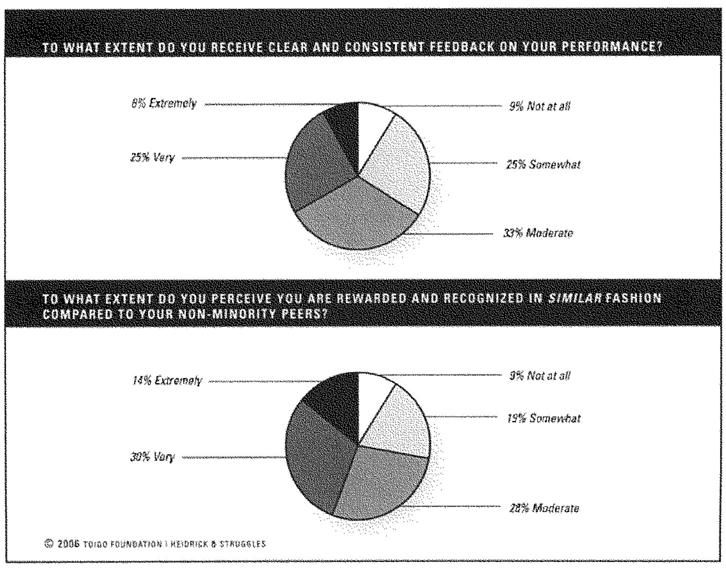


Performance Management: Be Clear, Be Open, Be Timely

On the whole, respondents viewed their employers' delivery of clear and consistent feedback on their job performance as adequate, 33% indicating either "extremely" or "very" clear and consistent feedback. However, over 50% indicated feedback to be "somewhat" or "moderately" clear. This lack of clarity reinforces the need for firms to carefully evaluate their ongoing performance management practices and for young professionals to be more active in soliciting input. Less than 10% indicated they received no formal feedback regarding their performance.

"The review process should be transparent. If I am average, why am I average? And more importantly, how can I move forward and excel?" — Toigo Alumni

When asked about recognition and rewards, 44% of the respondents indicated they believed recognition they received was "extremely similar" or "very similar" to that of their non-minority peers.



However, when it comes to informal modes of communicating feedback relating to job performance and recognition, approximately 40% responded that informal mechanisms were "moderately," "somewhat" or "not at all" the same compared to those used for non-minority peers. Informal methods of communication regarding an employee's performance included emails from a supervisor, office discussions, and one-on-one meetings outside of the annual review process, office gossip and promotions.

Key recommendations to firms regarding performance management include:

- **Ensure Transparency**. Compensation processes should be transparent to employees with performance metrics clearly communicated and objectively applied. Ensuring there is a clear, direct alignment—or logic—between performance and deal assignments (which in turn has an impact on compensation and bonuses) is a fundamental to ensuring transparency. Based on survey respondents' feedback, this lack of logic and transparency is a major contributing factor prompting professionals of color to seek other employment.

- **Identify and Communicate Objective Goals**. Providing employees a clear set of goals toward which they can work, rather than relying on arbitrary and unclear distinctions between levels of performance, helps instill career satisfaction.

- **Provide Consistent Feedback**. While seemingly routine, conducting regular reviews to communicate areas where improvement is needed provides professionals with valuable guidance—and comfort. To be truly effective, feedback on a professional's performance should be a fluid process and not just limited to one formal annual session. In short, the exchange should be a continual dialogue, rather than a static, one-time event.

Institutional Priority, Individual Execution

Finance firms truly committed to reversing the cycle of departure by professionals of color and improving retention need to go beyond addressing stand-alone solutions and examine deeper, more systemic issues that may be contributing to their retention issues.

The advantages of recruiting and retaining a diverse workforce go well beyond social benefits—it simply makes smart business sense to have the collective wisdom and talent of differing perspectives within the firm. "Companies need open and explicit discussion of how differences can be used as sources of individual and organizational effectiveness," write David A. Thomas and Robin J. Ely.[11]

For every organization, the benefits of a diverse workforce will manifest in different ways. For many, multi-cultural teams have led to product innovations and offerings that might otherwise have been overlooked. As today's consumer base becomes more diverse—and the "share of wallet" among minority consumers grows increasingly more powerful—employing a workforce that understands and reflects the cultural differences of your clients and customers becomes increasingly important. A cornerstone of Toigo's mission is based on the belief that a diverse workforce makes for a more profitable, productive enterprise.

The challenge many firms face is ensuring that all within the firm understand and believe in the value of diversity. Not surprisingly, of the 29% of firms in the 2005 SIA/Catalyst study that reported having no diversity program in place, many cited the biggest obstacle for moving forward and launching a program was "buy in from business units."[12]

Firms need to begin to view diversity as one of many organizational dynamics that must be managed in order to achieve optimal performance. "Diversity needs to be integrated into firms operations, and specifically into the way compensation is set. Finance firms are in the business of building relationships—and at the core of every relationship are their people. Having a diverse team brings diverse ideas, cultural experiences and knowledge to the table and makes for a more robust organization. Once firms understand and acknowledge that diversity is as fundamental to their operations as total quality management was to manufacturing businesses, change will begin," said Dr. Pamela Puryear, an organizational development consultant who works closely with the Toigo Foundation.

CEO As Role Model

The commitment to inclusion starts at the top and must be translated into every area of the workforce if it is to become part of an organization's DNA. When the accounting and consulting giant Deloitte began to address the fact that women were leaving the firm at a measurably higher rate than men, the CEO for the firm viewed it as a serious business concern that could—and should—be fixed. "To overcome the resistance of partners, the CEO actively led the initiative. He put his reputation on the line," writes Douglas M. McCraken in "Winning the Talent War for Women."[13] The result? An annual savings of $250 million in hiring and training costs, with lower turnover, enabling Deloitte to grow at a faster pace than competitors.

Having institutional proclamations are meaningless if they are not backed up and reinforced by day-to-day interactions, conversations, and decisions.

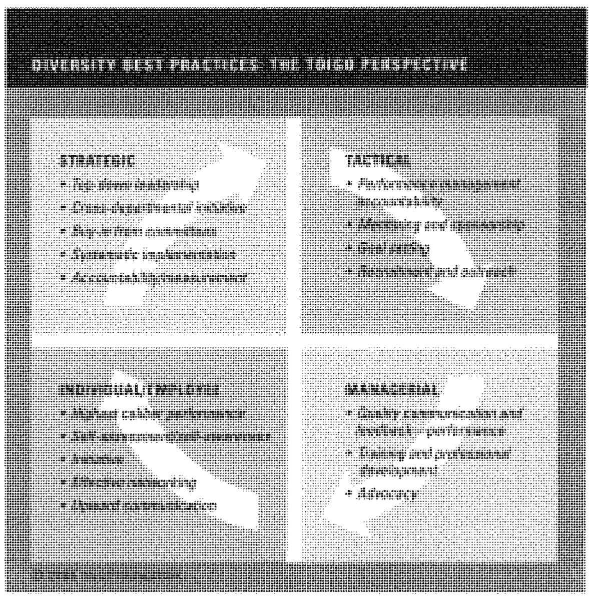
Make the Leap: Diversity as an Institutional Priority

To make diversity an integral part of the culture will require a wholesale shift in the way many aspects of performance assessment and rewards compensation and bonuses are awarded. Linking retention goals and practices to a manager's compensation sends a clear and defiant critical message: retaining a diverse workforce is a critical part of our firm's success, and those who contribute to the effort will be rewarded. Toigo suggests that firms who embrace this type of change will gain a competitive advantage by setting themselves apart from rival firms and help them achieve the diversity workforce goals they map out for their businesses.

There is no more effective way to create a clear and immediate impact on diversity retention than to link managers' compensation to their performance in this area. Meeting specified retention goals should be one of the key metrics for effective management—and as a result, should be linked to compensation and bonus awards. Only then will managers take steps to cultivate and keep their teams in place. Alternatively, firms might consider incorporating a component of the incentives to managers who excel at retention (versus recruitment) of diverse employees. This latter approach would eliminate the punitive aspect of tying retention to bonus/compensation packages.

Toigo understands the process of linking retention goals and compensation is a complex and challenging process—and is one that has drawn both champions and detractors. There are important interim steps that firms can consider and implement that will help move them toward closer alignment of their business operations and a culture of inclusion, including developing business line management skills. Business line managers are exceptionally skilled at analytical tasks and developing business, but too often, managing and developing "human capital" falls beyond their natural strengths and inclination. Firms might consider appointing managers based on their track record of building a team, in addition to their track record in managing a portfolio—or consider a team approach, in which senior managers share responsibilities, with one focused on business development, the other on human capital development. All senior managers should be provided training and metrics to help them succeed in this critical area of management.

Toigo communicates its view of best practices around diversity and the responsibility of each participant— from employee to the organization—in the diagram to the right.



Appendix I: Footnotes

1 "Its 2008: Do You Know Where Your Talent Is?" Deloitte Research, 2004 Deloitte Development LLC.

2 "Releasing the Double Bind of Visibility for Minorities in the Workplace." Center for Gender in Organizations / Simmons School of Management, September 2004. Stacy Blake-Beard and Laura Morgan Roberts.

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10 "Blind Dates?: The Importance of Matching in Successful Formal Mentoring Relationships." Stacy D. Blake-Beard, Simmons College; Regina M. O'Neill, Suffolk University; Eileen McGowan, Harvard University, 2006.

11 "Making Differences Matter: A New Paradigm for Managing Diversity." David A. Thomas and Robin J. Ely, Harvard Business Review, September/October, 1996.

12 2005 Report on Diversity Strategy, Development & Demographics, Catalyst/SIA, December 2005.

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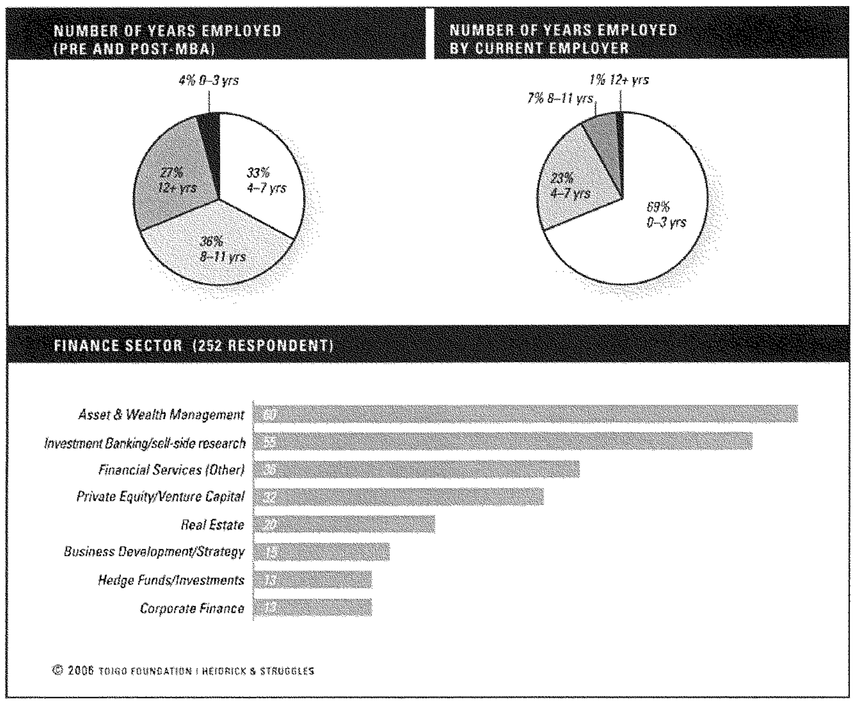
Appendix II: Demographics



Written Testimony

Geraldine Thomas
Senior Vice-President
Human Resources and Global Diversity and Inclusion Executive
Bank of America

House Financial Services Committee
Subcommittee on Oversight and Investigations

February 7, 2008

Introduction

Good afternoon Chairman Watt and members of the subcommittee. My name is Geri Thomas. I am the Global Diversity and Inclusion Executive at Bank of America. I have been with Bank of America since 1970 and in my current role as diversity executive since 2002.

I'm glad to have this opportunity to talk about Bank of America's commitment to diversity and inclusion to provide a workplace in which all associates can reach their full potential and feel valued for **who** they are…not **what** they are.

I'm also happy to be here because of my personal commitment to diversity and inclusion, not just in the workplace but in every facet of our society. As an Atlanta native, I was involved in the early Civil Rights movement. I know, from my own experience, that diversity is about more than numbers, it's about being inclusive.

As Global Diversity and Inclusion Executive at the bank, I oversee company-wide diversity initiatives and serve as a diversity resource to our senior leaders, business lines and associates.

As you may be aware, Bank of America is one of the world's largest global financial institutions. We have offices in 31 states and in Washington DC and in more than 20 countries. We serve individual consumers, small and middle market businesses, and large corporations with a full range of banking, investing, asset management and other financial and risk-management products and services. We have clients in 175 countries and relationships with 99% of the U.S. Fortune 500 and 80% of the Global Fortune 500 companies. We have 59 million consumer and small business relationships; 6,100 retail banking offices; 19,000 ATMs; and more than 200,000 employees around the world. Bank of America is the No. 1 online bank with more than 24 million active online banking users. The bank also is the No. 1 overall Small Business Administration (SBA) lender in the United States and the No. 1 Small Business Administration lender to minority-owned small businesses.

Why is diversity so important at Bank of America? Perhaps my summary description of our global business gives you an idea. Being responsive in this global environment demands diversity in people – in their experience, working styles and business acumen. We know diversity gives us the edge in understanding and meeting the financial services needs of our many customers and clients. It also helps us understand and meet the development needs of our associates. And by having a diverse associate base developing products and services for our equally diverse, global customers, we grow as an organization and deliver greater shareholder value.

Leadership commitment

As they say, it all begins at the top. Our executive leaders are fully committed to creating a rich, inclusive and welcoming environment at Bank of America. In fact, our commitment to diversity starts with our Chairman and CEO Kenneth D. Lewis, who is personally committed to diversity and inclusion. His leadership commitment - and that of his senior leadership team – forms the foundation of our success.

We have a long history of leadership in the area of diversity and inclusion: Fifteen of our company's 105 founding stockholders were women. As early as the 1800s, the bank managed the trust account for the Volta Bureau School for the hearing-impaired and the African American Teachers Union retirement fund.

In 1919, we formed international foreign departments to serve Russian, Spanish, Greek and Italian customers. The bank's first tellers were multilingual, and in 1920, the bank named its first female Vice President.

Today, about 66% of our workforce is comprised of women, of whom 49% are in officer or manager roles. And 44% of our associates are "people of color," of whom 25% are in officer or manager roles.

As you can see, our commitment to diversity has deep historical roots and today is ingrained in our culture. Our company's commitment to diversity is so strong that it exemplifies two of our core values: Doing the right thing and inclusive meritocracy. Every associate at the bank understands these are our guiding principles.

To support this commitment, we've built a broad, comprehensive program in which diversity is integrated into our core business practices and operations. In other words, we manage diversity as we do other business practices – we require management accountability; diversity metrics; personal commitment and demonstrated activity; recognition and rewards; a diverse candidate recruiting slate; integration into business-as-usual routines; solid communications processes and channels; and visible and active support.

Global Diversity and Inclusion Council

To ensure integration of diversity throughout the organization, the bank has a clear structure in place. At the top is the Global Diversity and Inclusion Council, a group of 25 senior leaders from across lines of business who are appointed directly by Ken Lewis.

Council members are charged with developing and implementing diversity initiatives that support Bank of America's core values – especially that of achieving an inclusive meritocracy – and actively promote a work environment in which *all* associates are welcomed, included, respected and empowered to do their best work...and are rewarded for their contributions. By promoting an inclusive work environment, the council enables associates to achieve personal success and contribute to the growth and success of our company.

Our vision is that associates reflect the bank's commitment to be inclusive at all levels in every community where they work and live. Some key objectives for the council are to:

- Ensure qualified, more diverse candidate pools

- Promote associate growth, engagement and career development through diversity training and other related programs
- Demonstrate and communicate inclusive meritocracy in everything we do
- Expand diversity focus beyond race and gender
- Communicate and raise awareness of the bank's diversity and inclusion efforts across the enterprise and how associates can get involved in diversity activities
- Help associates better understand other working cultures and traditions as we continue to grow our global enterprise.

Diversity Business Councils

We also have Diversity Business Councils and Global Regional Councils throughout our various lines of business. These business councils build on the corporate diversity initiatives set by the Global Diversity and Inclusion Council and help implement and raise awareness of specific inclusion efforts within the various business units. These business councils are responsible for:

- Promoting education and awareness on matters of diversity and inclusion
- Creating an inclusive and diverse work environment where all associates flourish
- Promoting inclusive and diverse associate recruiting, retention and development practices
- Advising and influencing management on achieving business goals through diversity and inclusion

Associate affinity groups

In addition to the Global Diversity and Inclusion Council and several diversity business councils, the bank supports associate affinity groups. These are employee networks that bring the voice of the employee into the equation and serve as the foundation of our diversity efforts. We have seven associate affinity groups:

- Asian Leadership Network
- Black Professional Group
- Disability Affinity Group
- Hispanic/Latino Organization for Leadership and Advancement, otherwise known as HOLA
- LEAD for Women. LEAD stands for Leadership, Education, Advocacy and Development
- Pride Resource Group
- Military Support Affinity Group

Associates in our affinity groups have a clear and important mission: to maximize the contributions and enhance the professional development of their members. And importantly, they bring unique cultural perspectives to the table. These seven affinity groups currently have 75 local affinity group chapters and are growing.

Our associate affinity groups also have a grant program that allows them to support community organizations that focus on issues important to the group.

The Team Bank of America Diversity Network is another associate group that works in the communities we serve. This group of volunteers of current and retired associates work together to touch the lives of co-workers, customers and the neighborhoods we serve.

Contracting with diverse suppliers

Bank of America also fully supports a Supplier Diversity program that actively seeks and provides diverse suppliers an opportunity to do business with our company. We realize the importance of having a supplier base that reflects our customer, community and associate populations. Promoting a better economic environment through supplier diversity helps our communities and Bank of America thrive. As a leader in this effort, Bank of America has increased spending with diverse suppliers each year.

The Bank of America Charitable Foundation

Our diversity efforts are also directed to communities and neighborhoods. Bank of America is in its fourth year of achieving an unprecedented 10-year goal to donate more than $1.5 billion to nonprofit organizations engaged in improving the health and vitality of their neighborhoods. In 2007, the Bank of America Charitable Foundation invested more than $200 million in communities across the country, making the bank the most generous financial institution in the world and the second largest donor of all U.S. corporations in cash contributions. In addition to the bank's philanthropic support, bank associates contributed more than 675,000 volunteer hours in 2007 to enhance the quality of life in their communities nationwide. These efforts will only expand as we continue to grow.

Based on our philanthropic strategy of "neighborhood excellence," we determine our giving priorities locally to ensure we are meeting diverse community issues. We believe that dedicated community nonprofit organizations know better than anyone else what their community needs. In partnership with local community leaders, we develop local giving priorities and remain committed to them to ensure we can truly make a difference in these areas. And we have developed innovative giving programs to support nonprofits to successfully serve the community.

Through our signature philanthropic program, the *Neighborhood Excellence Initiative™*, the bank builds capacity and develops leadership in local nonprofits serving diverse communities. Recent awardees include the Latin American Coalition in Charlotte, PRIDE Industries in Sacramento, Habitat for Humanity of Broward County, Nuestra Comunidad Development Corporation in Boston, the Erie Neighborhood House in Chicago, the Cuban American National Council in Miami, and the Pacific Asian Consortium in Employment in Los Angeles.

Through our philanthropy and community development activities, we support diverse communities across the country.

Let me give you a few other examples:

We have supported the National Urban League (NUL) for more than 50 years. The bank's involvement with the NUL starts at the top of the organization. Ken Lewis is a past co-chairman of the NUL and the bank's Global Consumer & Small Business Banking President Liam McGee currently serves as a trustee on the NUL board. As part of our partnership with the NUL, Bank of America has provided advice on homeownership, loans, financial literacy education and affordable housing development to African Americans across the country. Bank of America also has used feedback from the NUL to guide our investments in the restoration of urban areas.

The Bank of America Charitable Foundation has provided $16 million in operating support and scholarships at historically black colleges and universities across the United States since 1985.

The Bank of America Charitable Foundation also continues to support the Special Olympics and other diverse organizations. One of our associates participated in the 2007 Special Olympics Summer Games held in China, winning two gold medals and one silver in the swimming competition.

In addition, as part of our commitment to help working individuals and families achieve their financial goals, the bank is sponsoring the National Disability Institute's Real Economic Tour, an initiative assisting individuals with disabilities access free tax-preparation support and the Earned Income Tax Credit.

The bank has a 10-year $750 billion community development goal, and is providing greater access to capital and credit to low- and moderate-income individuals, families and communities across the country through loans and investments.

Program Related Investments – or PRI– provides one example of our community development work. Last year, the bank made $85 million in PRIs to capitalize loans for affordable housing, charter schools, community facilities, and micro-credit and small business lenders. Included in the $85 million is an investment of $2 million – our first investment in a Native American Community Development Financial Institution.

In another example of community development, Bank of America provided $34 million in financing for the Renaissance Walk development in Atlanta to help revitalize one of the city's culturally important neighborhoods.

These are just a few examples of Bank of America's commitment to supporting diversity through our philanthropic and community development activities.

Recruiting and retention

Ours is a "people business." Obviously, our customers are important to us, but our associates are just as vital – just as critical – to our success. At Bank of America, we are passionate about offering our associates a culture of fairness – one that values each person for what he or she can contribute. We look for talent, ability, creativity and determination, and we're not concerned about family backgrounds or what school they attended. We know that with this wealth of perspective, we will always be able to take advantage of new opportunities, develop innovative products and help people find new ways to live constructive and productive lives.

Our success depends on hiring the very best people. And talented people come from all walks of life and from different ethnicities, colors, beliefs and lifestyles. Each year, we participate in diversity recruiting events ensuring our associates represent the varied communities we serve. Our focus on diversity helps us attract and retain the best people, and we're constantly energized by the wealth of fresh ideas and insights our talented teams produce.

Financial products and services

To meet the financial needs of our customer base, we must develop products and services that address their unique requirements. The bank actively hires bilingual associates to help us design and deliver services to our diverse customer base around the globe.

Let me give you examples of our specially designed products and services.

Our ATMs and banking center materials are translated into in multiple languages to better meet the needs of the communities we serve.

Bank of America provides a free nationwide remittance service, called SafeSend, which makes it easy to send money to Mexico by eliminating transfer fees.

Our Accessible Banking program empowers disabled customers to access our banking products and services as they choose:

- 24/7 free Online Banking and Billpay
- 24/7 access through Telephone Banking with TTY/TDD service
- Over 6,100 banking centers coast-to-coast, many with drive-thru banking
- Over 11,000 talking ATMs; 19,000 ATMs nationwide
- Braille and large-print checking, savings and credit card statements
- Raised-line, large-print checks and large-print check registers
- Sign language interpreter services can be requested from banking center associates
- Reader services are available from our banking center and Telephone Banking associates

In addition, our credit card division offers a wide variety of affinity cards that support diverse affinity groups. Some examples include:

- Elton John AIDS Foundation
- Olivia
- Rainbow Card
- Atlantis Events
- United Spinal Association
- Paralyzed Veterans of America
- Thurgood Marshall College Fund
- American Society of Women Accountants
- Women in Military Service for America
- Hispanic National Bar
- National Society of Hispanic MBAs

Public recognition

My report today wouldn't be complete without letting you know about the extensive recognition we've received for our efforts in actively promoting and supporting a diverse, inclusive culture.

- In 2007, ***DiversityInc* magazine** ranked the bank the No. 1 company for diversity and inclusion as part of its annual "Top 50 Companies for Diversity." Additionally, in its specialty list, Bank of America ranked No. 1 in the Top 10 Companies for Executive Women and No. 1 for Recruitment and Retention. The bank also ranked No. 3 for Hispanics and GLBT employees and No. 8 for Asian Americans. In addition, the bank placed No. 6 on the Supplier Diversity list. *DiversityInc* also recognized the bank as having a "Top Web Site for Diversity."
- ***Black Enterprise*** magazine ranked the bank again as one of the "40 Best Companies for Diversity."
- We scored 100% on the Human Rights Campaign Corporate Equality Index.
- ***U.S. Banker*** magazine, ***Fortune*** magazine and ***The Wall Street Journal*** continue to recognize the bank's senior women in their annual top women's rankings.
- And ***Working Mother*** magazine, for the 19th year, recognized Bank of America as one of the "100 Best Companies" for working mothers.
- Hispanic and other diversity magazines also continue to recognize the bank for its commitment to diversity and inclusion.

Conclusion

Obviously I am proud of the bank's diversity and inclusion efforts. As a true meritocracy, we provide an open environment where each person is evaluated on his or her own merits, where associates of diverse backgrounds, viewpoints and experiences can succeed, and where all associates have the opportunity to achieve their full potential.

That said, we still have work to do. Diversity is a journey. We have leadership and commitment from our executives starting at the top as well as the right people and the right business processes to know that our diversity and inclusion efforts are making a positive difference at our organization. We will continue to actively promote and support diversity of thought and experience. It makes us a better company, a better place to work and a better citizen in the communities we serve. Diversity and inclusion are part our day-to-day business processes and results. It is the differentiator in the marketplace.

And I'd encourage each of you – regardless of your position, title, background, etc. – to interact with people who are different from you. Through open and candid dialogue, we'll learn from each other, we'll develop better ideas and solutions than we would on our own, and we'll have a better understanding of – and appreciation for – different perspectives and points of view.

By proactively engaging with people who are different from us – different backgrounds and cultures, different lifestyles or different ideas – we foster true inclusion and fairness.

Thank you for your attention to this issue. It's been a pleasure to be with you today.

DiversityInc
Diversity and the Bottom Line

Testimony of Luke Visconti,
Partner and Co-Founder
DiversityInc Media LLC

Before the Financial Services Committee on Oversight and Investigations

"Diversity in the Financial Services Sector"

Progress Since June 2006 Government Accountability Office (GAO) report "Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2004"

Feb. 7, 2007

570 Broad Street, 15th Floor Newark, NJ 07102 t.973-494-0500 f.973-494-0525

Chairman Watt, Ranking Member Miller, and members of the Subcommittee, I thank you for this opportunity to testify about the key findings of the GAO report on workplace diversity in financial services.

DiversityInc is a national business publication. Started in 1998 as a web site, we launched our print magazine in 2003 and now have a daily web site and monthly magazine. DiversityInc is completely owned by Foulis Peacock and me. There are no outside investors, no corporate debt and no board of directors. This independence allows us to operate a pure editorial environment and we have a complete separation of editorial and advertising functions. I am responsible for all editorial functions.

DiversityInc.com has an audience of more than 1 million unique monthly visitors. The magazine has audited circulation of more than 200,000 people.

A core component of our editorial coverage is The DiversityInc Top 50 Companies for Diversity® list. This is an open competition for any company with more than 1,000 U.S. employees. There is no fee to participate and the evaluation is independent of business conducted with our company. There are companies on our list that do no business with us.

The DiversityInc Top 50 Companies for Diversity survey, now is in its eighth year. In 2003, we had 118 corporate participants, last year we had 317, this year we will have more than 350.

In my testimony, I will explain the methodology of the DiversityInc Top 50 and how it enables us to evaluate financial-services companies. We disagree with some premises in the GAO report, especially the contention that the financial-services industry as a whole has not kept par with the changing work-force and, to a lesser extent, management demographics in this country.

GAO Report Key Findings on Workplace Diversity in Financial-Services Sector

The GAO report studied work-force and management diversity in the financial-services industry (defined loosely as banks, securities and insurance companies) and access to capital for minority-owned businesses (MBEs) and women-owned businesses (WBEs), all from 1993-2004. The GAO's basic premise in this report is that this industry is not keeping up with the changing demographics of the country, although its representation of women and people of color in management is better than the overall work force.

Our DiversityInc Top 50 data shows that segments of the financial-services sector – specifically consumer-facing banks – are actually more progressive than most U.S. companies in any industry.

There are two reasons for the discrepancy in the GAO findings and our data. First and foremost, the GAO data is too old to be valid, as it compares trends in the work force and management from 1993-2004. As the national experts in measuring diversity in corporate America, we know how quickly diversity management evolves and how rapidly human-capital demographics change once proven best practices are implemented. That can be demonstrated by the increased participation in the Top 50 list and the turnover of companies on the list over seven years as the questions and the responses have evolved. Therefore, for purposes of this testimony, we will present the most recent data we have on the financial-services industry, which is from calendar year 2006.

Secondly, the GAO report does not differentiate the types of financial institutions and we see a wide variation. Banks, especially consumer banks that have a long history of involvement with the Black and Latino communities since the implementation of the Community Reinvestment Act in 1977, have been leaders in the Top 50 since we implemented it in 2001. They have always had the greatest participation in the Top 50 and the largest industry representation on the list. Other financial institutions, notably brokerage firms, are certainly not diversity leaders and demonstrate strong evidence of discriminatory practices.

DiversityInc Top 50 Analysis

We base our analysis on data from The 2007 DiversityInc Top 50 Companies for Diversity® competition that documents how the banks on our list are national diversity leaders. This information is based solely on information submitted to DiversityInc by the banks for the calendar year 2006.

Now in its eighth year, The DiversityInc Top 50 Companies for Diversity list is determined entirely by a statistical analysis of responses to our 200-question survey. The survey is sent to any company requesting it that has more than 1,000 U.S. employees. The methodology is unbiased and is completely independent of business conducted with DiversityInc.

Companies in The DiversityInc Top 50 Companies for Diversity demonstrate consistent strength in the four areas the survey measures: CEO Commitment, Human Capital, Organizational and Corporate Communications and Supplier Diversity. Companies are assessed within the context of their industry, company size, geographical reach and employee skill sets. Almost all of the survey's questions are consistent year to year although they are updated annually to reflect evolving best practices in the field of diversity management. To be on the Top 50, companies must demonstrate excellence in all four areas. They also must provide health benefits for same-sex domestic partners of employees

The survey also is used to determine the nine specialty lists: the Top 10 Companies for Recruitment & Retention, the Top 10 Companies for Supplier Diversity, the Top 10 Companies for African Americans, the Top 10 Companies for Latinos, the Top 10 Companies for Asian Americans, the Top 10 Companies for Executive Women, the Top 10 Companies for GLBT Employees, the Top 10 Companies for People With Disabilities, and the 25 Noteworthy Companies.

The DiversityIncTop 50 demonstrate that strong diversity management is an indication of excellent corporate governance, which is over the long run, a demonstrator of financial performance. For the past four years, the publicly traded companies in the Top 50 have been expressed as a stock index. The 40 publicly traded stocks in The DiversityInc Top

50 Stock Index have been compared by Ramirez & Associates, a minority-owned brokerage firm that has a seat on the New York Stock Exchange, against The Standard & Poor's 500, the Dow Jones Industrial Average and Nasdaq. Over a 3, 5- and 10-year period, the DI Top 50 Index is more than 20 percent higher than the other three indexes. The DI Top 50 Index is recalculated each April when a new Top 50 list is announced.

It's important to note that absent the data submitted to us by the banks themselves, there is virtually no public human-capital demographic data available broken down this way for comparative purposes. We feel the publicly available EEO data is insufficient to fully understand the demographics of an industry.

The gap between the DiversityInc Top 50 banks and the EEOC data provided by the GAO report

We examined for purposes of this testimony the averages of the banks in the Top 50 (Bank of America, JPMorgan Chase, Wachovia, Wells Fargo & Co., Citigroup, KeyBank, HSBC North America and Comerica), compared with the 2004 EEOC data provided by the GAO report.

The data below illustrates quite clearly that the DiversityInc Top 50 banks far exceed the representation of people of color when compared with the EEOC data on the financial industry. There is a finite pool of talented people of color and the DiversityInc Top 50, especially the DiversityInc Top Banks, are scooping up the best and the brightest. Our research has found that especially with people of color and women, reputation is essential. Most people do not want to be the barrier breakers, the "first" of anything. They want to work in a place where they feel welcome and where their talents can flourish. The branding as a diversity-friendly company is critical and most of the big banks have that. The brokerage companies do not and in our opinion, are perceived as impenetrable bastions reserved for the privileged few. It is our opinion that brokerage firms are not looking for people not already in "the club."

Specific data we found:

- The DiversityInc Top 50 banks averaged 35 percent people of color in the work force (defined as Blacks, Latinos, Asian Americans and Native Americans), compared with 27 percent for the financial-services industry as defined by the GAO report. The DiversityInc Top 50 banks were higher in every category of people of color. Specifically, the DiversityInc Top 50 banks had 16 percent Blacks in the work force, compared with 13.3 percent in the GAO report; 10.5 percent Latinos in the work force, compared with 6.1 percent in the GAO report,, 8 percent Asians in the work force, compared with 6.1 percent in the GAO report, and 0.6 percent Native Americans in the work force, compared with 0.4 percent in the GAO report.
- The DiversityInc Top 50 banks averaged 22 percent people of color in management, compared with 15.5 percent in the GAO report. Specifically, the DiversityInc Top 50 banks had 9 percent managers who were Black, compared with 6.6 percent in the GAO report, 6 percent managers who were Latino, compared with 4 percent in the GAO report, 6 percent managers who were Asian, compared with 4 percent in the GAO report, and 0.5 percent managers who were Native American, compared with 0.3 percent in the GA report.

- The GAO report stated that the financial companies contacted had challenges in implementing diversity initiatives, including linking managers' compensation to diversity. "Some firm officials also said that gaining employees' 'buy-in' to diversity programs was a challenge, particularly among middle mangers who were often responsible for implementing key aspects of such programs," the GAO report states. All of the top banks tie management compensation to diversity and 88 percent of their CEO's personally sign off on executive compensation linked to diversity. They average 11 percent of executive bonuses tied directly to measured diversity success.
- All of the DiversityInc Top 50 banks have employee-resource groups, which are key to recruitment, retention and promotion of under-represented groups. They allow them to meet during the workday, fund them, have a senior executive heading each group and use them for marketing and recruiting purposes
- All of the DiversityInc Top 50 banks offer diversity training. Half have mandatory training for all employees; 75 percent have mandatory training for managers; 63 percent have training that lasts for one day or more; 88 percent offer training monthly. All of the DiversityInc Top 50 banks survey their employees on diversity issues.
- Connecting with the community, which harkens back to the CRA, is vital to the DiversityInc Top 50 banks. An average of 25 percent of their philanthropic efforts go to communities of color, the gay, lesbian, bisexual and transgender community, or people with disabilities.

The brokerage firms do not participate in the DiversityInc Top 50

With the exception of Merrill Lynch, which has been a national diversity leader, no brokerage firms were among the 317 companies participating in the Top 50 last year.

Those who did **not** participate include:

Morgan Stanley
Bear Stearns
Goldman Sachs
Robert W. Baird
UBS
Lazard Freres & Co.
Raymond James
C.E. Unterberg, Towbin
Calyon Securities
Deustche Bank
Friedman, Billings, Ramsey Group
Janney Montgomery Scott
Jefferies Group
Oppenheimer
Piper Jaffray

Lawsuits and Settlements

The brokerage industry has been the subject of repeated and massive discrimination lawsuits. We have been told by current and former employees who are women and people of color, especially Blacks, that they "did not fit in" and were excluded and made to feel uncomfortable.

As an example, these lawsuits show the tip of the iceberg since most employees are too afraid of retaliation to sue. Further, the settlement costs are relatively insignificant to a brokerage company – they're roughly comparable to the bonus many individual brokers earn in one year.

- In 2007, nearly 3,000 female financial advisers and registered financial-adviser trainees sued Morgan Stanley, alleging they were denied promotions because of their gender. **Settlement: $46M**

- In 2007, Morgan Stanley was sued by 1,200 Black and Latino financial advisers and financial-adviser trainees employed with the company at any time since Oct. 12, 2002 who allegedly were denied important accounts and professional-development opportunities because of their race. **Settlement:** A confidential settlement was reached in which the firm agreed to create a fund to settle the claims. In October, word the fund held only $16 million received major backlash from 16 African Americans involved in the suit.

- In 2005, four female financial consultants filed a national class-action lawsuit against Smith Barney, alleging discrimination on the basis of gender in account distribution, business leads, partnership opportunities, referrals, etc. This has **not been settled yet.**

- In 2005, 17 current and former Black brokers filed a national class-action lawsuit against Merrill Lynch on behalf of more than 100 Black brokers who alleged systemic discrimination on the basis of race. This has **not been settled yet.**

- In 2004, as many as 340 female employees of Morgan Stanley alleged they suffered lower salaries because of their gender and were subjected to lewd behavior from male co-workers such as slaps on their buttocks, strip-tease shows and breast-shaped birthday cakes. **Settlement: $54M**

- In 1998, up to 22,000 women who worked at the Smith Barney from May 1993 to November 1997 were subject to sexual harassment, teasing and taunting and "boom-boom rooms." **Settlement:** Twenty-three of the 25 women named in the lawsuit agreed to settle for incentives ranging from $20,000 to $150,000 and Smith Barney promised to commit **$15M** to diversity training

- In 1997, more than 900 women alleged gender-based discrimination and sexual harassment at Merrill Lynch such as finding "a dildo, some hand lotion and a sheet of perverse poetry" in a gift box on their desks. **Settlement: $100M(+)**

Persistently Oppressive Work Environment

In our experience, the brokerage industry is uniquely recalcitrant in maintaining a frat-boy atmosphere. Last summer, we ran a three-part series on DiversityInc.com regarding the personal experience of Kimberley Copeland, a well-educated and intelligent woman I know personally through her mother, Margot, who is the chief diversity officer at KeyBank. This is a critical point. Her mother is in a position that gives her an excellent perspective on proper corporate behavior in a progressive financial-services firm. I am confident that Kimberley's experience was not unusual for a young Black woman professional at the firm where she worked.

Kimberley was heavily recruited from a blue-chip HBCU and landed a job on the revenue-generating side of one of Wall Street's most prestigious investment banks. But her excitement soon turned to humiliation and anger as she was subjected to racist and sexist intimidation and harassment.

The following is an excerpt from that article, in her own words:

> *Fitting in, for someone like me, was work, was as much work as actually trying to learn the job; but there were others who just had natural experiences that didn't make it very difficult to fit in.*
>
> *I thought I was fitting pretty well, but my first negative interaction with middle management actually happened about eight months after I started. What had made my internship so positive was the access and exposure that I had to senior management kind of operated with the same kind of boldness that I did in the summer program.*
>
> *At the time I was working as a trade assistant on the floor of the New York Stock Exchange, which was a rotation for my program, but one day I seized this opportunity to sit down with the senior MD [managing director], the director of all of equities, to talk with him about my vision, to tell him who I was and what sorts of things that I would like to be doing in the firm. And he was very receptive, and he suggested to me that I approach my manager about doing a rotation on the trading desk and spending some time with senior traders and salespeople to get a different perspective and a different level of exposure.*
>
> *I was so excited. I went directly to my direct manager, and I told him all about the conversation and I asked him, "Could I have this opportunity to rotate on the desk for a few months?" and he was furious with me.*
>
> *Sexual harassment was a social norm in the workplace that I was in. When I began my job, there was one other woman that I worked with directly in my space, and she was a young woman, she was white, she came from a wealthy family, she was athletic, all of that. A good fit, and someone who was really on the fast track—it was apparent. I was impressionable and really trying to work with the experience, and so I began to model my interactions after hers, and one of the things that she used to allow was for individuals to touch her in inappropriate ways in the workplace.*

There was an older man that used to come up behind her daily, and squeeze her on the waist at her lower torso. And she would always laugh and joke as he did it, and kind of play it off as if it was something that was funny or it tickled or amused her. It was only a matter of time before this individual had developed a similar level of comfort with me, and this same man was coming up behind me and squeezing me in the same place, every day, whenever we saw him.

I hated it. I did. But I allowed it, because worse than these 10 seconds of daily harassment was this thought of being ostracized by this individual, by my colleagues, and of no longer being an insider in this culture, in my group, being labeled as a troublemaker. So it was this compromise that I would allow to continue to fit.

People who were senior in my group [asked me] to go with them to hotels and whatnot. I would say no, and you could feel their coldness the next day—that would often be played off as a hangover or whatnot—but it was just a chill.

An interesting story is that there was one day that there was actually a black man who made an inappropriate comment to me. I was on the train on my way to work with my gym bag, and he told me later, "You know, I saw you on the train this morning with your gym bag, and I was secretly hoping that it was an overnight bag and that you were coming from my house."

There was a woman who was an assistant like I was, but she had been one for all of her life. She had been one since she was 17 years old and she was now 60 years old, so she was sort of a Mammy figure in the workplace. She always had the BAND-AIDS and the cough drops if anyone needed them, and everyone felt like she was their mom in the workplace.

And so this woman, who didn't have great English and split a lot of her verbs, was asked by my bosses—I mean literally, there had to be two or three of my managers as a part of this conversation, they all belonged to this same country club—they asked her to call the director of membership at the country club that they all belonged to, and request membership, as a joke. It was a prank call. And she was scripted, I mean they told her to ask if they had fried chicken and collard greens on the menu, and really just send this person on the other end of the phone into a tailspin and say, "I'll come up there with my posse if you don't let me in that country club." And she did it. She made this prank call and they stood around and they were laughing.

At the same time that all of these horrible things were going on, I was recruiting; I was very active in diversity recruiting. And I would go on these trips to Spelman and to Morehouse and to Howard, and I would sell the story—the same story that was sold to me—to these young, ambitious future interns and analysts of the firm, and I was basically lying to them. But I would go and I would speak about the experience, and it was almost as if I was living off of that energy that I had had from that initial summer on Wall Street. But that was all I had, because my story was so horrible that I couldn't dare share it with them that I was pretending for them.

And that was interesting that it had come full circle that way because I realized that maybe, perhaps some of the people that they had sent down to recruit me and others were doing the same thing, were going through the same motions.

Brokerage firms are not present in diversity management seminars

Every year, for the past 10 years, I have been invited to speak at diversity events, corporate seminars, college and university events, not-for-profit fund-raisers and information symposia where information is shared and research is revealed. Last year, I spoke at more than three dozen events and meetings. To give you a sense of the scale of the number of events annually, I am paid for my speaking appearances (an average of $6,250 per appearance last year) which we donate via the DiversityInc Foundation 501c(3) to fund scholarships at Rutgers University, Bennett College for Women and New Jersey City University. My schedule is full: Our foundation donated more than $235,000 last year.

It is my direct observation that brokerage firms are noticeably absent from attending or sponsoring these events. There is no major industry, except the oil and construction industries, which is more absent.

For more than four years, I served on the steering committee of the Rainbow/PUSH Wall Street Project. I was awarded the "Bridge Builder Award" by Reverend Jessie Jackson in 2005. The mission of The Wall Street Project is to open dialogue, inform and instruct people who have been traditionally excluded from access to capital.

Despite being given initial sponsorship by Sandy Weil, former CEO of Citigroup, and Dick Grasso, former CEO of the New York Stock Exchange, The Wall Street Project did not enjoy widespread support from the brokerage community – even losing its ability to have a fund-raiser on the floor of the exchange after Dick Grasso left the exchange. From my personal observation, there was scant attendance of brokerage house executives at The Wall Street Project annual conference.

In just the past three years, DiversityInc has been asked to conduct research and/or present facts to several industry groups, including foodservice, banking, healthcare, technology, advertising, the military and cable television. Results were presented publicly. I know of no analogous program of research in the brokerage industry.

Brokerage firms are not active recruiters for diverse candidates

There is a high degree of competition for top-flight students of color. DiversityInc Top 50 Companies are very active in their recruitment efforts, advertising on job boards, advertising in media targeting diverse people, attending job fairs and most importantly, building pipelines for students to learn about career opportunities in their industries.

Proactive pipeline building is essential. Most Black and Brown students have no understanding of the brokerage industry and, therefore, could hardly be expected to seek it out on their own. Progressive companies – and industries – such as the banking, insurance and pharmaceutical industries, are very active in reaching out to mentor and fund education of economically oppressed students (which are overwhelmingly students of color).

It is my observation that the brokerage industry is practically absent from these efforts, especially in consideration of the wealth generated by a relatively few corporations.

For example, I am a board member of The PhD Project, which recruits business and finance executives to earn PhDs and become professors at business and accountancy schools. DiversityInc is a sponsor. Brokerage firm sponsorship in the PhD Project is insignificant - although business schools – and their professors – are certainly key in developing the potential talent of color to work in their firms.

Net Result of a Lack of Diversity

According to Bloomberg.com (January 17, 2007), the five largest brokerage companies, Goldman Sachs Group Inc., Morgan Stanley, Merrill Lynch & Co., Lehman Brothers Holdings Inc. and Bear Stearns Cos., distributed more than $39 billion in bonuses last year, more than any other year – and in a year in which the companies lost more than $80 Billion, the evolving sub-prime debacle and the departure of several brokerage CEOs.

Irresponsibility demonstrated by the current sub-prime fiasco is going to cost our society in a number of ways, including impact on the stock market and destruction of investor wealth. What is more damaging but less obvious, is the effect on our society of limiting access to instruments of equity trade and finance to a small slice of our total population. Blacks and Latinos continue to invest in equities proportionately less than white people. As their numbers grow, our nation's ability to generate wealth is diminished proportionally to the exclusion they experience.

Further, when instruments of macro-trade and finance are limited to a small group in our society, the ability of the rest of the population to leverage its efforts in the business arena. This has a proportionately deleterious effect on everyone, including a corresponding hobbling of tax revenue from people who were not able to reach their earning – and tax-paying – potential.

If people are created equal, then talent is distributed equally also. The closed society of the brokerage industry continues to hobble the same targets of oppression that civil rights legislation, such as the Community Reinvestment Act, had partially opened the door to opportunity.

Our nation's best interest is in having the best talent deployed to maximum effect. The beneficiaries of such extreme largess as the brokerage industry have a moral and fiduciary responsibility to our nation.

My recommendation is to start with tracking numbers. Hiring, promotion and retention numbers – in greater detail than is available in EEO-1 data – should be collected and publicly disseminated.

A counter-argument could be made by the brokerage industry that (especially) Black and Latino students are not taking the math and finance courses necessary to excel in this field. This is true, however, an industry that can distribute the equivalent of more than $200,000 in bonus per employee can certainly be counted on to be intelligent and industrious enough to fund the pipelines necessary to create the student quality necessary for future employment in the industry.

I recommend that investment – proportional to the wealth of the industry – be mandated to build pipelines of properly prepared students to be employed in the brokerage industry. The goal of these programs should be to broaden the current vestigial recruiting efforts from the limited number of students at the blue-chip Historically Black Colleges and Universities to the vastly larger pool of under prepared talent as defined by socio-economic level – with emphasis in currently underrepresented groups. It is important to mandate that this investment be made in existing organizations that already serve the populations most discriminated against by the brokerage industry: women and people of color. Left to its own devices, it is easy to foresee the industry creating its own "organizations," which could be counted on to be consistent and continue the exclusionary practices of today. Existing organizations that serve students and have an existing track record should be funded. I recommend both strategic development organizations, such as The PhD Project, and tactical student/intern mentoring organizations such as INROADS, see a dramatic increase of funding from the brokerage industry.

Finally, supplier-diversity efforts must be mandated to expand on an exponential basis. Investment capital, pension and endowment management and other sophisticated areas of the brokerage industry must be forced open to include Women and Minority Business Enterprises.

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Oversight and Investigations, Committee on Financial Services, House of Representatives

For Release on Delivery
Expected at 2:30 p.m. EST
Thursday, February 7, 2008

FINANCIAL SERVICES INDUSTRY

Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2006

Statement of Orice M. Williams, Director
Financial Markets and Community Investment

GAO

Accountability * Integrity * Reliability

GAO-08-445T

February 7, 2008

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Highlights

Highlights of GAO-08-445T, a testimony before the Subcommittee on Oversight and Investigations, Committee on Financial Services, House of Representatives

Why GAO Did This Study

As the U.S. workforce has become increasingly diverse, many private and public sector organizations have recognized the importance of recruiting and retaining minority and women candidates for key positions. However, previous congressional hearings have raised concerns about a lack of diversity at the management level in the financial services industry, which provides services that are essential to the continued growth and economic prosperity of the country.

This testimony discusses findings from a June 2006 GAO report and more recent work on diversity in the financial services industry. Specifically, GAO assesses (1) what the available data show about diversity at the management level from 1993 through 2006 and (2) steps that the industry has taken to promote workforce diversity and the challenges involved.

To address the testimony's objectives, GAO analyzed data from the Equal Employment Opportunity Commission (EEOC); reviewed select studies; and interviewed officials from financial services firms, trade organizations, and organizations that represent minority and women professionals.

To view the full product, including the scope and methodology, click on GAO-08-445T. For more information, contact Orice M. Williams at (202) 512-8678 or williamso@gao.gov.

FINANCIAL SERVICES INDUSTRY

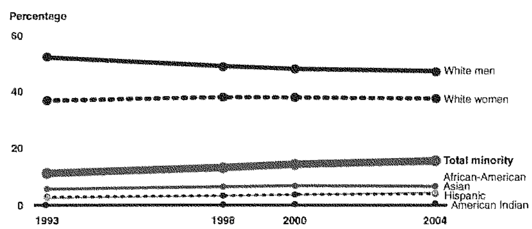
Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2006

What GAO Found

GAO's June 2006 report found that, from 1993 through 2004, overall diversity at the management level in the financial services industry did not change substantially, but some racial/ethnic minority groups experienced more change in representation than others. EEOC data show that management-level representation by minority women and men increased overall from 11.1 percent to 15.5 percent during the period (see fig. below). Specifically, African-Americans increased their representation from 5.6 percent to 6.6 percent, Asians from 2.5 percent to 4.5 percent, Hispanics from 2.8 percent to 4.0 percent, and American Indians from 0.2 percent to 0.3 percent. In preparation for this testimony, GAO collected EEOC data for 2006, which shows that diversity at the management level in the financial services industry remained about the same as it had in previous years.

Financial services firms and trade groups have initiated programs to increase workforce diversity, but these initiatives face challenges. The programs include developing scholarships and internships, partnering with groups that represent minority professionals, and linking managers' compensation with their performance in promoting a diverse workforce. Some firms have developed indicators to measure progress in achieving workforce diversity. Industry officials said that among the challenges these initiatives face are recruiting and retaining minority candidates, as well as gaining the "buy-in" of key employees, such as the middle managers who are often responsible for implementing such programs. Without a sustained commitment to overcoming these challenges, diversity at the management level may continue to remain generally unchanged over time.

Workforce Representation in the Financial Services Industry at the Management Level by Racial/Ethnic Group and Gender (1993, 1998, 2000, and 2004)



Source: GAO analysis of EEOC data.

Note: Percentages may not always add up to 100 due to rounding.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the results of our June 2006 study on diversity in the management level in the financial services industry, as well as more recent information that we have gathered on this important topic.[1] As you know, the U.S. workforce has become increasingly diverse over the last several decades. As the composition of the workforce has changed, many private and public sector organizations have recognized the importance of recruiting and retaining minority and women candidates for key positions. In a 2005 report on diversity management, we stated that workforce diversity can benefit organizations in a variety of ways, such as by allowing them to better meet the needs of a diverse customer base, reducing the costs associated with employee turnover, and increasing staff morale.[2] However, this subcommittee and others have raised concerns about workforce diversity in the financial services industry, which provides key services necessary to help ensure the continued growth and economic prosperity of the country. In hearings held by this subcommittee in 2004 and 2006, some witnesses stated that financial services firms—banks and securities firms, for example—have not made sufficient progress in recruiting and retaining minorities and women at the management level.[3]

In my testimony, I will summarize the key findings from our work, which has sought to collect, analyze, and report data and information that provide insights into diversity in the financial services industry. Specifically, I will discuss (1) what the available data show about diversity at the management level in the financial services industry from 1993 through 2006 and (2) the types of initiatives that the financial services

[1]GAO, *Financial Services Industry: Overall Trends in Management-Level Diversity and Diversity Initiatives*, 1993-2004, GAO-06-617 (Washington, D.C.: June 1, 2006). For purposes of this testimony, we focused the diversity discussion on changes in management-level representation over time by gender and racial/ethnic minority groups, including African-Americans, Asians, Hispanics, and American Indians.

[2]GAO, *Diversity Management: Expert-Identified Leading Practices and Agency Examples*, GAO-05-90 (Washington, D.C.: Jan. 14, 2005).

[3]House Committee on Financial Services, Subcommittee on Oversight and Investigations, *Diversity: The GAO Perspective*, 109th Cong., 2nd session, 2006, 109-107; and House Committee on Financial Services, Subcommittee On Oversight and Investigations, *Diversity in the Financial Services Industry and Access to Capital for Minority Owned Businesses: Challenges and Opportunities*, 108th Cong., 2nd Session, 2004, 108-101.

industry and related organizations have taken to promote workforce diversity and the challenges involved.

To prepare our June 2006 report, we used the Equal Employment Opportunity Commission's (EEOC) Employer Information Report (EEO-1) data on financial services firms with 100 or more employees for the period from 1993 through 2004.[4] The EEO-1 data provide information on racial/gender representation for various occupations, including "officials and managers," for a broad range of industries, including financial services. In updating our work in preparation for this testimony, we collected and analyzed EEO-1 data for financial services firms with 100 or more employees for 2006. We cannot conduct a direct and continuous trend analysis of changes in the representation of minorities and women at the management level in the financial services industry between 2004 and 2006 because the 2006 data is based on an updated system for classifying industries.[5] However, the 2006 EEO-1 representation data for the financial services industry can generally be compared with the EEO-1 data for 2004 and prior years. Our work has also involved reviewing reports on the state of workforce diversity and initiatives to increase the representation of minority and women in financial services firms. We have also interviewed academics and officials from a variety of financial services firms and trade and professional groups.

We performed this performance audit in Washington, D.C., in January 2008, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[4]We used the EEO-1 "officials and managers" job category as the basis for our discussion of management-level diversity within the financial services industry. EEOC defines the job category of "officials and managers" as occupations requiring administrative and managerial personnel who set broad policies, exercise overall responsibility for execution of these policies, and direct individual departments or special phases of a firm's operation.

[5]Our June 2006 report describes our approach to reporting the 1993 through 2004 EEO-1 data, which used the Standard Industry Classification System (SIC). In preparing for this testimony, EEOC said that the previous approach would not be reliable for the 2006 EEO-1 data because the SIC has become increasingly unreliable over time and has been replaced by the North American Industrial Classification System.

In brief:

From 1993 through 2006, overall workforce diversity at the management level in the financial services industry did not change substantially, but some racial/ethnic minority groups experienced more change in representation than others. As described in our June 2006 report, EEO-1 data show that overall management-level representation by minority women and men increased from 11.1 percent to 15.5 percent from 1993 through 2004. Specifically, African-Americans increased their representation from 5.6 percent to 6.6 percent, Asians from 2.5 percent to 4.5 percent, Hispanics from 2.8 percent to 4.0 percent, and American Indians from 0.2 percent to 0.3 percent. Representation by white women remained constant at slightly more than one-third during this period, while representation by white men declined from 52.2 percent to 47.2 percent. EEO-1 data also show that representation by minorities and women at the management level was about the same in 2006 as it had been in previous years.[6] For example, African-Americans and Asians represented about 6.4 percent and 5.0 percent, respectively, of all financial services managers in 2006. Moreover, the EEO-1 data show that depository institutions, such as commercial banks and insurance companies, have generally been more diverse at the management level over the years than securities firms.

Although financial services firms and trade groups have initiated programs to increase workforce diversity, these initiatives face challenges that may help explain why overall diversity at the management level has not changed substantially. Officials at financial services firms said that diversity was an important goal and that top leadership was committed to recruiting and retaining minority and women candidates. Some financial services firms have established scholarship and internship programs or partnered with groups that represent minority professionals. Officials from a few firms told us that they had begun linking managers' compensation and performance in promoting workforce diversity, and some firms had developed indicators (e.g., representation by minorities and women in key positions) to measure progress in achieving workforce diversity. Industry officials said that, among the challenges these initiatives faced were recruiting and retaining minority candidates, as well as gaining the "buy-in" of key employees, such as the middle managers who were often

[6]As mentioned previously, it is not possible to directly conduct a trend analysis due to changes in collecting and reporting EEO-1 data from the 2004 to 2006 period. However, the 2006 EEO-1 data can generally be compared with the EEO-1 data from 2004 and earlier years.

responsible for implementing such programs. Without a sustained commitment to overcoming these challenges, diversity at the management level in the financial services industry may continue to remain generally unchanged over time.

Background

We defined the financial services industry to include the following sectors:

- depository credit institutions, which include commercial banks, thrifts (savings and loan associations and savings banks), and credit unions;
- holdings and trusts, which include investment trusts, investment companies, and holding companies;
- nondepository credit institutions, which extend credit in the form of loans, and which include federally sponsored credit agencies, personal credit institutions, and mortgage bankers and brokers;
- the securities sector, which is made up of a variety of firms and organizations (e.g., broker-dealers) that bring together buyers and sellers of securities and commodities, manage investments, and offer financial advice; and
- the insurance sector, including carriers and insurance agents that provide protection against financial risks to policyholders in exchange for the payment of premiums.

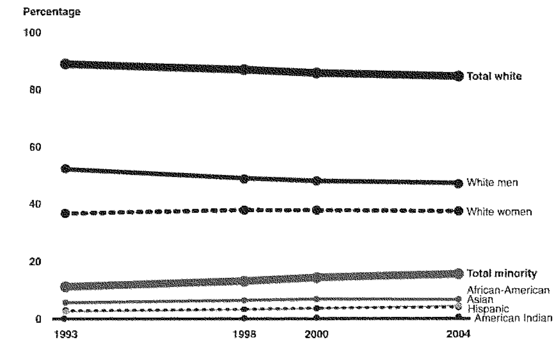
The financial services industry is a major source of employment in the United States. EEO-1 data showed that the financial services firms we reviewed for this work, which have 100 or more staff, employed nearly 3 million people in 2004. Moreover, according to the U.S. Bureau of Labor Statistics, employment in the financial services industry was expected to grow at a rate of 1.4 percent annually from 2006 through 2016.

Diversity in the Financial Services Industry at the Management Level Did Not Change Substantially

EEO-1 data for 1993 through 2006 generally do not show substantial changes in representation by minorities and women at the management level in the financial services industry, but some racial/ethnic minority groups experienced more change in representation than others. Figure 1, which is based on information that we obtained in preparation for our June 2006 report, shows that overall management-level representation by minorities increased from 11.1 percent to 15.5 percent from 1993 through 2004.[7] Specifically, African-Americans increased their representation from 5.6 percent to 6.6 percent, Asians from 2.5 percent to 4.5 percent, Hispanics from 2.8 percent to 4.0 percent, and American Indians from 0.2 to 0.3 percent. Management-level representation by white women was largely unchanged at slightly more than one-third during the period, while representation by white men declined from 52.2 percent to 47.2 percent.

[7]GAO-06-617.

Figure 1: EEO-1 Data on Trends in Workforce Diversity in the Financial Services Industry at the Management Level, by Racial/Ethnic Group and Gender (1993, 1998, 2000, and 2004)



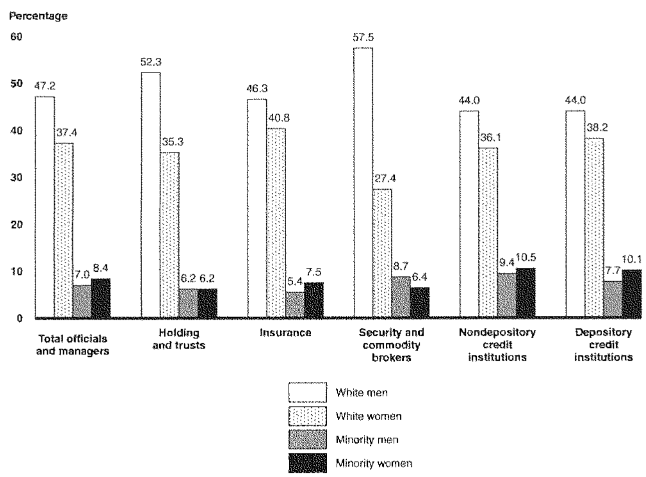
	1993	1998	2000	2004
Total white	**88.9%**	**86.9%**	**85.7%**	**84.5%**
White men	52.2	49.0	48.0	47.2
White women	36.7	37.9	37.8	37.4
Total minority	**11.1%**	**13.1%**	**14.3%**	**15.5%**
African-American	5.6	6.4	6.8	6.6
Hispanic	2.8	3.3	3.7	4.0
Asian	2.5	3.2	3.6	4.5
American Indian	.2	.2	.3	.3

Source: GAO analysis of EEOC data.

Note: Percentages may not always add to 100 due to rounding.

As shown in figure 2, EEO-1 data also show that the depository and nondepository credit sectors, as well as the insurance sector, were somewhat more diverse at the management level than the securities and holdings and trust sectors. In 2004, minorities held 19.9 percent of management-level positions in nondepository credit institutions, such as mortgage banks and brokerages, but 12.4 percent in holdings and trusts, such as investment companies.

Figure 2: EEO-1 Data on Workforce Diversity in the Financial Services Industry at the Management Level by Sector (2004)



Source: GAO analysis of EEOC data

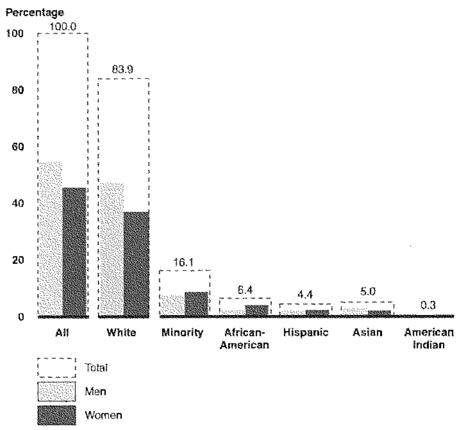
Note: Percentages may not always add to 100 due to rounding.

In preparation for this testimony, we contacted EEOC to obtain and analyze EEO-1 for 2006 and found that diversity remained about the same at the management level in the financial services industry (see fig. 3) as it had in previous years.[8] For example, the 2006 EEO-1 data show that African-Americans and Asians represented about 6.4 percent and 5.0 percent, respectively, of all financial services managers in 2006. In addition, the 2006 EEO-1 data show that commercial banks and insurance

[8]As mentioned previously, it is not possible to directly conduct a trend analysis due to changes in collecting and reporting EEO-1 data from the 2004 to 2006 period. However, the 2006 data can generally be compared with the financial services industry as a whole from 2004 and previous years.

companies continued to have higher representation by minorities and women at the management level than securities firms.

Figure 3: EEO-1 Data in Workforce Diversity in the Financial Services Industry at the Management Level by Racial/Ethnic Group and Gender (2006)



Source: GAO analysis of EEOC data.

Note: Percentages may not always add up to 100 due to rounding.

However, it is important to keep in mind that EEO-1 data may actually overstate representation levels for minorities and white women in the most senior-level positions, such as Chief Executive Officers of large investment firms or commercial banks, because the category that captures these positions—"officials and managers"—covers all management positions. Thus, this category includes lower-level positions (e.g., Assistant Manager of a small bank branch) that may have a higher representation of minorities and women. Recognizing this limitation, starting in 2007, EEOC revised its data collection form for employers to divide the "officials and managers" category into two subcategories: "executive/senior-level officers and managers" and "first/midlevel officials." We hope that the increased level of detail will provide a more accurate picture of diversity among senior managers in the financial services industry over time.

However, it is too soon to assess the impact of this change on diversity measures at the senior management level.

Initiatives to Promote Workforce Diversity in the Financial Services Industry Face Challenges

Officials from the firms that we contacted said that their top leadership was committed to implementing workforce diversity initiatives, but they noted that making such initiatives work was challenging. In particular, the officials cited ongoing difficulties in recruiting and retaining minority candidates and in gaining employees' "buy-in" for diversity initiatives, especially at the middle management level.

Financial Services Firms Have Implemented a Variety of Diversity Initiatives

Minorities' rapid growth as a percentage of the overall U.S. population, as well as increased global competition, have convinced some financial services firms that workforce diversity is a critical business strategy. Since the mid-1990s, some financial services firms have implemented a variety of initiatives designed to recruit and retain minority and women candidates to fill key positions. Officials from several banks said that they had developed scholarship and internship programs to encourage minority students to consider careers in banking. Some firms and trade organizations have also developed partnerships with groups that represent minority professionals and with local communities to recruit candidates through events such as conferences and career fairs. To help retain minorities and women, firms have established employee networks, mentoring programs, diversity training, and leadership and career development programs.

Industry studies have noted, and officials from some financial services firms we contacted confirmed, that senior managers were involved in diversity initiatives. Some of these officials also said that this level of involvement was critical to success of a program. For example, according to an official from an investment bank, the head of the firm meets with all minority and female senior executives to discuss their career development. Officials from a few commercial banks said that the banks had established diversity "councils" of senior leaders to set the vision, strategy, and direction of diversity initiatives. A 2005 industry trade group study and some officials also noted that some companies were linking managers' compensation with their progress in hiring, promoting, and retaining minority and women employees.[9]

A few firms have also developed performance indicators to measure progress in achieving diversity goals. These indicators include workforce representation, turnover, promotion of minority and women employees, and employee satisfaction survey responses. Officials from several financial services firms stated that measuring the results of diversity efforts over time was critical to the credibility of the initiatives and to justifying the investment in the resources such initiatives demanded.

Several Challenges May Have Affected the Success of Workforce Diversity Initiatives in the Financial Services Industry

While financial services firms and trade groups we contacted had launched diversity initiatives, officials from these organizations, as well as other information, suggest that several challenges may have limited the success of their efforts. These challenges include the following:

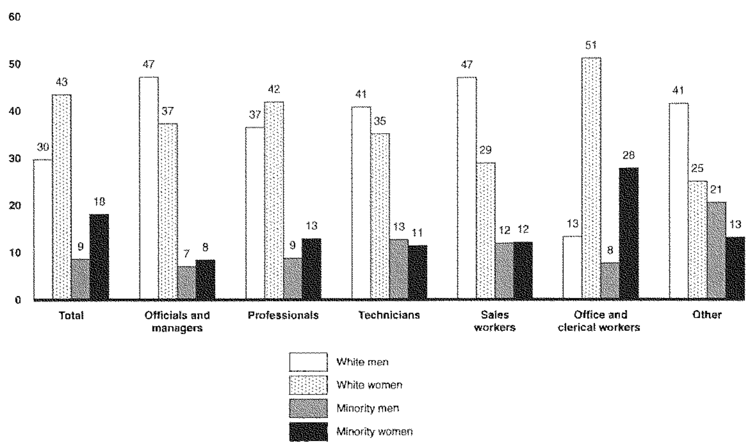
- *Recruiting minority and women candidates for management development programs.* Available data on minority students enrolled in Master of Business Administration (MBA) programs suggest that the pool of minorities, a source that may feed the "pipeline" for management-level positions within the financial services industry and other industries, is relatively small.[10] In 2000, minorities accounted for 19 percent of all students enrolled in MBA programs in accredited U.S. schools; in 2006, that student population had risen to 25 percent. Financial services firms compete for this relatively small pool not only with one another but also with firms from other industries.
- *Fully leveraging the "internal" pipeline of minority and women employees for management-level positions.* As shown in figure 4, there are job categories within the financial services industry that generally have more overall workforce diversity than the "official and managers" category, particularly among minorities. For example, minorities held 22 percent of "professional" positions in the industry in 2004 as compared

[9] See Securities Industry Association (currently renamed Securities Industry and Financial Markets Association), *2005 Report on Diversity Strategy, Development and Demographics: Executive Summary* (November 2005).

[10] Association to Advance Collegiate Schools of Business, the world's largest accreditation association for business schools, conducts an annual survey called "Business School Questionnaire" of all its accredited schools. Participation in this survey is voluntary. For the year 2006, the most recent year, 94.3 percent of the accredited schools responded to the survey.

with 15 percent of "officials and managers" positions. According to a 2006 EEOC report, the professional category represented a possible pipeline of available management-level candidates.[11] The EEOC report states that the chances of minorities and women (white and minority combined) advancing from the professional category into management-level positions is lower when compared with white males.

Figure 4: EEO-1 Data (Percentage) on Workforce Diversity in the Financial Services Industry by Position, Gender, and Racial/Ethnic Group (2004)



Source: GAO analysis of EEOC data.

Note: Percentages may not always add to 100 due to rounding.

- *Retaining minority and women candidates that are hired for key management positions.* Many industry officials said that financial services firms lack a critical mass of minority men and women, particularly in

[11] Equal Employment Opportunity Commission, *Diversity in the Finance Industry* (April 2006).

senior-level positions, to serve as role models. Without a critical mass, the officials said that minority or women employees may lack the personal connections and access to informal networks that are often necessary to navigate an organization's culture and advance their careers. For example, an official from a commercial bank we contacted said he learned from staff interviews that African-Americans believed that they were not considered for promotion as often as others partly because they were excluded from informal employee networks needed for promotion or to promote advancement.

- *Achieving the "buy-in" of key employees, such as middle managers.* Middle managers are particularly important to the success of diversity initiatives because they are often responsible for implementing key aspects of such initiatives and for explaining them to other employees. However, some financial services industry officials said that middle managers may be focused on other aspects of their responsibilities, such as meeting financial performance targets, rather than the importance of implementing the organization's diversity initiatives. Additionally, the officials said that implementing diversity initiatives represents a considerable cultural and organizational change for many middle managers and employees at all levels. An official from an investment bank told us that the bank has been reaching out to middle managers who oversaw minority and women employees by, for example, instituting an "inclusive manager program."

In closing, despite the implementation of a variety of diversity initiatives over the past 15 years, diversity at the management level in the financial services industry has not changed substantially. Further, diversity at the most senior management positions within the financial services industry may be lower than the overall industry management diversity statistics I have discussed today. While EEOC has taken steps to revise the EEO-1 data to better assess diversity within senior positions, this data may not be available for some period of time. Initiatives to promote management diversity at all levels within financial services firms appear to face several key challenges, such as recruiting and retaining candidates and achieving the "buy-in" of middle managers. Without a sustained commitment to overcome these challenges, management diversity in the financial services industry may continue to remain generally unchanged over time.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions you or other Members of the Subcommittee may have.

GAO Contact and Staff Acknowledgments

For further information about this testimony, please contact Orice M. Williams on (202) 512-8678 or at williamso@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this testimony include Wesley M. Phillips, Assistant Director; Emily Chalmers; William Chatlos; Kimberly Cutright; Simin Ho; Marc Molino; and Robert Pollard.

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Hearing Entitled "Diversity in the Financial Services Sector"
February 7, 2008, 2:30 pm
Submitted by Marilyn F. Booker, Morgan Stanley

Questions for the Record

1. You testified that commercial banks and insurance companies have a higher representation of minority management than securities firms. Why? Are there systemic barriers in securities firms and investment banks hampering minorities' advancement?

As I mentioned in my testimony, there is a major war for talent in this industry. In addition to the limited pools of potential candidates, the competition now includes private equity firms, hedge funds, technology companies and consulting firms, foundation and nonprofit organizations, among others. All of these industries, like the more diversified financial services industry, typically require a high degree of specialization; therefore, minority candidates with the best credentials and requisite skill sets are highly sought after and often receive multiple job offers. This plays out at both the campus/entry level and at the lateral/experienced level.

Adding another layer to this challenge, the number of minorities who are seeking these specialized skill sets via advanced degrees has remained stagnant over the last 5+ years. The percentage of minorities attending accredited business schools in the country is 23% (11% Asian, 6% African American, 5% Hispanic and 1% American Indian). Knowing that all of these students do not come to financial services and are spread across many industries, the percentage of minorities in the financial services industry is fairly consistent with those who have the training to apply for these jobs.

With respect to experienced hires, we often hear about the government's data on the available labor pool and how the number of minorities in those pools is higher than their representation in securities firms. It is my view that these statistics are somewhat misleading relative to securities firms because it lumps securities firms into the category of "financial services" which in turn includes a broad range of companies like credit unions, savings and loans associations, insurance companies and commercial banks, to name a few. Investment banks or securities firms with both institutional and retail businesses tend to be more specialized and typically seek more defined skill sets. Combine this with the minorities who do have the skill set but opt for other careers and the number of experienced people in this group decreases even more - this is why there are fewer experienced minorities in the labor pool than at the entry level which is why many firms put so much emphasis on campus/entry level programs. Therefore it is my belief that the challenge is the limited pool, not that there are systemic barriers in securities firms and investment banks hampering minorities' advancement.

2. What can be done to increase the pipeline of minority candidates with specialized skills necessary for success in the investment banking field?

Recruiting diverse candidates is a process that cannot be successfully managed in the same manner as general recruiting. Diversity recruiting is about relationships and trust and it takes time to build those relationships and develop that trust. Further, once diverse candidates are recruited into an organization, they are subject to attrition just as any other hires. Combine this with the fact that there are many minorities and women who, for personal reasons, just opt out of what is the unquestionable high-intensity atmosphere that in many ways defines our industry, and the pipeline decreases. That being said, there are things that firms can do to enhance the pipeline of minority candidates in investment banking. In particular:

- Start early – work with students in their final years of high school. Provide internships for them and educate them so that they can choose the right college curriculum if they are interested in financial services
- Reach out to Freshmen in college – there is still time. Educate them as well about this business and help influence the classes and professional preparation they undertake
- Provide scholarship and internship opportunities for minority college students so that they can receive first hand experience in the financial services industry prior to graduation
- Have several people speaking to recruits about the firm's commitment to diversity and meritocracy
- Make sure recruits know about the firm's support systems, mentoring and the firm's commitment to diversity
- Engage senior minorities in the process of providing support systems for those junior minorities coming through the pipeline.

3. Please explain why Morgan Stanley has not participated in the DiversityInc. annual survey and ratings on diversity.

As of 2004, there were at least 44 corporate awards[1] for diversity and women – and the list has continued to grow since then. As an organization, we predictably must be selective in choosing which awards we will apply for. When we make our decisions relative to what diversity lists we aspire to be a part of, the primary factors that we consider are the reach of the publication, its connection to our industry, its prestige and its influence in its target market. Given that we do not have infinite resources to dedicate to survey participation, we make strategic choices based on time, resources, and the factors listed above, and do participate in a diverse array of surveys. As an example, we

[1] Source: Best of the Best Corporate Awards for Diversity & Women, 2003-2004 Report

recently participated in the 2007 Securities Industry and Financial Markets Association (SIFMA, formerly SIA) survey which uses sophisticated survey protocols that are designed to focus closely on our industry and the job categories that exist within it. SIFMA has provided this Subcommittee with testimony in the past. In addition, we have also received recognition from surveys such as *Working Mother, Essence Magazine* and *Hispanic Business.*

4. What are your specific recommendations for getting middle-management buy-in to diversity initiatives? Do you advocate linking compensation to diversity efforts? Please elaborate.

Engaging management in diversity efforts (middle management included) and implementing meaningful programs and initiatives that also allow employees at-large to feel engaged is critical to success. We have all heard the expression "people don't leave a company, they leave their manager." Diversity is no different. An organization can have all the top leadership commitment there is, however, if this "commitment" is not communicated on a regular basis to the people who are responsible for the day-to-day, and if those folks do not have an opportunity to be engaged in meaningful diversity programs and initiatives, the broader efforts to have a more diverse workforce will be seriously challenged. Therefore, some of the specific recommendations that I would make are:

- Don't just talk about diversity in a vacuum. Ensure that diversity is a regular part of an organization's communication strategy
- Ensure that middle-managers are involved in diversity initiatives – create ownership of these programs with the people responsible for implementing the day-to-day
- Make sure that all employees know who is driving and supporting the diversity initiatives – write articles about their involvement and the success of the initiatives on the firm's intranet and other communication systems
- Maintain an ongoing dialogue with the managers to ensure that they are engaged and that their appreciation for the impact of the diversity initiatives permeates their teams.

Buy-in and support will follow when an organization is visible with its initiatives, communicates them broadly and demonstrates that each employee, particularly managers, has a stake in the diversity mandate.

In terms of recognition for diversity efforts, I do no advocate the use of fixed mathematical formulas to award or otherwise recognize diversity efforts (indeed, such efforts are not in my view convertible in this way). However, I think it is useful for corporations that recognize and appreciate that advancing diversity is smart business, to appropriately consider diversity efforts as part of a menu of factors in considering a contributor's overall performance and discretionary compensation.

5. Your testimony describes some of the business benefits of increasing diversity, including increase in market share and new client opportunities. Has Morgan Stanley begun to measure these business benefits in terms of increased revenues or other financial metrics?

As I mentioned in my testimony, it is not practical for our business to measure the business benefits in terms of increased revenue or other financial metrics since this is not a consumer products company where product market penetration into diverse communities can be demonstrably shown. Morgan Stanley recognizes that we are operating in a global market place. We have over 600 offices in 33 countries. We are in a service business and because we want to be a firm of choice, we need to understand the markets in which we operate – which means that we need to have people who know those markets, have diverse perspective and are from diverse backgrounds. We firmly believe that our clients value our visibly stated commitment to diversity and that, as a "world-wise" business, our focus on bringing diverse perspectives to the table will meaningfully help our clients achieve their financial aspirations.

EEOC Responses to QFRs from the Hearing, "Diversity in the Financial Services Sector"
Before the House Financial Services Subcommittee on Oversight and Investigations
Thursday, February 7, 2008

1. When do you expect to have the data compiled to enable the EEOC to measure the impact of the new "Senior/Executive" and "First/Mid-level" categories on the new EEO-1 form so that it can be accessed by the public?

We hope to finalize the data file by late spring and at that time we will be able to conduct some preliminary analyses to measure the characteristics of these new variables. Aggregate data should then be available shortly thereafter to members of the public as they request them. We also hope to have aggregates posted on our web site some time after that. The latter will require some time to allow for new formatting of our web pages.

2. If the new categories referenced in question 1 above do not yield conclusive data regarding actual management level diversity in financial services firms, will the EEOC pursue options to obtain and report this information? Please explain.

There will be two key elements in evaluating the capability of the new job categories. First is a statistical examination of the results and whether the new categories provide enough information to be useful and if the results appear to be valid and reliable. Second, we will evaluate the categories to determine whether the data proves to be useful to our enforcement staff. Based on what we discover in these areas we would take the appropriate measures to alleviate any limitation.

Questions for the Record from Chairman Melvin Watt and Answers from GAO

For Hearing, "Diversity in the Financial Services Sector," February 7, 2008

Question 1: A recent study by the Securities Industry and Financial Markets Association (SIFMA) suggest diversity decreases the more senior the level of management. Did your research indicate specific reasons why that is so?

While our research focused on diversity at the senior management level overtime, we are aware of the SIFMA's work. Anecdotally, we heard that diversity at the management level requires a diverse pipeline and our research for the 2006 report indicated a few reasons that may help shed light on why diversity tends to decrease the more senior the level of management. For example, retention was cited as an issue due in part to a lack of a critical mass of minority and women employees, especially at senior levels, to serve as role models to attract other minorities in the industry. We reported that the lack of a critical mass of role models may result in a lack of personal connections and access to informal networks that are often necessary to navigate the culture and advance their careers. Others also noted that achieving the commitment of middle managers is particularly important. (See pg. 18 to 22 of GAO's June 2006 Report, *Financial Services Industry: Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993 to 2004).*

Question 2: Do you believe the revised EEO-1 form which sub-divided the "Officials and Managers" category into "senior/executive" and "first/mid-level" categories will provide data as to the current state of management-level diversity that is sufficiently detailed to provide a true picture of diversity, or is some other measure needed? Please elaborate.

Based on our understanding of the new categories, we believe the new categories will provide a more accurate picture of management level diversity. According to the EEOC, the two new categories are "Executive/Senior Level Officials Managers" and "First/Mid Level Officials and Managers." Per the EEOC, the "Executive/Senior Level Officials and Managers" category will include individuals who plan, direct and formulate policies, set strategy and provide the overall direction in developing and delivering products or services. Examples of jobs in this category would be chief executive officers, chief operating officers, and chief financial officers. The "First/Mid Level Officials and Managers" category will include individuals who serve as officials and managers, other than those who serve as Executive/Senior Level Officials and Mangers, including those who oversee and direct the delivery of products, services. Examples would include first line managers, operations and production managers. However, until the data is collected and analyzed, we cannot determine whether some other or additional measures may be needed.

United States House Financial Services Committee – Oversight and Investigations subcommittee

Questions for the record for the hearing "Diversity in the Financial Services Sector"

Witness: Nancy Sims, President, The Robert Toigo Foundation

Question 1: You testified that a key obstacle for increasing diversity is lack of "top-to-bottom" buy-in of diversity's importance, impacting minority professionals due to lack of mentorship, poor day-to-day management and insufficiently designed diversity programs. What are your recommendations for companies to get all levels of management to embrace diversity?

Framing and raising the issues around the importance of diversity and inclusion is only the first step—the challenging work comes in finding and implementing solutions that will have a lasting and meaningful impact on the finance industry.

Toigo's ***Retention Returns*** report identifies the key issues and presents core recommendations for how finance firms can begin to treat diversity as the business imperative it is. Our research and our experience working in this arena identify a clear 'cycle of departure' that we believe many minority professionals fall into—and that, if better understood, can be avoided on the part of both employees and employers. The prevalence of this cycle within the finance industry is evidence that firms are not truly embracing diversity as a way of doing business—as part of their cultural DNA. To ensure inclusion at every level of leadership, firms cannot simply adopt isolated programs such as recruitment, which is often established as a "be all", or mentoring, often implemented without accountability or adequate training. Firms must balance success in recruiting with success in retention. In many cases the brand of a firm will draw top talent though the bigger question is about the culture and life when the top talent is on the job. While laudatory, many diversity efforts merely scratch the surface of what must be done, and too often can provide firms with a false sense that they have done enough, often to the insult of professionals of color.

The commitment to hiring and retaining diverse talent must be systemic. It must start with the CEO and board of directors and be infused as part of the culture that business units, line managers and every individual in the workforce embraces. It needs to be as prevalent and ingrained as total quality management (TQM), ISO9000 and Six Sigma have become to manufacturing companies – including having built in measurement and tracking with accountability at all levels. It requires every individual in the firm to change their thinking and embrace the fact that with greater diversity of experience, cultural differences and different thinking comes greater results. Corporations today are proving this—PepsiCo, for example, created a new line of food products based on input from their Hispanic employees and customers that were branded specifically for Hispanics, a move that was considered risky at the time as it could have undercut the company's other established brands. Today, bolstered by valuable input from its diverse workforce, these new products generate more than $100 million annually. Tremendous business returns can be realized if finance firms harness the collective power of a more diverse workforce—but first, leadership must understand that it is good for business, that there is a significant return on investment for hiring and retaining a diverse team, and also that diversity programs must be implemented for success not only for show. We know these steps work and can be successful—they are at the core of the Toigo Foundation's approach to working with finance industry firms committed to addressing inclusion and workforce diversity.

Making Diversity an Institutional Priority

To make diversity a part of the corporate culture requires a wholesale shift in the way many aspects of performance assessment and rewards compensation and bonuses are awarded. Linking retention goals and practices to a manager's compensation sends a clear message: Retaining a diverse workforce is a critical part of our firm's success, and those who contribute to the effort will be rewarded.

Toigo suggests that firms that embrace this change will gain a competitive advantage, setting them apart from rival firms for investment dollars, increasing returns on those investments, and broadening relationships. This will also help firms achieve greater job satisfaction among all employees and achieve the diversity workforce goals they map out for their businesses. The process of linking retention goals and compensation is a complex and challenging process—and is one that has drawn both champions and detractors. There are important steps that firms must implement that will help move them toward closer alignment of their business operations and a culture of inclusion. Oftentimes, organizations are focused too intently on realizing short-term results, which leads to tracking numbers (such as the total number of minorities hired this year) with limited long-term impact rather than infusing the importance of inclusion into their organizational culture and implementing meaningful, institutionalized programs with long-term vision—and results. Measuring progress and holding every level accountable are also keys to success, and two elements that any meaningful business initiative would be sure to have.

Based on our work with industry leaders and leading thinkers on the issues of diversity and inclusion, we recommend the following core elements to finance industry firms of all sizes:

- **Communicate the Vision from The Top** – The commitment to diversity and inclusion must come from the highest levels of the organization and be communicated effectively to all. Without a high level commitment coupled with institutional programs (as described below), creating a culture where differences are embraced and can thrive is simply not possible. At the same time, creating executive positions, such as a Chief Diversity Officer, or Diversity Committees are an important step. However, without a direct line of reporting or oversight from the CEO, these initiatives can easily default to a figurehead with little opportunity to be a catalyst for real, institutional change. Moreover, Diversity Committees are often comprised of senior staff which, given the lack of retention of minorities in firms, are inherently homogeneous and place diversifying a company in the hands of its non-diverse senior staff. Diversity and broad representation in the initiatives are critical to ensuring the process of diversifying the workforce and retention of top talent is successful.

- **Link Compensation to Diversity Retention Goals.** There is no more effective way to create a clear and immediate impact on ineffective managers of human capital than to link their compensation to their performance in this area. Meeting specified retention goals should be one of the key metrics for effective management—and as a result, should be linked to compensation and bonus awards. Only then will managers take steps to cultivate and keep their teams in place. Alternatively, firms might consider incorporating a component of offering the incentives to managers who excel at retention (versus recruitment) of diverse employees. This approach would eliminate the punitive aspect of tying retention to bonus/compensation packages. Any successful, strategic diversity effort has to be tied to performance evaluation and compensation, with questions like:

- Is everyone on your team mentoring?
- Are all of the people of color in your unit satisfied and moving up?
- How can your unit improve?
- What are your benchmarks?

- **Foster a Mentoring Culture.** Mentoring is fundamental to success in the finance industry and though mentoring programs are becoming more prevalent they often haven't gone far enough in answering what they are set up for, who benefits, and even how, let alone providing adequate training for 'mentors'. That said, many firms still operate with a "figure it out for yourself" approach, with managers stepping back to watching new employees either sink or swim in their first six months. What the firms often overlook is that white males, because they are automatically part of the dominant culture, typically become a part of an informal network that provides training and support. In short, they are not really figuring it out for themselves because they have been granted a sort of insider's access from the outset. Women and minorities, in contrast, are often left to figure it out on their own because they are outside of both informal formal networks and communication loops. Sadly, many do not realize, until it is too late, that they didn't quite "figure it out."

  Many firms have implemented affinity groups as support resources for minorities. These groups offer a great opportunity for peer mentoring and sharing valuable insights into the organization in which the members work. This network is still outside of the normal workings of the firm and given limited senior level minority representation this mentoring often has limited impact compared to a more formal system that would hold line mangers and other supervisors accountable for retention. Another important element is that firms can utilize these groups to maintain the pulse of the environment of inclusion and can often tap into them, as PepsiCo, to access the creative and innovative benefits of diversity and maximize their use in retention of top minority talent.

  Developing an organization that supports a culture of mentoring makes it "ok" for senior professionals to support new hires, formally and out in the open. As Dr. Lois J. Zachary writes in her book, "Creating A Mentoring Culture" (2005), this is not just the domain of large, established firms. Whether an institution is large or small, it is important to understand the wider school culture in which mentoring exists and to make sure that there is a cultural fit between it and mentoring. This fit provides the foundation for supporting its implementation and full integration into the organization. Without a fit, mentoring efforts continuously face challenges that threaten both the quality and the sustainability of mentoring programs."

- **Improve Performance Management Practices.** Performance management in the finance industry is an underutilized development tool and one that can directly impact retention. Firms should adopt more transparent review/appraisal processes that objectively measure an employee's movement or progress along a clear career path, not only to set one's salary, rather to have direct and open discussions with each individual about where they are, where they want to be, and how to get there. Though we see that the lack of clarity and transparency in how deals are assigned and how to advance to senior leadership levels impacts minority professionals more profoundly because they don't have the informal support networks in firms, performance management measures will benefit the entire workforce – both minority and non-minority – and the bottom line.

  Firms should examine their succession plans and also provide training/coaching on how to give true and honest feedback regardless of the person sitting across the table. Diversity professionals are greatly hindered in their careers because they don't receive clear feedback, positive or negative, early or directly enough. Review/appraisal discussions should incorporate at a minimum planning for skill development if not embody training in itself, focusing on the important elements to careers such as soft skills and even just knowing who the key decision-makers are and how to gain exposure to them - often critical in the title promotions decision process.

- **Operate More Creatively.** Embrace creative solutions in the spirit of fostering a workplace that attracts and retains diverse talent. One example is for firms to underwrite a minority-run enterprise within the firm, allowing aspiring minority talent and women to stay with their current employer while also pursuing an entrepreneurial business venture that leverages their experiences and creative vision. We have seen this approach used successfully by Toigo sponsor organizations and by Toigo Alums and their employers. At many firms, minority professionals with entrepreneurial drive leave their employers and pursue new career paths by launching their own minority-owned finance firm after realizing they had limited opportunities for advancement within the larger firms. While these efforts are applauded, we believe there is also an opportunity for larger finance firms to examine and consider ways to allow these talented individuals to remain with the firm and pursue a business venture that benefits both the firm and the individual.

Firms can also take a creative look at highly talented professionals who don't fit neatly into a particular job description. Many of today's leadership models recognize that identifying top talent, getting them in your organization, and then finding the right position often pays off at the end of the day. Firms should evaluate fluidity and agility in hiring, whether they take the time to cultivate talent and allow the relationship to take shape.

Firms must critically examine current practices to see what messages are being sent – to both current employees and prospective employees. This includes assessing all forms of performance communications (events, social interactions, recruitment events) and other areas that comment on a spirit of inclusion – are they real or artificial? Oftentimes diversity initiatives take a check the box approach which drains financial resources with limited long-term results. Resources are often be better allocated to training and aggressive management of initiatives, particularly staff who do not embrace mandates.

- **Develop Human Capital Management Skills.** In finance firms, business line managers are exceptionally skilled at analytical tasks and developing business, but too often, managing and developing "human capital" falls beyond their natural strengths and inclination. Appoint managers based on their track record of building a team, in addition to their track record in managing a portfolio—or consider a team approach, in which senior managers share responsibilities, with one focused on business development, the other on human capital development. All senior managers should be provided training and metrics to help them succeed in this critical area of management.

- **Foster Social Networking.** For finance professionals (and all professionals), personal networks deliver tremendous advantages—ready access to private information, the ability to tap into diverse skill sets, and power. For minority professionals, research shows that the value of mentors and networks is critical to their success and longevity with a firm. There are many ways in which professionals can build and capitalize on their networks. Firms that foster networking efforts, including the active support of affinity groups and alignment of these groups with strategic goals, will in turn boost their diversity initiatives. In some cases these networks exist in firms, though how strongly they are embraced and supported with regard to career advancement and with a spirit of inclusion is often a bigger question, one we also discuss above with regard to affinity groups.

  At Toigo, this is a core element of our programming and we have seen great success as our Fellows (students and Alumni) actively manage their network and seek contacts who will provide valuable—and sometimes differing—points of view. Just as a company relies on its board of directors for objective and expert advice in a broad range of functional areas, professionals should view and actively manage their network as a source of wisdom and insights. Alumni are encouraged to build connections with individuals with varying degrees of professional experience or years "in the field." Importantly, as each person's roles, responsibilities and perspectives change, so will their advice.

The issue of diversity and inclusion is critical for every business today—especially for those in the finance industry. With control of trillions of dollars, the U.S. financial industry is a core economic engine that influences and impacts millions of lives each days through job creation, housing, ready access to capital, retirement investments and more. The above steps are important elements to creating a successful environment of inclusion within finance firms. We continue to research these steps and are pleased to have provided additional depth to the conclusions presented in the Retention Returns survey.

Question (2): Based on Toigo's research, please explain the business benefits that derive from increased diversity.

The Toigo Foundation's research to date has not directly assessed the links between diversity and business performance. We believe our experience and related assessments make us a strong contributor to the dialogue regarding the business benefits derived from increased diversity. Fundamentally, we accept the assertion that diversity is good for business for the reasons we note below, in addition to being a social good. As a non-profit with finite resources, however, we have focused our programs and research to date on addressing the reasons diversity efforts have not been more successful and provided support for top minority talent to succeed in their finance careers.

There is limited data to support the link between a diverse workforce and increased productivity or return on investment though studies completed by Catalyst[1] show that companies with higher female presence in leadership (including at the board level) see higher shareholder returns than those that don't. Diversity, Inc. also argued in their Congressional testimony that their annual top 50 list of best diverse companies perform better than leading market indices. Outside of these two examples, however, the limited supporting data is due in part to inadequate monitoring and evaluation of programs and tracking the links of diversity participation to industry performance. It is also due to poorly designed diversity programs that fall short in supporting minorities to achieve senior levels in the finance industry (please see our response to question number one for more information). As a result, the impacts of diversity in the finance industry can be seen most clearly through anecdotal evidence as opposed to statistical data.

Based on our nearly 20 years of experience and analysis from our research, the business benefits of diversity are simple: diverse teams perform better, offering greater investment opportunities through diverse experience, diverse thinking, and stronger and broader relationships. At the same time, diverse investments enrich and empower communities and expand economic growth potential. In effect, many finance firms have overlooked or missed out on investment opportunities due to homogeneous teams and thinking. Diversity within the

[1] www.catalyst.com: "The Bottom Line: Corporate Performance and Women's Representation on Boards"(2007) and "The Bottom Line: Connecting Corporate Performance and Gender Diversity" (2004)

industry opens doors, expands opportunities, and economic and social benefits to previously untapped markets and underserved communities.

To illustrate this on a practical level, diverse representation on financial investment teams facilitates relationships, and thus deals, in our global economy. In a recent informal assessment we conducted, one smaller firm's owner/CEO commented that he would be foolish to not have a diverse staff. He clearly understood, for example, that his Asian staff working on Asian investment deals simply understood the culture and environment around the deal better and were better equipped to liaise and maintain relationships with clients. Also, it is increasingly common for investors to demand diverse representation in firms they do business with – a trend also seen in the law firm industry and also in government contracting. In the financial industry, this is best seen in the pension plan community where large institutions such as CalPERS (California Public Employees Retirement System) have dynamic diversity investment policies. Each requires, to some degree, representative diversity mirroring the diversity of their beneficiaries in both investment firms as well as in the communities in which the funds are invested – even encouraging firms to look for investments in previously underserved communities. Finance firms without diverse workforces cannot adequately respond to either of these stipulations.

We are also becoming increasingly aware of the correlations between environments of inclusion and employee satisfaction across firms. Recent studies by HR Solutions, Inc. centering on fair treatment and equity in environments of inclusion show that diversity has a direct impact on the workforce[2]. In the words of HR Solutions CEO Kevin Sheridan, "...diversity satisfaction is a key component of employee satisfaction.[3]" Though our perspective is from that of minorities in firms, the Toigo Foundation also notes this trend is particularly important with the rise of the Millennial generation – a group that has known greater diversity growing up than any previous generation and one that expects diversity in firms they will work for.

Common sense and competitiveness with diversity of workforce

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[2] www.hr.com, "Employee Engagement and Diversity Satisfaction Linkage Identified" February 8, 2006; http://www.hrsolutionsinc.com
[3] ibid.

The late Robert Toigo and Sue Toigo, Founders, began supporting diversity in the finance industry almost 20 years ago after they recognized an incredible lack of diversity while traveling the world conducting finance seminars. They noticed that their following was entirely white male, despite the ever-changing settings around them in Africa, Asia, Latin America, and Europe. They believed that a diverse group would better understand these changing cultures, the opportunities they present, and develop stronger relationships and networks – a critical element to success in finance and business. Race, gender, and culture are all tools by which you can unlock your potential with relationships – they facilitate the process by which you can build better relationships with people and, thus, business.

From an academic perspective, Scott Page, Professor of Complex Systems, Political Science and Economics at the University of Michigan, argues that the varying experience and diversity in the way people think will propel a diverse team to generally outperform a homogeneous team[4]. In many cases group diversity can be more important than individual ability "because diverse groups of people bring to organizations more and different ways of seeing a problem and, thus, faster/better ways of solving it." For business, as we said above, diversity broadens the realm of investment opportunities as well as creative solutions. "People from different backgrounds have varying ways of looking at problems, what (Page) call(s) "tools." The sum of these tools is far more powerful in organizations with diversity than in ones where everyone has gone to the same schools, been trained in the same mold and thinks in almost identical ways."

To be competitive in the diverse global marketplace firms cannot leave a portion of their team permanently 'on the bench' and risk not utilizing the key assets diversity offers. This link between logic/common sense and diversity contributes to a strong case for the business benefits of diversity.

Empowering and enriching communities expands economic opportunity

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[4] New York Times, "A Conversation With Scott E. Page: In Professor's Model, Diversity = Productivity," September 8, 2008 and "The Difference: How the Power of Diversity Creates Better Groups, Firms, Schools and Societies" (2007) Scott Page (Princeton University Press)

Another critical benefit of diversity in investments and diversity in the workforce is empowering and enriching different kinds of communities. Global decisions about money are currently being made by one group of people – this impacts how the world develops (or doesn't), in each country, in each community. In the U.S., by enriching and empowering all of our constituent groups we allow the American economy to remain vibrant and to grow. This is in the best longer-term business interest of the industry.

Linking this to a comment we made above, much of the investment capital in our country comes through pension plans. Beneficiaries of plan sponsors are increasingly aware of the investments policies of the sponsors and desire control of that capital to be more representative of themselves both in the investors and in the communities and businesses invested in. As pension plans are selecting emerging money managers those that reflect diversity see more of a responsibility to not only look internationally for investment opportunities, they will also look domestically and even in their home communities. In addition, diversity professionals often choose to live in or near their home communities thus contributing to the enrichment and empowerment of those communities.

Ultimately, the business benefits that derive from diversity are clear – greater diversity leads to increased opportunities for investment and more creative approaches to new product development, delivery, and problem solving. We see this This both with regard to opening the industry to broader investment opportunities and is also driven by clients such as the plan sponsors and their constituents.

The Robert Toigo Foundation is fully engaged in strengthening and supporting the pipeline of diverse talent to the senior leadership of the industry to accomplish these objectives. We seek to bring a richness to the process, one talented person at a time.

MAR. 9. 2005 6:28PM HON. DAVID SCOTT NO. 9893 P. 2/3

MICHAEL G. OXLEY, OH, CHAIRMAN

United States House of Representatives
Committee on Financial Services
Washington, D.C. 20515

BARNEY FRANK, MA, RANKING MEMBER

February 9, 2005

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FEB 14 2005

The Honorable David M. Walker
Comptroller General
United States Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Walker:

On July 15, 2004, the Subcommittee on Oversight and Investigations of the House Committee on Financial Services held a hearing on "diversity" in the financial services industry. During the hearing, our invited witnesses discussed the issues of racial, gender and ethnic composition within the industry as well as access to capital by diverse populations. Many interesting matters were considered, and we concluded with perhaps as many open questions as we started with. I write today to request a study of this subject, especially on the following questions:

1. Can the presence of racial, ethnic and gender diversity in the financial services industry, including professional accounting service firms, be measured? Do recent studies of these phenomena exist?

2. If so, what are the actual numbers and proportions of minority populations and women found in the industry at the management level? At senior management and board levels?

3. Within the financial services industry, how many companies have explicit outreach and recruitment programs designed to promote diversity? Of those with programs, how many have managers who report directly to the organization's chief executive officer or comparable senior management?

4. What can Congress do to improve the degree of diverse representation in the industry, and to also improve access to capital by these population groups?

The Honorable David M. Walker
Page 2

Please consult Scott Wilber or Jonathan Blackmer of the committee staff at 202-225-7502 if you have any questions related to this request. I appreciate your cooperation in this matter.

Yours truly,

Michael G. Oxley
Chairman
Committee on Financial Services

Barney Frank
Ranking Minority Member
Committee on Financial Services

Sue W. Kelly
Chairwoman
Subcommittee on Oversight
and Investigations

Luis v. Gutierrez
Ranking Minority Member
Subcommittee on Oversight
and Investigations

David Scott
Minority Member
Subcommittee on Oversight
And Investigations

United States Government Accountability Office

GAO

Report to Congressional Requesters

June 2006

FINANCIAL SERVICES INDUSTRY

Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2004

GAO

Accountability * Integrity * Reliability

GAO-06-617

GAO
Accountability·Integrity·Reliability

Highlights

Highlights of GAO-06-617, a report to congressional requesters

Why GAO Did This Study

During a hearing in 2004 on the financial services industry, congressional members and witnesses expressed concern about the industry's lack of workforce diversity, particularly in key management-level positions. Witnesses stated that financial services firms (e.g., banks and securities firms) had not made sufficient progress in recruiting and promoting minority and women candidates for management-level positions. Concerns were also raised about the ability of minority-owned businesses to raise capital (i.e., debt or equity capital).

GAO was asked to provide an overview on the status of diversity in the financial services industry. This report discusses (1) what available data show regarding diversity at the management level in the financial services industry from 1993 through 2004, (2) the types of initiatives that financial firms and related organizations have taken to promote workforce diversity and the challenges involved, and (3) the ability of minority- and women-owned businesses to obtain access to capital in financial markets and initiatives financial institutions have taken to make capital available to these businesses.

GAO makes no recommendations in this report.

www.gao.gov/cgi-bin/getrpt?GAO-06-617.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Orice M. Williams at (202) 512-5837 or williamso@gao.gov.

June 2006

FINANCIAL SERVICES INDUSTRY

Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2004

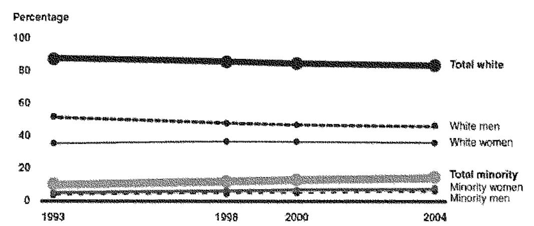
What GAO Found

Between 1993 through 2004, overall diversity at the management level in the financial services industry did not change substantially, but increases in representation varied by racial/ethnic minority group. During that period, Equal Employment Opportunity Commission (EEOC) data show that management-level representation by minority men and women increased from 11.1 percent to 15.5 percent (see figure below). Specifically, African-Americans increased their representation from 5.6 percent to 6.6 percent, Asians from 2.5 percent to 4.5 percent, Hispanics from 2.8 percent to 4.0 percent, and American Indians from 0.2 percent to 0.3 percent. The EEOC data also show that representation by white women remained constant at slightly more than one-third whereas representation by white men declined from 52.2 percent to 47.2 percent.

Financial services firms and trade groups GAO contacted stated that they have initiated programs to increase workforce diversity, including in management-level positions, but these initiatives face challenges. The programs include developing scholarships and internships, establishing programs to foster employee retention and development, and linking managers' compensation with their performance in promoting a diverse workforce. However, firm officials said that they still face challenges in recruiting and retaining minority candidates. Some officials also said that gaining employees' "buy-in" to diversity programs was a challenge, particularly among middle managers who were often responsible for implementing key aspects of such programs.

Research reports suggest that minority- and women-owned businesses have generally faced difficulties in obtaining access to capital for several reasons such as these businesses may be concentrated in service industries and lack assets to pledge as collateral. Other studies suggest that lenders may discriminate in providing credit, but assessing lending discrimination may be complicated by limited data availability. However, some financial institutions, primarily commercial banks, said that they have developed strategies to serve minority- and women-owned businesses. These strategies include marketing existing financial products specifically to minority and women business owners.

Workforce Representation in the Financial Services Industry at the Management Level (1993, 1998, 2000, and 2004)



Source: GAO analysis of EEOC data.

Contents

Figures

Abbreviations

AACSB	Association to Advance Collegiate Schools of Business
ABA	American Bankers Association
ACS	American Community Survey
AICPA	American Institute of Certified Public Accountants
CPA	certified public accountant
ECOA	Equal Credit Opportunity Act
EEO-1 data	Employer Information Report data
EEOC	Equal Employment Opportunity Commission
GMAC®	Graduate Management Admission Council®
HMDA	Home Mortgage Disclosure Act
IIABA	Independent Insurance Agents and Brokers of America
MBA	Masters of Business Administration
NAICS	North American Industry Classification System
PUMS	Public Use Microdata Sample
SBA	Small Business Administration
SBO	Survey of Business Owners
SIA	Securities Industry Association
SIC	Standard Industrial Classification

GAO
Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

June 1, 2006

The Honorable Michael G. Oxley
Chairman
The Honorable Barney Frank
Ranking Minority Member
Committee on Financial Services
House of Representatives

The Honorable Sue W. Kelly
Chairwoman
The Honorable Luis V. Gutierrez
Ranking Minority Member
Subcommittee on Oversight and Investigations
Committee on Financial Services
House of Representatives

The Honorable David Scott
House of Representatives

At a July 2004 hearing before the Subcommittee on Oversight and Investigations of the House Committee on Financial Services, some members and witnesses expressed concern about the financial services industry's lack of workforce diversity, particularly in key management-level positions.[1] Witnesses stated that financial services firms (e.g., banks and securities firms) had not made sufficient progress in recruiting minority and women candidates for management-level positions. Concerns were also raised about the ability of minority-owned businesses to raise debt and equity capital.

This report follows up on the issues raised in the subcommittee hearing and responds to your February 2005 request that we provide an overview on the status of diversity in the financial services industry. Specifically, our objectives were to discuss (1) what the available data show regarding diversity at the management level in the financial services industry from 1993 through 2004, (2) the types of initiatives that the

[1] *Diversity In the Financial Services Industry and Access to Capital for Minority Owned Businesses: Challenges and Opportunities*, Hearing Before the Subcommittee On Oversight and Investigations of the House Committee on Financial Services, 108th Cong. (2004).

financial services industry and related organizations have taken to promote workforce diversity and the challenges involved, and (3) the ability of minority- and women-owned businesses to obtain access to capital in financial markets and initiatives financial institutions have taken to make capital available to these businesses. You also asked that we include information about the accounting industry, which we address separately in this report. In an earlier report, we defined workforce diversity as ways in which people in a workforce are similar and different from one another including background, education, and language skills.[2] For the purposes of this report, we focused the diversity discussion on changes in management-level representation over time by racial/ethnic minority groups (for both women and men), including African-Americans, Asian/Pacific Islanders (Asians), Hispanics or Latinos (Hispanics), and American Indians/Alaskan Natives (American Indians). We also discussed changes in management-level representation by whites (both women and men) over time. Finally, we defined raising capital as debt or equity capital obtained in conventional financial markets, such as from commercial banks or venture capital funds.

To address objective one, we primarily analyzed the Equal Employment Opportunity Commission's (EEOC) Employer Information Report (EEO-1) data for the financial services industry for employers with 100 or more employees for the years 1993, 1998, 2000, and 2004.[3] The EEO-1 data provide information on racial/ethnic and gender representation for various occupations within a broad range of industries, including financial services. We used the EEO-1 "officials and managers" job category as the basis for our discussion of management-level diversity within the financial services industry, as well as for its various sectors, such as banking and securities firms. EEOC defines the job category of "officials and managers" as occupations requiring administrative and managerial personnel, who set broad policies, exercise overall responsibility for execution of these policies, and direct individual departments or special phases of a firm's operation. First-line supervisors who engage in the same activities as the employees they supervise are reported in the same job category as the

[2]GAO, *Diversity Management: Expert-Identified Leading Practices and Agency Examples*, GAO-05-90 (Washington, D.C.: Jan. 14, 2005).

[3]Generally, private employers with fewer than 100 employees and certain federal contractors who employ fewer than 50 employees are not required to submit EEO-1 reports to EEOC. Although the EEO-1 data do not include these smaller firms, the data do allow for the characterization of workforce diversity for firms with 100 or more employees due to EEOC's annual reporting requirement.

employees they supervise rather than in the "officials and managers" category. To address objectives two and three, we collected publicly available information and interviewed officials from a variety of financial services firms, including commercial banks, securities firms, and private equity/venture capital organizations. We also interviewed representatives from industry trade organizations, such as the American Bankers Association (ABA); the Securities Industry Association (SIA); Mortgage Bankers Association (Association); and the Independent Insurance Agents and Brokers of America (IIABA); federal agencies, including EEOC; the U.S. Department of Commerce's Minority Business Development Administration (MBDA); the Small Business Administration (SBA); and federal bank regulators; academics; and organizations that represent minority- and women-owned businesses, such as the U.S. Hispanic Chamber of Commerce and the National Association of Women Business Owners. We also reviewed available government and industry studies that address workforce diversity in the financial services industry and the ability of minority- and women-owned businesses to obtain access to capital.

We conducted our work from July 2005 to May 2006 in Washington, D.C., and New York City in accordance with generally accepted government auditing standards. Appendix I describes the objectives, scope, and methodology of our review in more detail. At your request, appendix II discusses overall statistics on workforce diversity in the financial services industry, and appendix III discusses workforce diversity in the accounting industry.

Results in Brief

From 1993 through 2004, overall diversity at the management level in the financial services industry did not change substantially, but some racial/ethnic minority groups experienced more change in representation than others. During that period, EEO-1 data show that management-level representation by minority women and men overall increased from 11.1 percent of all industry management-level positions to 15.5 percent. Specifically, African-Americans increased their management-level representation from 5.6 percent to 6.6 percent, Asians from 2.5 percent to 4.5 percent, Hispanics from 2.8 percent to 4.0 percent, and American Indians from 0.2 percent to 0.3 percent. Representation by white women remained constant at slightly more than one-third whereas representation by white men declined from 52.2 percent to 47.2 percent (overall white management-level representation declined from 88.9 percent in 1993 to 84.5 percent in 2004). Additionally, the EEO-1 data indicate that, within the financial services industry, certain sectors have a somewhat more diverse management-level workforce than others. For example, the EEO-1 data show that depository institutions, such as commercial banks, and insurance companies generally have a higher degree of representation by minorities or white women at the management level than securities firms.

Although financial services firms and trade groups have initiated programs to increase workforce diversity, including in management-level positions, these initiatives face challenges that may help explain why overall diversity at the management level did not change substantially from 1993 through 2004. According to officials from financial services firms we spoke with, diversity is an important goal, and their companies' top leadership is committed to implementing programs to recruit and retain minority and women candidates. For example, to develop a pool of minority candidates, financial services firms have established scholarship and internship programs or partnered with groups that represent minority professionals, such as the National Black Master of Business Administration Association. Additionally, officials from a few firms told us that in the last few years they have been linking managers' compensation with their performance in promoting workforce diversity. Moreover, some firms have developed performance indicators (e.g., representation by minorities and women in key positions) to measure their progress in achieving workforce diversity. However, financial services firm officials said that they still face challenges in recruiting and retaining minority candidates. Some firm officials also said that gaining employees' "buy-in" to diversity programs was a challenge, particularly among middle managers who were often responsible for implementing key aspects of such programs.

Research reports and our discussions with financial services firms and relevant trade groups suggest that minority- and women-owned businesses generally have difficulty obtaining access to capital in conventional financial markets for several reasons. A 2004 report by the MBDA stated that minority-owned businesses may have difficulty in obtaining capital because they are often concentrated in service industries and lack sufficient assets to pledge as collateral to obtain financing or because many such businesses lack an established record of creditworthiness.[4] Other studies suggest that lenders may discriminate in deciding whether to make loans to minority-owned businesses. However, assessing lending discrimination against minority- and women-owned businesses may be

[4]U.S. Department of Commerce, Minority Business Development Agency, "Expanding Financing Opportunities for Minority Businesses" (2004).

complicated by limited data availability. In particular, the Federal Reserve's Regulation B, which implements the Equal Credit Opportunity Act, prohibits financial institutions from requiring information on race and gender from applicants for nonmortage credit products.[5] Federal financial regulators and others have stated that Regulation B limits their capacity to monitor potential business lending discrimination. While minority- and women-owned businesses may have faced difficulties in obtaining capital from conventional sources over the years, some financial institutions, primarily commercial banks, said that they have developed strategies to serve minority- and women-owned businesses. These strategies include marketing financial products specifically to minority- and women-owned businesses, although it does not appear that these financial institutions actually changed their general underwriting standards for such businesses. In addition, some financial institutions have established programs to provide technical assistance (e.g., assistance in developing business plans) to minority-owned and women-owned businesses so that these firms are better positioned to obtain capital from conventional sources.

This report does not contain recommendations. We requested comments on a draft of this report from the Chair, U.S. Equal Employment Opportunity Commission (EEOC). EEOC provided technical comments, which we incorporated as appropriate. We also obtained comments from officials at selected industry trade associations, federal agencies, and organizations that examine access to capital issues on selected excerpts of a draft of this report. We have incorporated their comments as appropriate.

Background

This section provides brief descriptions of the financial services industry and its component sectors, the changing demographic characteristics of the United States, and diversity management.

Overview of the Financial Services Industry

The financial services industry plays a key role in the U.S. economy by, among other things, providing vehicles, such as insured deposits,

[5]The Equal Credit Opportunity Act (ECOA), 15 U.S.C. §§ 1691-1691f, makes it unlawful for a creditor to discriminate against an applicant in any aspect of a credit transaction on the basis of the applicant's national origin, religion, sex, color, race, age (provided the applicant has the capacity to contract). Racial and gender information can be collected in two very limited circumstances, neither of which results in publicly available data regarding the race/ethnicity or gender of the bank's nonmortgage credit applicants.

providing credit to individuals and businesses, and providing protection against certain financial risks. We defined the financial services industry to include the following sectors:

- depository credit institutions, which is the largest sector, include commercial banks, thrifts (savings and loan associations and savings banks), and credit unions;
- holdings and trusts, which include investment trusts, investment companies, and holding companies;
- nondepository credit institutions, which extend credit in the form of loans, but are not engaged in deposit banking, include federally sponsored credit agencies, personal credit institutions, and mortgage bankers and brokers;
- the securities industry, which is made up of a variety of firms and organizations (e.g., broker-dealers) that bring together buyers and sellers of securities and commodities, manage investments, and offer financial advice; and
- the insurance industry, including carriers and insurance agents, which provides protection against financial risks to policyholders in exchange for the payment of premiums.

Additionally, the financial services industry is a major source of employment in the United States. The financial services firms we reviewed for this study, which have 100 or more staff, employed nearly 3 million people in 2004, according to the EEO-1 data. According to the U.S. Bureau of Labor Statistics, employment growth in management and professional positions in the financial services industry was expected to grow at a rate of 1.2 percent annually through 2012.

Changing U.S. Demographic Characteristics and Definition of Diversity Management

According to the U.S. Census Bureau, the U.S. population is becoming more diverse by race and ethnicity.[6] In 2001, Census projected that the non-Hispanic, white share of the U.S. population would fall from 75.7 percent in 1990 to 52.5 percent in 2050, with a similar increase from the minority population during the same period. Census further projected that the largest increases would be in the Hispanic and Asian populations. According to the Census Bureau's *2004 American Community Survey*

[6]See U.S. Census Bureau, *National Population Projections* (January 2001).

results, Hispanics are now the second largest racial/ethic group after whites.[7] The rapid growth of minorities in the Unites States may also influence its economic activities. For example, according to Census, the number of firms owned by minorities and women continues to grow faster than the number of other firms. In particular, a recent Census report based on data from the *2002 Economic Census* stated that, between 1997 and 2002, Hispanics in the United States opened new businesses at a rate three times faster than the national average.[8]

As we stated in a 2005 report, the composition of the U.S. workforce has become increasingly diverse, and many organizations are implementing diversity management initiatives.[9] Diversity management is a process intended to create and maintain a positive work environment that values individuals' similarities and differences, so that all can reach their potential and maximize their contributions to an organization's strategic goals and objectives. On the basis of a literature review and discussions with experts, we identified nine leading diversity management principles: (1) top leadership commitment, (2) diversity as part of an organization's strategic plan, (3) diversity linked to performance, (4) measurement, (5) accountability, (6) succession planning, (7) recruitment, (8) employee involvement, and (9) diversity training.

Diversity in the Financial Services Industry At the Management Level Did Not Change Substantially

EEO-1 data indicate that overall diversity among officials and managers within the financial services industry did not change substantially from 1993 through 2004, but that changes by racial/ethnic group varied. The EEO-1 data also show that certain financial sectors, such as depositories, including commercial banks, are somewhat more diverse at the management level than others, including securities firms. Additionally, EEO-1 data do not show material differences in management-level diversity based on the size of individual firms within the financial services industry.

[7]U.S. Census Bureau, *American Community Survey* (2004).

[8]U.S. Census Bureau, *Survey of Business Owners: Hispanic-Owned Firms: 2002* (March 2006).

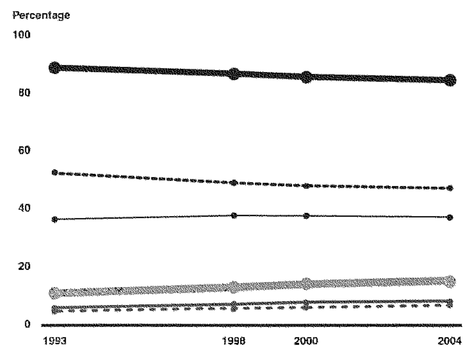
[9]GAO-05-90.

Overview of Management-Level Diversity

Figure 1 shows the representation of minorities and whites at the management level within the financial services industry in 1993, 1998, 2000, and 2004 from EEO-1 data.[10] Management-level representation by minorities increased from 11.1 percent to 15.5 percent during the period, while representation by whites declined correspondingly from 88.9 percent to 84.5 percent. Management-level representation by white men declined from 52.2 percent to 47.2 percent during the period while the percentage of management positions held by white women was largely unchanged at slightly more than one-third.

[10]Our review did not attempt to define appropriate benchmarks for assessing the extent of management level diversity within the financial services industry and, instead, focused on changes in representation over time. While some analyses compare minority or gender representation in job categories or industries with general population statistics, such studies have limitations. For example, such analyses do not account for the educational attainment, age, or experience requirements, among many others, that may be necessary for particular positions, including management-level positions within the financial services industry. Further, we did not identify a feasible means to comprehensively adjust available population or labor force data based on the qualification requirements (e.g., education and experience) for management-level positions in the financial services industry due to the large number of such positions and their related qualification requirements. Such adjustments would have to be made to determine the relevant civilian labor force against which to assess the management-level diversity with the financial services industry. However, the report does discuss some potential management requirements, such as holding a Masters of Business Administration degree.

Figure 1: EEO-1 Data on Trends in Workforce Diversity in the Financial Services Industry at the Management Level (1993, 1998, 2000, and 2004)



	1993	1998	2000	2004
Total white	**88.9%**	**86.9%**	**85.7%**	**84.5%**
White men	52.2	49.0	48.0	47.2
White women	36.7	37.9	37.8	37.4
Total minority	**11.1%**	**13.1%**	**14.3%**	**15.5%**
Minority men	4.9	5.8	6.3	7.0
Minority women	6.2	7.3	8.0	8.4

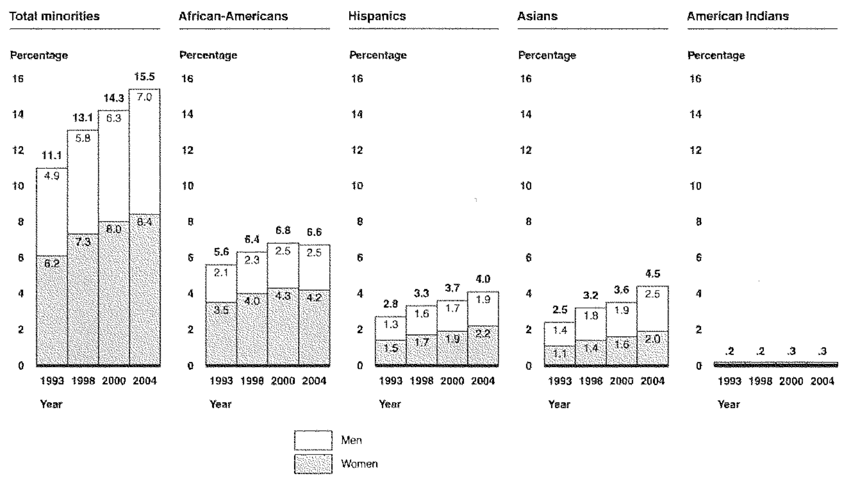
Source: GAO analysis of EEOC data.

Note: Percentages may not always add to 100 due to rounding.

Existing EEO-1 data may actually overstate representation levels for minorities and white women in the most senior-level positions because the "officials and managers" category includes lower- and mid-level management positions that may have higher representations of minorities and white women. According to an EEOC official we spoke with, examples for "officials and managers" would range from the Chief Executive Officer from a major investment bank to an Assistant Branch Manager of a small regional bank. A revised EEO-1 form for employers that becomes effective with the 2007 reporting year divides the category of "officials and managers" into two hierarchical sub-categories based on responsibility and influence within the organization: "executive/senior level officials and managers" and "first/mid-level officials." According to a trade association that commented on the revised EEO-1 form, collecting information about officials and managers in this manner will enable EEO-1 to more accurately report on the discriminatory artificial barriers (the "glass ceiling") that hinder the advancement of minorities and white women to more senior-level positions.

Figure 2 provides EEO-1 data for individual minority groups and illustrates their trends in representation at the management level, which varied by group. African-American representation increased from 5.6 percent in 1993 to 6.8 percent in 2000 but declined to 6.6 percent in 2004. Representation by Hispanics and Asians also increased, with both groups representing 4 percent or more of industry officers and managers by 2004. Representation by American Indians remained well under 1 percent of all management-level positions.

Figure 2: EEO-1 Data on Trends in Workforce Diversity in the Financial Services Industry at the Management Level by Racial/Ethnic Group and Gender (1993, 1998, 2000, and 2004)



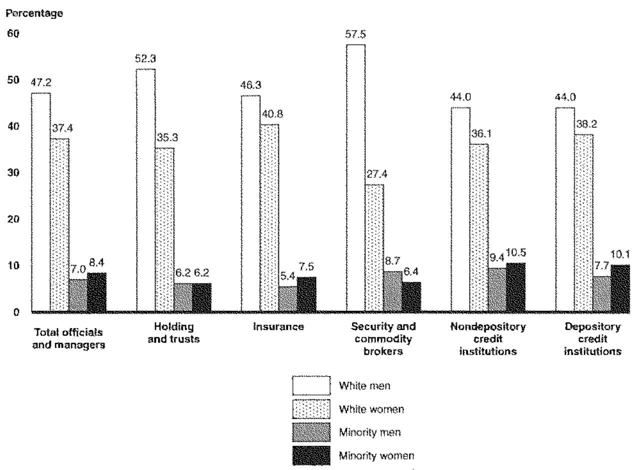
Source: GAO analysis of EEOC data.

Note: Percentages may not always add exactly due to rounding.

Certain Financial Sectors Are Somewhat More Diverse Than Others, but Diversity Does Not Vary by Firm Size

EEO-1 data show that the depository and nondepository credit sectors, as well as the insurance sector, were somewhat more diverse in specific categories at the management level than the securities and holdings and trust sectors (see fig. 3). For example, in 2004, the percentage of management-level positions held by minorities ranged from a high of 19.9 percent for nondepository credit institutions (e.g., mortgage bankers and brokers) to a low of 12.4 percent for holdings and trusts (e.g., investment companies). The share of positions held by white women varied from a high of 40.8 percent in the insurance sector to a low of 27.4 percent among securities firms. The percentage of white men in management-level positions ranged from a high of 57.5 percent in the securities sector to a low of 44.0 percent in both the depository (e.g., commercial banks) and nondepository credit sectors. Consistent with the EEOC data, a 2005 SIA study we reviewed found limited diversity among key positions in the securities sector.[11]

Figure 3: EEO-1 Data on Workforce Diversity in the Financial Services Industry at the Management Level by Sector (2004)



Source: GAO analysis of EEOC data

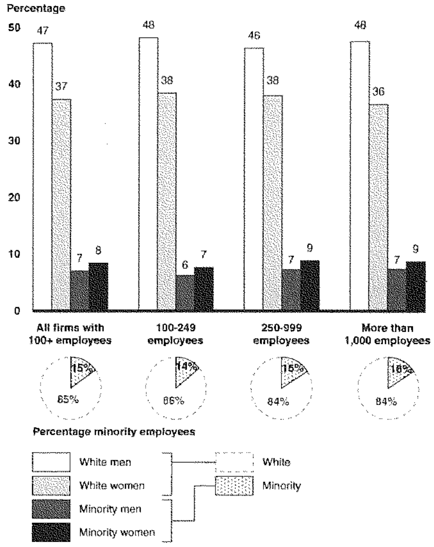
Note: Percentages may not always add to 100 due to rounding.

EEO-1 data also show that the representation of minorities and whites at the management level in financial services firms generally does not vary by firm size (see fig. 4). Specifically, we did not find a material difference in the diversity of those in management-level positions among firms with 100 to 249 employees, 250 to 999 employees, and more than 1,000 employees.

[11]See Securities Industry Association, *2005 Report on Diversity Strategy, Development and Demographics: Executive Summary* (November 2005). The study also found that total representation of minorities and women increased between 2001 and 2005.

There were some variations across financial sectors by size.[12] However, we note that SIA's 2005 study of securities firms did find variation in diversity by firm size for a variety of positions within the securities sector.[13]

Figure 4: EEO-1 Data on Workforce Diversity in the Financial Services Industry at the Management Level by Firm Size (2004)



Source: GAO analysis of EEOC data.

Note: Percentages may not always add exactly due to rounding.

[12] For example, for the holdings and trust sector, the share of positions held by white women are higher in firms with more than 1,000 employees than smaller firms.

[13] SIA (2005). Unlike our analysis, the study of 48 securities firms included positions such as assistants, analysts and associates, mid-level positions, senior-level positions, retail brokers, and institutional sales staff.

Initiatives to Promote Workforce Diversity in the Financial Services Industry Face Challenges

Officials from financial services firms and industry trade associations we contacted stated that the rapid growth of minorities as a percentage of the overall U.S. population and increased global competition have convinced their organizations that workforce diversity is a critical business strategy. Financial firm officials we spoke with said that their top leadership was committed to implementing a variety of workforce diversity programs to help enable their organizations to take advantage of the full range of available talent to fill critical positions and to maintain their firms' competitive position. However, officials from financial services firms and trade associations also described the challenges they faced in implementing these initiatives, such as ongoing difficulties in recruiting and retaining minority candidates and in gaining commitment from employees to support diversity initiatives, especially at the middle management level.

Financial Services Firms Have Implemented a Variety of Diversity Initiatives

Over the past decade, the financial services firms we contacted have implemented a variety of initiatives to increase workforce diversity, including programs designed to recruit and retain minority and women candidates to fill key positions. Some bank officials said that they had developed scholarship and internship programs to encourage minority high school and college students to consider careers in banking with the goal of increasing the diversity of future applicant pools. Some firms have established formal relationships with colleges and Masters of Business Administration (MBA) programs to recruit minority students from these institutions. Some firms and trade organizations have also developed partnerships with groups that represent minority professionals, such as the National Black MBA Association and the National Society of Hispanic MBAs, as well as with local communities to recruit candidates, using events such as conferences and career fairs. Officials from other firms said that the goal of partnerships was to build long-term relationships with professional associations and communities and to increase the visibility of financial services firms among potential employees.

Officials from financial services firms also said that they had developed programs to foster the retention and professional growth of minority and women employees. Specifically, these firms have

- encouraged the establishment of employee networks. For example, a commercial bank official told us that, since 2003, the company had established 22 different employee networks that enabled employees from various backgrounds to meet each other, share ideas, and create informal mentoring opportunities.

- established mentoring programs. For example, an official from another commercial bank told us that the company had a Web-based program that allowed employees of all backgrounds to connect with one another and to find potential mentors.

- instituted diversity training programs. Officials from financial services firms said that these training programs increase employees' sensitivity to and awareness of workforce diversity issues and helped staff deal effectively with colleagues from different backgrounds. One commercial bank we contacted requires its managers to take a 3- to 5-day training course on dealing with a diverse workforce. The training stressed the concept of workforce diversity and provided a forum in which employees spoke about their differences through role-playing modules. The bank has also developed a diversity tool kit and certification program as part of the training.

- established leadership and career development programs. For example, an official from an investment bank told us that the head of the firm would meet with every minority and woman senior executive to discuss his or her career development. For lower-level individuals, the investment bank official said that the organization had created a career development committee to serve as a forum for discussions on career advancement.

Officials from some financial services firms we contacted as well as industry studies noted that that financial services firms' senior managers were involved in diversity initiatives. For example, SIA's 2005 study on workforce diversity in the securities industry found that almost half of the 48 securities firms surveyed had full-time senior managers dedicated to diversity initiatives. According to a report from an executive membership organization, an investment bank had developed a program that involved lower-level employees from diverse backgrounds, along with their senior managers, to develop diversity initiatives. Moreover, officials from a few commercial banks that we interviewed said that the banks had established diversity "councils" of senior leaders to set the vision, strategy, and direction of diversity initiatives. The 2005 SIA study and a few of the firm officials we spoke with also suggested that some companies have instituted programs that link managers' compensation with progress made toward promoting workforce diversity. Officials from one investment bank said that managers of each business unit reported directly to the company's Chief Executive Officer who determined their bonuses in part based on the unit's progress in hiring, promoting, and retaining minority and women employees.

According to some officials from financial services firms, their firms have also developed performance indicators to measure progress in achieving diversity goals. These indicators include workforce representation, turnover, promotion of minority and women employees, and internal employee satisfaction survey responses. An official from a commercial bank said that the company monitored the number of job openings, the number of minority and women candidates who applied for each position, the number of such candidates who interviewed for open positions, and the number hired. In addition, a few officials from financial services firms told us that they had developed additional indicators such as promotion rates for minorities and whites and compensation equity across ranks for minorities and whites. Officials from several financial services firms stated that measuring the results of diversity efforts over time was critical to the credibility of the initiatives and to justifying the investments in the resources such initiatives demanded.

Several Financial Services Trade Organizations Have Promoted Workforce Diversity

Financial services trade organizations from the securities, commercial banking, and insurance sectors that we contacted have been involved in promoting workforce diversity. The following are some examples:

- In 1996 SIA formed a "diversity committee" of senior-level executives from the securities industry to assist SIA's member firms in developing their diversity initiatives and in their efforts to market to diverse customers. This committee has begun a number of initiatives, such as developing diversity management tool kits, conducting industry demographic and diversity management research, and holding conferences. SIA's diversity tool kit provides step-by-step guidelines on establishing diversity initiatives, including identifying ways to recruit and retain diverse candidates, overcoming challenges, measuring the results of diversity initiatives, and creating strategies for transforming a firm's culture. In addition, since 1999 SIA has been conducting an industry-wide diversity survey every 2 years to help its members measure their progress toward increasing workforce diversity. The survey includes aggregated data that measure the number of minority and women employees in the securities industry at various job levels and a profile of securities industry activities designed to increase workforce diversity. In 2005, SIA held its first diversity and human resources conference, which was designed so that human resources and senior-level managers could share best practices and current strategies and trends in human resource management and diversity.

- The American Bankers Association collaborated with the Department of Labor's Office of Federal Contract Compliance Programs in 1997 to identify key issues that banks should consider in recruiting and hiring employees in order to create fair and equal employment opportunities. The issues include managing the application process and selecting candidates in a way that ensures the equal and consistent treatment of all job applications.

- The Independent Insurance Agents and Brokers of America (IIABA) established the IIABA Diversity Task Force in 2002 to promote diversity within the insurance agent community. The task force is charged with fostering a profitable independent agency force that reflects, represents, and capitalizes on the opportunities of the diverse U.S. population. Among its activities, the diversity task force is developing a database of minority insurance agents and minority-owned insurance agencies as a way to help insurance carriers seeking to expand their business with a diverse agent base and potentially reach out to urban areas and underserved markets. According to IIABA, the task force has just completed a tool kit for IIABA state associations, volunteer leadership, and staff. This step-by-step guide advises state associations on how to recruit and retain a diverse membership through their governance, products, service offerings, and association activities. In addition, IIABA participates in a program to educate high school and community college students on careers in insurance, financial services, and risk management and encourages students to pursue careers in the insurance industry.

- The Mortgage Bankers Association (Association) has established plans and programs to increase the diversity of its own leadership, as well as to promote diversity within the Association's member firms in 2005. The Association plans to increase diversity within its leadership ranks by 30 percent by September 2007 and has asked member firms to recommend potential candidates. To help member firms expand the pool of qualified diverse employees in the real estate finance industry, the Association has instituted a scholarship program called "Path to Diversity," which awards between 20 and 30 scholarships per year to minority employees and interns from member firms. Recipients can take courses at CampusMBA, the Association's training center for real estate finance, in order to further their professional growth and development in the mortgage industry.

Several Challenges May Have Affected the Success of Initiatives Designed to Increase Workforce Diversity in the Financial Services Industry

Although financial services firms and trade organizations we contacted have launched diversity initiatives, they cited a variety of challenges that may have limited their success. First, the officials said that the industry faces ongoing challenges in recruiting minority and women candidates even though firms may have established scholarship and internship programs and partnered with professional organizations. According to officials responsible for promoting workforce diversity from several firms, the industry lacks a critical mass of minority and women employees, especially at the senior levels, to serve as role models to attract other minorities to the industry. Officials from an investment bank and a commercial bank also told us that the supply (or "pipeline") of minority and women candidates in line for senior or management-level positions was limited in some geographic areas and that recruiting a diverse talent pool takes time and effort. Officials from an investment bank said that their firm typically required a high degree of specialization in finance for key positions. An official from another investment bank noted that minority candidates with these skills were very much in demand and usually receive multiple job offers.

Available data on minorities enrolled in and graduated from MBA programs provide some support for the contention that there is a limited external pool that could feed the "pipeline" for some management-level positions within the financial services industry, as well as other industries. According to the Department of Labor, many top executives from all industries, including the financial services industry, have a bachelor's degree or higher in business administration. MBA degrees are also typically required for many management development programs, according to an official from a commercial bank and an official from a foundation that provides scholarships to minority MBA students. We obtained data from the Association to Advance Collegiate Schools of Business (AACSB) on the percentage of students enrolled in MBA degree programs in accredited AACSB schools in the United States from year 2000 to 2004.[14] As shown in table 1, minorities accounted for 19 percent of all students enrolled in accredited MBA programs in 2000 and 23 percent in 2004. African-American and Hispanic enrollment in MBA programs was generally stable during that period, and both groups accounted for 6 and 5 percent of enrollment, respectively, in 2004. Asian representation

[14] AACSB, the world's largest accreditation association for business schools, conducts an annual survey called "Business School Questionnaire" of all its accredited schools. Participation in this survey is voluntary. For the year 2004, the most recent year, 92.7 percent of the accredited schools responded to the survey.

increased from 9 percent in 2000 to 11 percent in 2004. Other data indicate that MBA degrees awarded may be lower than the MBA enrollment data reported by AACSB. For example, Graduate Management Admission Council® (GMAC®) data indicate that minorities in its survey sample accounted for 16 percent of MBA graduates in 2004 versus 23 percent minority enrollment during the same year as reported by AACSB.[15] Because financial services firms compete with one another, as well as with companies from other industries to recruit minority MBA graduates, their capacity to increase diversity at the management level may be limited.

Table 1: AACSB Demographic Data of Students Reported Enrolled in MBA Degree Programs at AACSB Accredited Business Schools in the United States by Racial/Ethnic Group (2000-2004)

		Minority				
Year	**White**	**African-American**	**Hispanic**	**Asian**	**American Indian**	**Total minority**
2000	81%	5%	5%	9%	[a]	**19%**
2001	80	6	5	10	[a]	**20**
2002	80	5	5	10	[a]	**20**
2003	78	6	5	11	[a]	**22**
2004	77%	6%	5%	11%	1%	**23%**

Source: GAO analysis of AACSB data.

Note: Percentages may not always add exactly due to rounding.

[a]Less than 1 percent.

Other evidence suggests that the financial services industry may not be fully leveraging its "internal" pipeline of minority and women employees for management-level positions. As shown in figure 5, there are job categories within the financial services industry that generally have more overall workforce diversity than the "officials and managers" category, particularly among minorities. For example, minorities held 22 percent of professional positions as compared with 15 percent of "officials and managers" positions in 2004. See appendix II for more information on the specific number of employees within other job categories, as well as more specific breakouts of various minority groups by sector.

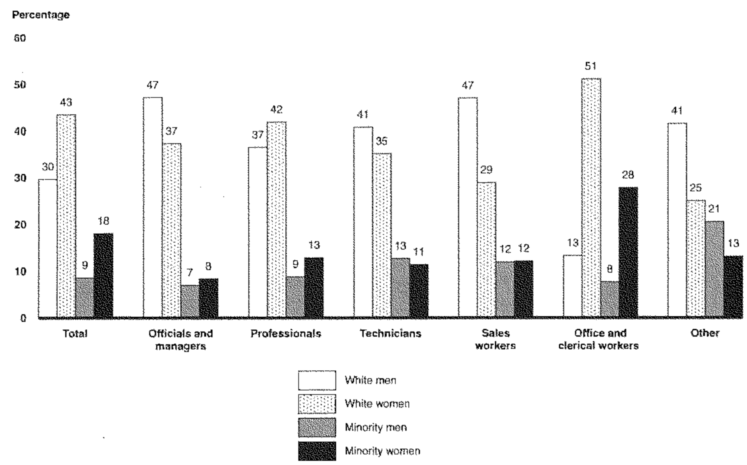
[15]GMAC® has been conducting its "Global MBA Graduate Survey" since 2000. To obtain the demographic data for 2004, GMAC® mailed out 18,504 surveys to graduating MBA students with a response rate of 34 percent.

According to a recent EEOC report, which used 2003 EEO-1 data, the professional category represented a likely pipeline of internal candidates for management-level positions within the industry.[16] Compared with white males, the EEOC study found that the chances of minorities and women (white and minority combined) advancing from the professional category into management-level positions were low. The study also found that the chances of Asians (women and men) advancing into management-level positions from the professional category were particularly low. Although EEOC said there are limitations to its analysis, the agency suggests that the findings could be used as a preliminary screening device designed to detect potential disparities in management-level opportunities for minorities and women.[17]

[16]See EEOC, *Diversity in the Finance Industry* (April 2006). In the study, EEOC analyzed the 2003 EEO-1 data by an analytical technique referred to as odds-ratio analysis to assess the potential chances of minorities and women becoming managers as compared with white men. The analysis assumes the pipeline for "officials and managers" job category generally consists of professionals. However, the study also included "sales workers" as a potential pool of managers in some analyses because in the securities sector, stock brokers might become managers, according to EEOC.

[17]For example, EEOC said that the EEO-1 data do not show how many employees are promoted from one job group to another over time, and so promotion data are not available. Rather, the EEO-1 survey collects information on the number of employees in various job categories at a given point in time. In the absence of promotion data, EEOC views the analysis as a screening tool to identify potential disparities.

Figure 5: EEO-1 Data (Percentage) on Workforce Diversity in the Financial Services Industry by Position, Racial/Ethnic Group, and Gender (2004)



Source: GAO analysis of EEOC data.

Note: Percentages may not always add to 100 due to rounding.

Following are descriptions of the job categories in EEO-1 data from EEOC: (1) "officials and managers": occupations requiring administrative and management personnel who set broad policies, exercise overall responsibility for execution of these policies, and direct individual departments or special phases of a firm's operations; (2) "professionals": occupations requiring either college graduation or experience of such kind and amount as to provide a comparable background; (3) "technicians": occupations requiring a combination of basic scientific knowledge and manual skill that can be obtained through 2 years of post high school education; (4) "sales workers": occupations engaging wholly or primarily in direct selling; (5) "office and clerical": includes all clerical-type work regardless of level of difficulty, where the activities are predominantly nonmanual; and (6) the category "other" includes craft workers, operatives, laborers, and service workers.

Many officials from financial services firms, industry trade groups, and associations that represent minority professionals agreed that retaining minority and women employees represented one of the biggest challenges to promoting workforce diversity. The officials said that one reason minority and women employees may leave their positions after a short period is that the industry, as described previously, lacks a critical mass of minority women and men, particularly in senior-level positions, to serve as role models. Without a critical mass, the officials said that minority or women employees may lack the personal connections and access to informal networks that are often necessary to navigate an organization's culture and advance their careers. For example, an official from a commercial bank we contacted said he learned from staff interviews that African-Americans believed that they were not considered for promotion as often as others partly because they were excluded from informal employee networks.

While firms may have instituted programs to involve managers in diversity initiatives, some industry officials said that achieving commitment, or "buy-in," can still pose challenges. Other officials said that achieving the commitment of middle managers is particularly important because these managers are often responsible for implementing key aspects of the diversity initiatives, as well as explaining them to their staffs. However, the officials said that middle managers may be focused on other aspects of their responsibilities, such as meeting financial performance targets, rather than the importance of implementing the organization's diversity initiatives. Additionally, the officials said that implementing diversity initiatives represents a considerable cultural and organizational change for many middle managers and employees at all levels. An official from an investment bank told us that the bank has been reaching out to middle managers who oversee minority and woman employees by, for example, instituting an "inclusive manager program." According to the official, the program helps managers examine subtle inequities and different managerial and working styles that may affect their relationships with minority and women employees.

Minority- and Women-Owned Businesses Often Face Difficulties in Obtaining Capital, but Some Financial Services Firms Have Developed Strategies to Assist Them

Studies and reports, as well as interviews we conducted, suggest that minority- and women-owned businesses have faced challenges obtaining capital (primarily bank credit) in conventional financial markets for several business reasons, such as the concentration of these businesses in the service sector and relative lack of a credit history.[18] Other studies suggest that lenders may discriminate, particularly against minority-owned businesses. However, assessing lending discrimination against minority-owned businesses may be complicated by limited data availability. Available research also suggests that factors, including business characteristics, introduce challenges for both minority- and women-owned businesses in obtaining access to equity capital.[19] However, some financial institutions, primarily commercial banks, have recently developed strategies to market their loan products to minority- and women-owned businesses or are offering technical assistance to them.

Research Suggests That Business Characteristics May Affect Minority- and Women-Owned Businesses' Access to Commercial Loans

Reports issued by the MBDA, SBA, and academic researchers, as well as interviews we conducted with commercial banks, minority-owned banks, and trade groups representing minority- and women-owned businesses suggest that minority- and women-owned businesses may face challenges in obtaining commercial bank credit.[20] The reports and interviews typically cite several business characteristics shared by both minority-owned firms and, in most cases, women-owned firms that may compromise their ability to obtain bank credit as follows:

- First, recent MBDA reports found that many minority-owned businesses in the United States are concentrated in retail and service industries, which

[18]A minority-owned business is defined by Census as a business in which a minority owns 51 percent or more of the stock or equity in the business. A woman-owned business is defined by Census as a business in which a woman owns 51 percent or more of the stock or equity in the business.

[19]Equity capital can be raised from several sources including venture capital funds, private stock sales, or issuing stock in public financial markets.

[20]It should be noted that all small businesses may face challenges in obtaining credit due to the risks and costs involved in such lending. See Board of Governors of the Federal Reserve System, *Report to the Congress on the Availability of Credit to Small Businesses* (September 2002).

have relatively low average annual capital expenditures for equipment.[21] Low capital expenditures are an attractive feature for start-up businesses, but with limited assets to pledge as collateral against loans, these businesses often have difficulty obtaining financing. According to the U.S. Census Bureau's *2002 Survey of Business Owners*, approximately 61 percent of minority-owned businesses and approximately 55 percent of women-owned firms operate in the service sectors as compared to about 52 percent of all U.S. firms.[22]

- Second, the Census Bureau's *2002 Survey of Business Owners* indicated that many minority- and women-owned businesses were start-ups or relatively new and, therefore, might not have a history of sound financial performance to present when applying for credit. Some officials from a private research organization and a trade group official we contacted said that banks are reluctant to lend to start-up businesses because of the costs involved in assessing the prospects for such businesses and in monitoring their performance over time.
- Third, the relatively small size and lack of technical experience of some minority-owned businesses may affect their ability to obtain bank credit.[23] For example, an MDBA report stated that minority businesses often need extensive mentoring and technical assistance such as help developing business plans in addition to financing.[24]

[21]U.S. Department of Commerce, Minority Business Development Agency, *Expanding Financing Opportunities for Minority Businesses* (2004). U.S. Department of Commerce, Minority Business Development Agency, *Keys to Minority Entrepreneurial Success, Capital, Education, and Technology* (September 2002). U.S. Department of Commerce, Minority Business Development Agency, *State of Minority Business Enterprises: A Preliminary Overview of the 2002 Survey of Business Owners* (September 2005).

[22]U.S. Department of Commerce, Minority Business Development Agency, *State of Minority Business Enterprises: A Preliminary Overview of the 2002 Survey of Business Owners* (September 2005). U. S. Census Bureau, "2002 Survey of Business Owners, Women-Owned Firms" (Jan. 26, 2006).

[23]U.S. Department of Commerce, Minority Business Development Agency, *Keys to Minority Entrepreneurial Success, Capital, Education, and Technology* (September 2002). U.S. Small Business Administration, Office of Advocacy, *Financing Patterns of Small Firms: Findings from the 1998 Survey of Small Business Finance* (September 2003).

[24]U.S. Department of Commerce, Minority Business Development Agency, *Expanding Financing Opportunities for Minority Businesses* (2004).

Other Studies Suggest That Discrimination May Limit Minority-Owned Businesses' Ability to Obtain Commercial Loans

Several other studies suggest that discrimination may also be a reason that minority-owned businesses face challenges obtaining commercial loans. For example, a 2005 SBA report on the small business economy summarized previous studies by researchers reporting on lending discrimination.[25] These previous studies found that minority-owned businesses had a higher probability of having their loans denied and would likely pay higher interest rates than white-owned businesses, even after controlling for differences in creditworthiness and other factors.[26] For example, a study found that given comparable loan applications—by African-American and Hispanic-owned firms and white-owned firms—the applications by the African-American and Hispanic-owned firms were more likely to be denied.[27] Another study found that minorities had higher denial rates even after controlling for personal net worth and homeownership.[28] The SBA report concludes that lending discrimination is likely to discourage would-be minority entrepreneurs and reduce the longevity of minority-owned businesses.

Another 2005 report issued by SBA also found that minority-owned businesses face some restrictions in access to credit.[29] This study investigated possible restricted access to credit for minority- and women-owned businesses by focusing on two types of credit—"relationship loans" (lines of credit) and "transaction loans" (commercial mortgages, equipment loans, and other loans) from commercial banks and nonbanks,

[25]U.S. Small Business Administration, *The Small Business Economy* (Washington, D.C.: 2005).

[26]Blanchard, Lloyd, John Yinger, and Bo Zhao (2005), "Do Credit Market Barriers Exist for Minority and Women Entrepreneurs?" Syracuse University, Center for Policy Research Working Paper No. 74. Blanchflower, David G, P. Levine, and D. Zimmerman (1998). "Discrimination in the Small Business Credit Market", National Bureau of Economic Research. Cavalluzzo, Ken and John Wolken (2002). "Small Business Loan Turndowns, Personal Wealth and Discrimination. Georgetown University." Coleman, Susan (2002). "Characteristics and Borrowing Behavior of Small, Women-Owned Firms: Evidence from the 1998 National Survey of Small Business Finances." University of Hartford.

[27]Blanchard, Lloyd, John Yinger, and Bo Zhao (2005), "Do Credit Market Barriers Exist for Minority and Women Entrepreneurs?" Syracuse University, Center for Policy Research Working Paper No. 74.

[28]Cavalluzzo, Ken and John Wolken (2002). "Small Business Loan Turndowns, Personal Wealth and Discrimination." Georgetown University.

[29]U.S. Small Business Administration (2005). *Availability of Financing to Small Firms Using the Survey of Small Business Finances*. A report for the U.S. Small Bnsiness Administration, Washington, D.C.

such as finance companies.[30] The researchers found that minority business owners were more likely to have transaction loans from nonbanks and less likely to have bank loans of any kind. The researchers also found that African-American and Hispanic business owners have a greater probability of having either type of loan denied than white male owners.[31] The researchers did not find evidence suggesting that women or Asian business owners faced loan denial probabilities different from those of firms led by white, male-owned firms.

Although studies have found potential lender discrimination against minority-owned businesses, assessing such discrimination may be complicated by limited data availability. The Federal Reserve's Regulation B, which implements the Equal Credit Opportunity Act, prohibits financial institutions from requiring information on race and gender from applicants for nonmortgage credit products.[32] Although the regulation was implemented to prevent the information from being used to discriminate against underserved groups, some federal financial regulators have stated that removing the prohibition would allow them to better monitor and enforce laws prohibiting discrimination in lending. We note that under the Home Mortgage Disclosure Act (HMDA), lenders are required to collect and report data on racial and gender characteristics of applicants for mortgage loans. Researchers have used HMDA data to assess potential mortgage lending discrimination by financial institutions. In contrast, the studies we reviewed on lending discrimination against minority and small business tend to rely on surveys of small businesses by the Federal Reserve or the Census rather than on lending data obtained directly from financial institutions.

Many Minority- and Women-Owned Businesses May Also Face Difficulties Raising Equity Capital

According to available research, many minority- and women-owned businesses face challenges in raising equity capital—such as, from venture capital firms. For example, one study estimated that only $2 billion of the $95 billion available in the private equity market in 1999 was managed by companies that focused on supplying capital to entrepreneurs from

[30]Relationship loans are defined as a commitment by the lender to a pre-set maximum amount of credit over a certain time period. Transaction loans are injections of cash made after loan approval and used to acquire tangible assets that can serve as loan collateral.

[31]See Small Business Administration (2005).

[32]The Equal Credit Opportunity Act (ECOA), 15 U.S.C. §§ 1691-1691f.

traditionally underserved markets, such as minority-owned businesses.[33] Moreover, according to a study by a private research organization, in 2003 only 4 percent of women-owned businesses with $1 million or more in revenue had been funded through private equity capital as compared with 11 percent of male-owned businesses with revenues of $1 million or more.[34]

According to studies and reports by private research organizations, some of the same types of business characteristics that may affect the ability of many minority- and women-owned businesses to obtain bank credit also limit their capacity to raise equity capital.[35] For example, industry reports and industry representatives that we contacted state that venture capitalists place a high priority on the management and technical skills companies; whereas some minority-owned businesses may lack a proven track record of such expertise.

Although venture capital firms may not have traditionally invested in minority-owned businesses, a recent study suggests that firms that do focus on such entities can earn rates of return comparable to those earned on mainstream private equity investments.[36] This study, funded by a private foundation, found that venture capital funds that specialize in investing in minority-owned businesses were relatively profitable compared with a private equity performance index. According to the study, the venture capital funds that specialized in minority-owned businesses invested in a more diverse portfolio of businesses than the typical venture capital fund, which typically focuses on high-tech companies. The study found that investing in broad portfolios helped mitigate the losses associated with the downturn in the high-tech sector for firms that focused on minority-owned businesses.

[33]Milken Institute, *The Minority Business Challenge: Democratizing Capital for Emerging Domestic Markets* (September 2000).

[34]Center for Women's Business Research, *Access to Capital: Where We've Been, Where We're Going* (March 2005).

[35]Center for Women's Business Research, *Access to Capital: Where We've Been, Where We're Going* (March 2005). Brush, C. G.; Carter, N.; Gatewood, E.; Greene P. G.; and Hart, M. M. *Gatekeepers of Venture Growth: A Diana Project Report on the Role and Participation of Women in the Venture Capital Industry* (Oct. 20, 2001).

[36]Bates, Timothy and William Bradford (2003). "Minorities and Venture Capital, A New Wave in American Business." Kauffman Foundation.

Some Commercial Banks Have Developed Programs for Minority- and Women-Owned Businesses

While minority- and women-owned businesses may have traditionally faced challenges in obtaining capital, as noted earlier, Census data indicate that such businesses are forming rapidly. Officials from some financial institutions we contacted, primarily large commercial banks, told us that they are reaching out to minority- and women-owned businesses.

Some commercial banks are marketing their financial products to minority- and women-owned businesses by, for example, printing financial services brochures in various languages and assigning senior executives with diverse backgrounds to serve as the spokespersons for the institutions efforts to reach out to targeted groups (e.g., a bank may designate an Asian executive as the point person for Asian communities). However, officials at a bank and a trade organization told us that the loan products marketed to minority- and women-owned businesses did not differ from those marketed to other businesses and that underwriting standards had not changed.

Bank officials also said that their companies had established partnerships with trade and community organizations for minorities and women to reach out to their businesses. Partnering allows the banks to locate minority- and women-owned businesses and gather information about specific groups of business owners. Bank officials said that such partnerships had been an effective means of increasing their business with these target groups.

Finally, officials from some banks said that they educate potential business clients by providing technical assistance through financial workshops and seminars on various issues such as developing business plans and obtaining commercial bank loans. Other bank officials said that their staffs work with individual minority- or women-owned businesses to provide technical assistance.

Officials from banks with strategies to market to minority- and women-owned businesses said that they faced some challenges in implementing such programs. Many of the bank officials told us that it was time-consuming to train their staff to reach out to minority- and women-owned businesses and provide technical assistance to these potential business customers. In addition, an official from a bank said that Regulation B limited the bank's ability to measure the success of its outreach efforts. The official said that because of Regulation B the bank could only estimate the success of its efforts using estimates of the number of loans it made to minority- and women-owned businesses.

Agency Comments and Our Evaluation

We requested comments on a draft of this report from the Chair, U.S. Equal Employment Opportunity Commission (EEOC). We received technical comments from EEOC and incorporated their comments into this report as appropriate.

We also requested comments on selected excerpts of a draft of this report from 12 industry trade associations, federal agencies, and organizations that examine access to capital issues. We received technical comments from 4 of the 12 associations, agencies, and organizations and incorporated their comments into this report as appropriate. The remaining eight either informed us that they had "no comments" or did not respond to our request.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to the Senate Committee on Banking, Housing, and Urban Affairs. We also will send copies to the Chair of EEOC, the Administrator of SBA, and the Secretary of the Department of Commerce, among others, and will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at 202-512-8678 or at williamso@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff that made major contributions to this report are listed in appendix IV.

Orice M. Williams
Director, Financial Markets and
Community Investment

Appendix I: Objectives, Scope, and Methodology

The objectives of our report were to discuss (1) what the available data show regarding diversity at the management level in the financial services industry, from 1993 through 2004; (2) the types of initiatives that the financial services industry and related organizations have taken to promote workforce diversity and the challenges involved; and (3) the ability of minority and women-owned businesses to obtain access to capital in financial markets and initiatives financial institutions have recently taken to make capital available to these businesses.

To address objective one, we requested Employer Information Reports (EEO-1) data from the Equal Employment Opportunities Commission (EEOC) for the financial services industry. The EEO-1 data, which is reported annually generally by firms with 100 or more employees, provides information on race/ethnicity and gender for various occupations, within various industries, including financial services.[1] We used the racial/ethnic groups specified by EEOC; whites, not of Hispanic origin (whites); Asians or Pacific Islanders (Asians); Blacks, not of Hispanic origin (African-Americans); Hispanics or Latinos (Hispanics); and American Indians or Alaskan Natives (American Indians) for our analysis. The EEO-1 occupations are officials and managers, professional, technicians, sales workers, clerical workers, and others. The other category includes laborers, craft workers, operatives, and service workers. We defined the financial services industry to include the following five sectors: depository credit institutions (including commercial banks), holdings and trusts (including investment companies), non-depository credit institutions (such as mortgage bankers), securities firms, and insurance (carriers and agents). We also requested and analyzed EEO-1 data for the accounting industry.

We chose to use the EEO-1 database because it is was designed to provide information on representation by a variety of groups within a range of occupations and industries, covered many employers, and had been collected in a standardized fashion for many years. Although the EEO-1 data generally do not capture information from small businesses with less than 100 employees, we believe, due to their annual mandatory reporting, they allow us to characterize the financial services industry of firms with 100 or more employees. We also corroborated the EEO-1 data with other available studies, particularly a 2005 study by the Securities Industry

[1]Federal contractors with 50 or more employees are also required to report EEO-1 data. However, we did not include these firms in our analysis. See 29 C.F.R. Part 1602, Subpart B.

Association on diversity within the securities sector.[2] We did consider other sources of data besides EEO-1, but chose not to use them for a variety of reasons including their being more limited or less current.[3]

We requested and analyzed the EEO-1 data, focusing on the "officials and managers" category, for the years 1993, 1998, 2000, and 2004 for financial services firms having 100 or more employees. We compared that data from the selected years to determine how the composition of management-level staff had changed since 1993. We also analyzed the data based on the number of employees in the firm or firm size. The four firm size categories we used were 100 or more employees, 100-249 employees, 250-999 employees, and 1,000 or more employees. We also requested EEO-1 data for the accounting industry for 2004, and therefore did not perform a trend analysis. The scope of our work did not include developing appropriate benchmarks to assess the extent of workforce diversity within the financial services industry.

EEOC collects EEO-1 data from companies in a manner that allowed us to specify our data request and analysis by financial sector (e.g., commercial banking or securities). EEOC assigns each firm a code based on its primary activity (referred to as the North American Industry Classification System [NAICS] or the Standard Industrial Classification [SIC]). For example, a commercial bank will have a specific code denoting commercial banking, whereas a securities firm would have its own securities code. In addition, EEOC assigns codes to companies and their subsidiaries based on their primary line of business. For example, a commercial bank with an insurance subsidiary would have a separate code for that subsidiary. By requesting the EEO-1 data by the relevant codes, we were able to separate the different financial services businesses within a firm and then aggregate the data by sector. Although the NAICS

[2] See Securities Industry Association, *2005 Report on Diversity Strategy, Development and Demographics: Executive Summary* (November 2005).

[3] We considered using data from Census' Current Population Survey (CPS), Public Use Microdata Sample (PUMS), Special EEO Tabulation File, and the American Community Survey (ACS). The CPS is reported by individuals and includes smaller employers, and the PUMS is reported by households; however due to small sample sizes, reliable estimates to specific minority groups could not be derived. The Special EEO Tabulation File's most recent data are based on the 2000 census and thus were more dated than other data sources. The ACS only has data since 2002 and therefore did not allow us to show shifts over a large span of time.

replaced the SIC in 1997, EEOC staff are to assign both codes to each firm that existed prior to 2002 to ensure consistency.[4]

We conducted a limited analysis to assess the reliability of the EEO-1 data. To do so, we interviewed EEOC officials regarding how the data are collected and verified as well as to identify potential data limitations. EEOC has conducted a series of data reliability analyses for EEO-1 data to verify the consistency of the data over time. For example, EEOC reviewed the 2003 EEO-1 data for its report on diversity in the financial services industry.[5] As part of this review, EEOC deleted 81 of the 13,000 establishments because the data for the deleted establishments were not consistent year to year. The EEOC staff do not verify the EEO-1 data, which are self-reported by firms, but they do review the trends of the data submitted. For example, EEOC staff look for major fluctuations in job classifications within an industry. On the basis of this analysis, we concluded that the EEO-1 data are sufficiently reliable for our purposes.

To address objective two, we interviewed a range of financial services firms, including commercial banks and securities firms. We also interviewed representatives from a large accounting firm to discuss workforce diversity in the accounting industry. We chose these firms for a variety of reasons including whether they have ever received public recognition of their diversity programs or on the basis of recommendations from industry officials. We also interviewed representatives from industry trade organizations such as the American Bankers Association, the Securities Industry Association, the Independent Insurance Agents and Brokers of America, the American Institute of Certified Public Accountants, and Catalyst, which is a private research firm. We reviewed the trade organizations' available studies and reports to document the state of diversity within the different sectors of the financial services industry. In addition, we reviewed publicly available data on firms' programs by searching their Web sites. We also interviewed representatives of federal agencies such as the Bureau of Labor Statistics of the Department of Labor, the Minority Business Development Agency of the Department of Commerce, the Small Business Administration, and federal bank regulators. Additionally, we collected and analyzed demographic data on enrollment in accredited Masters of Business

[4]EEOC implemented the NAICS in 2002.

[5]Equal Employment Opportunity Commission, *Diversity in the Finance Industry* (April 2006).

Administration (MBA) programs from Association to Advance Collegiate Schools of Business and MBA graduation data from the Graduate Management Admissions Council®.

To address objective three, we reviewed 20 available studies and reports from federal agencies, such as the Small Business Administration and the Minority Business Development Agency, and academic studies on the ability of minority- and women-owned businesses to access credit. We also interviewed officials from banks, investment firms and private equity/venture capital firms to discuss their initiatives to provide capital to minority- and women-owned businesses.[6] Moreover, we interviewed officials from organizations that represent minority- and women-owned businesses such as the U.S. Hispanic Chamber of Commerce, the Pan Asian American Chamber of Commerce, National Black Chamber of Commerce, and the National Association of Women Business Owners. In addition, we interviewed officials from organizations that examine access to capital issues, such as the Milken Institute and the Kauffman Foundation.

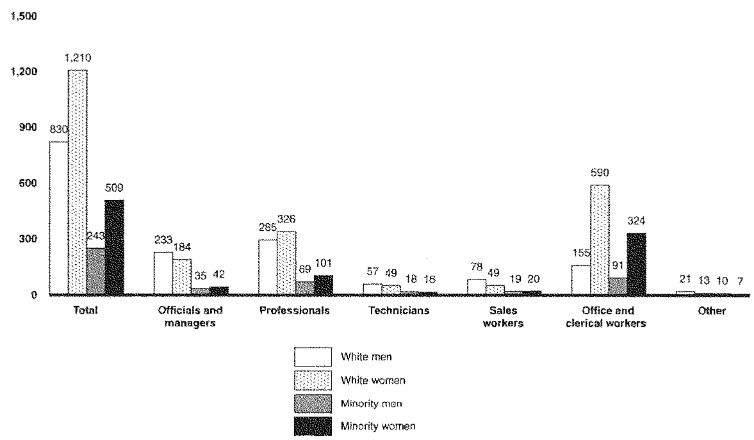
We conducted our work from July 2005 to May 2006 in Washington, D.C., and New York City and in accordance with generally accepted government auditing standards.

[6]Banks included national, community, minority-owned banks, and one women-owned bank. We also selected the firms based on our interviews with organizations that represent minority- and women-owned businesses. We were seeking firms that may have initiatives to assist minority- and women-owned businesses in obtaining capital.

Appendix II: Overall Statistics on Workforce Diversity in the Financial Services Industry

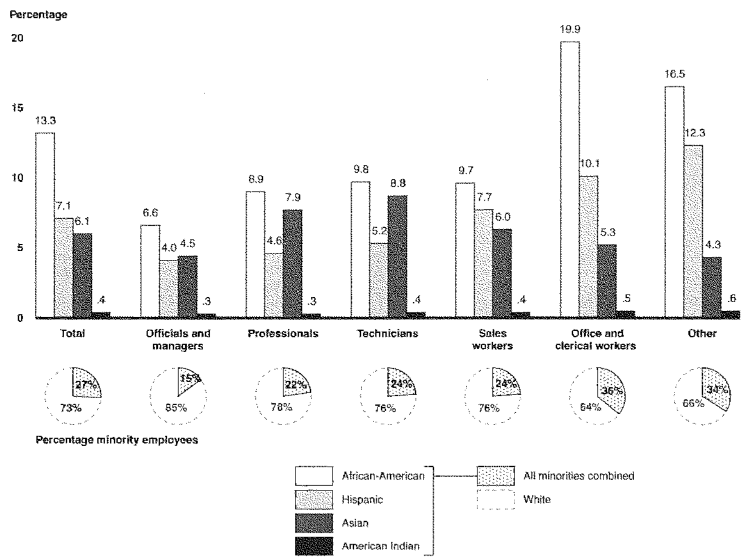
This appendix provides Employer Information Report (EEO-1) data on the number of employees within the financial services industry by position (see fig. 6) and more specific breakouts of the various racial/ethnic groups by position (see fig. 7).

Figure 6: EEO-1 Data (Number of Employees) on Workforce Diversity in the Financial Services Industry by Position, Racial/Ethnic Group, and Gender (2004)



Source: GAO analysis of EEOC data.

Figure 7: EEO-1 Data on Workforce Diversity in the Financial Services Industry by Position and Racial/Ethnic Group (2004)



Source: GAO analysis of EEOC data.

Note: Percentages may not always add exactly due to rounding.

Appendix III: Diversity in Key Positions in the Accounting Industry

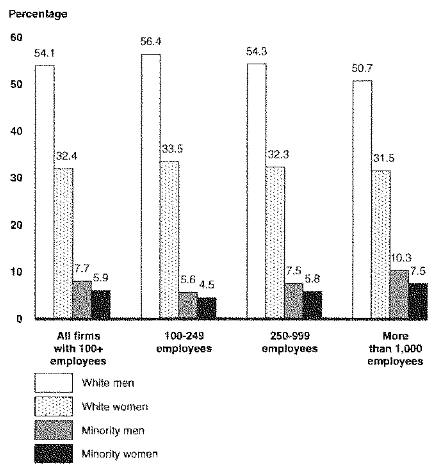
This appendix discusses workforce diversity of management-level positions in the accounting industry for 2004 as depicted by Employer Information Report (EEO-1) data. Additionally, it describes the findings of a report by the American Institute of Certified Public Accountants (AICPA) that assessed diversity within the accounting industry in a broad range of positions. Finally, the appendix summarizes efforts by AICPA and a large accounting firm to increase diversity in key positions.

Minorities Account for 14 Percent of Management-Level Positions in the Accounting Industry

According to the 2004 EEO-1 data, minorities held 13.5 percent (5.9 percent for minority women and 7.7 percent for minority men) of all "officials and managers" positions, white women held 32.4 percent while white men held 54.1 percent of all official and manager positions in the accounting industry (see fig. 8).[1] Contrary to the financial services sector where diversity among firms generally did not vary by firm size, EEO-1 data also show that larger accounting firms are in general more diverse than smaller firms. For example, minorities accounted for 17.8 percent of all officials and managers in accounting firms with 1,000 or more employees. For firms with 100 to 249 employees, minority representation for officials and managers accounted for 10.1 percent.

[1] Percentages may not always add exactly due to rounding.

Figure 8: EEO-1 Data on Workforce Diversity in the Accounting Industry at the Management Level by Firm Size, Gender, and Racial/Ethnic Group, and Gender (2004)

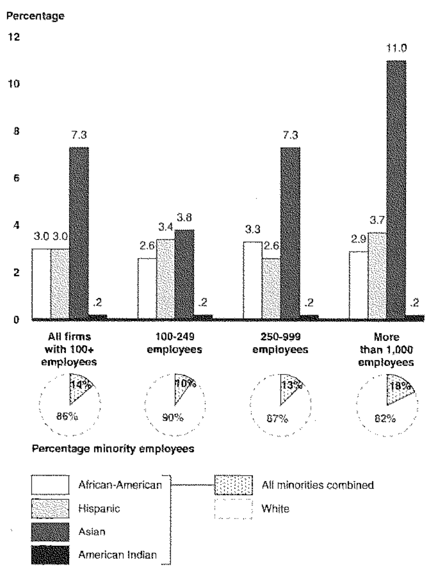


Source: GAO analysis of EEOC data.

Note: Percentages may not always add to 100 due to rounding.

Within the minority category in the accounting industry, EEO-1 2004 data show that Asians held 7.3 percent of all management-level positions, which is more than the representation of African-Americans (3.0 percent) and Hispanics (3.0 percent) combined (see fig. 9).

Figure 9: EEO-1 Data on Workforce Diversity in the Accounting Industry at the Management Level by Firm Size and Racial/Ethnic Group (2004)



Source: GAO analysis of EEOC data.

Note: Percentages may not always add exactly due to rounding.

AICPA Study Identified a Lack of Diversity in the Accounting Industry

AICPA's 2005 demographic study showed that, in 2004, minorities represented 10 percent of all professional staff, 8 percent of all certified public accountants (CPA), and 5 percent of all partners/owners employed by CPA firms.[2] Correspondingly, the representation of whites among

[2]AICPA, *The Supply of Accounting Graduates And the Demand for Public Accounting Recruits – 2005 For Academic Year 2003-2004* (2005). AICPA surveyed 5,821 certified public accounting firms, and 1,423 responded.

professional staff, CPAs, and the partner/owner level at accounting firms were all at 89 percent or above (see table 2).[3] In addition, consistent to the 2004 EEO-1 data for the accounting industry, the AICPA study found that the largest CPA firms were, in general, the most ethnically and racially diverse (see table 3).[4]

Table 2: Workforce Representation at the Professional, CPA and Partner/Owner Levels by Racial/Ethnic Group (2005)

Gender and racial/ethnic group	Professional staff	CPA	Partner/owner
Minority	10%	8%	5%
African-American	2	1	1
Hispanic	3	3	2
Asian/Pacific Islander	5	4	2
American Indian	[a]	[a]	[a]
White	89	92	95
Other	1%	[a]	[a]

Source: GAO analysis of AICPA data.

Note: Percentages may not always add to 100 due to rounding. AICPA data are from The Supply of Accounting Graduates and the Demand for Public Accounting Recruits (2005).

[a]Less than 1 percent.

[3]AICPA's study did not report representation levels of whites and minorities by gender.

[4]The largest firms are defined as those with more than 200 members.

Table 3: Workforce Representation at the Professional Level by Racial/Ethnic Group and Firm Size

Gender and racial/ethnic group	More than 200 employees	50-200 employees	10-49 employees	Fewer than 10 employees	All CPA firms
Minority	18%	8%	8%	10%	10%
• African-American	3	2	2	2	2
• Hispanic	4	2	3	4	3
• Asian/Pacific Islander	11	4	3	4	5
• American Indian	[a]	[a]	[a]	[a]	[a]
• Other	[a]	1	[a]	1	1
White	82	91	92	89	89
Other	[a]	1%	[a]	1%	1%

Source: GAO analysis of AICPA data.

Note: Percentages may not always add to 100 due to rounding. AICPA data is from *The Supply of Accounting Graduates and the Demand for Public Accounting Recruits* (2005).

[a]Less than 1 percent.

According to officials from AICPA and a large accounting firm we spoke with, one reason for the lack of diversity in key positions in the industry is that relatively few racial/ethnic minorities take the CPA exam and thus relatively few minorities are CPAs. According to the 2004 congressional testimony of an accounting professor, passing the CPA exam is critical for achieving senior management-level positions in the accounting industry.[5]

Efforts to Enhance Accounting Industry Diversity

According to officials we spoke with from AICPA and an accounting firm, similar to the financial services industry, the accounting industry had also initiated programs to promote the diversity of its workforce. An official from the large accounting firm we spoke with told us that his firm's top management is committed to workforce diversity and has implemented a minority leadership development program, which ensures that minorities and women become eligible for and are recommended for progressively

[5]*Diversity in the Financial Services Industry and Access to Capital for Minority Owned Businesses: Challenges and Opportunities*, Hearing before the Subcommittee On Oversight and Investigations of the House Committee on Financial Services, 108th Cong (2004).

more senior positions. As part of the commitment to workforce diversity, the firm also has a mentoring program, which pairs current partners with senior management-level minority and women staff to help them achieve partnership status. In addition, the firm also requires middle- and high-level managers to undergo diversity training to encourage an open dialogue around racial-ethnic and gender issues. An AICPA official said the organization formed a minority initiatives committee to promote workforce diversity with a number of initiatives to increase the number of minority accounting degree holders, such as scholarships for minority accounting students and accounting faculty development programs. AICPA also formed partnerships with several national minority accounting organizations such as the National Association of Black Accountants and the Association of Latino Professionals in Finance and Accounting to develop new programs to foster diversity within the workplace and the community.

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Orice M. Williams (202) 512-8678

Staff Acknowledgments

In addition to the individual named above, Wesley M. Phillips, Assistant Director; Emily Chalmers; William Chatlos; Kimberly Cutright; Simin Ho; Marc Molino; Robert Pollard; LaSonya Roberts; and Bethany Widick made key contributions to this report.

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The DiversityInc Top 50 Companies for Diversity list has evolved significantly since it began in 2001, as has the field of diversity management. In addition, the number of competitors has increased more than 300 percent in the last three years. Therefore, it is impossible to compare companies that made the list in the early years to companies now on the list since the criteria and the competitive set is vastly different.

2007

1 Bank of America
2 Pepsi Bottling Group
3 AT&T
4 The Coca-Cola Company
5 Ford Motor Company
6 Verizon Communications
7 Xerox Corporation
8 Con Edison Corporation of New York
9 JPMorgan Chase
10 PepsiCo
11 Wachovia
12 PricewaterhouseCoopers
13 Sodexho USA
14 Procter & Gamble
15 Blue Cross and Blue Shield of Florida
16 Novartis Pharmaceuticals Corporation
17 Johnson & Johnson
18 Merck & Co.
19 Deloitte & Touche
20 Wells Fargo & Company
21 Turner Broadcasting
22 Citigroup
23 American Express
24 Prudential Financial
25 Cox Communications
26 Colgate-Palmolive
27 Kaiser Permanente
28 Sprint Nextel
29 Sempra Energy
30 Abbott Laboratories
31 KeyBank
32 General Mills
33 Health Care Service Corporation
34 General Motors
35 Eastman Kodak Company
36 HSBC-North America
37 Comerica
38 Cummins
39 MGM MIRAGE
40 Allstate
41 Wal-Mart
42 DaimlerChrysler
43 Ernst & Young
44 Bausch & Lomb
45 Darden Restaurants
46 Marriott International
47 Starwood Hotel & Resorts Worldwide
48 Comcast Corporation
49 Hewlett-Packard
50 Accenture

2006

1 Verizon Communications
2 Con Edison Corporation of New York
3 The Coca-Cola Company
4 Health Care Service Corporation
5 HBO
6 PricewaterhouseCoopers
7 Turner Broadcasting System
8 Abbott Laboratories
9 BellSouth
10 Blue Cross and Blue Shield of Florida
11 JPMorgan Chase
12 Comerica Bank
13 HSBC-North America
14 Sodexho USA
15 Cingular Wireless
16 Colgate-Palmolive
17 Wells Fargo & Company
18 PepsiCo
19 Sempra Energy
20 Federated Deptartment Stores
21 Wachovia
22 Marriott International
23 Allstate Insurance
24 Ernst & Young
25 Bank of America
26 IKON Office Solutions
27 Citigroup
28 SunTrust Banks
29 Toyota Motor North America
30 American Express
31 Hewlett-Packard
32 Cox Communications
33 Starwood Hotels & Resorts Worldwide
34 Merck & Co.
35 Bausch & Lomb
36 Kaiser Permanente
37 Ford Motor Company
38 Kraft Foods
39 Sprint Corporation
40 MGM MIRAGE
41 Harris Bank
42 Novartis Pharmaceuticals Corporation
43 DaimlerChrysler
44 Merrill Lynch
45 Starbucks Coffee Company
46 SC Johnson
47 WellPoint
48 Prudential Financial
49 CompuWare
50 Darden Restaurants

2005

1 Altria Group
2 Turner Broadcasting System
3 Citigroup
4 PepsiCo
5 Abbott Laboratories
6 The Coca-Cola Company
7 Xerox Corporation
8 Allstate Insurance
9 Verizon Communications
10 Kraft Foods
11 Ford Motor Company
12 Marriott International
13 KeyBank
14 Pepsi Bottling Group
15 SBC Communications
16 Sears, Roebuck & Company
17 Health Care Service Corporation
18 Tribune Company
19 Pitney Bowes
20 HSBC-North America
21 New York Life
22 American Express
23 General Mills
24 Merck & Co.
25 JPMorgan Chase
26 Bank of America
27 Procter & Gamble
28 Knight Ridder
29 Wal-Mart
30 IKON Office Solutions
31 Wachovia
32 Prudential Financial
33 Bausch & Lomb
34 Comerica Bank
35 Unilever Foods N.A.
36 MetLife
37 Sprint Corp.
38 SunTrust Banks
39 Colgate-Palmolive
40 Wells Fargo & Company
41 Staples
42 BellSouth
43 Visteon Corp.
44 Eastman Kodak Company
45 Cingular Wireless
46 Nielsen Media Research
47 The Chubb Corp.
48 General Motors
49 MasterCard
50 SC Johnson

2004

1 Pitney Bowes
2 Citigroup
3 Ford Motor Company
4 Verizon Communications
5 PepsiCo
6 The Coca-Cola Company
7 Abbott Laboratories
8 SBC Communications
9 Kraft Foods
10 Xerox Corporation
11 Sprint
12 Colgate-Palmolive
13 Merck & Co.
14 InterContinental Hotels Group
15 Pepsi Bottling Group
16 Deloitte & Touche
17 Hewlett-Packard
18 Sodexho USA
19 Allstate Insurance Company
20 General Mills
21 JPMorgan Chase
22 Wells Fargo & Company
23 Bank of America
24 HSBC Bank USA
25 Marriott International
26 Fannie Mae
27 Prudential Financial
28 New York Times Company
29 IBM
30 Procter & Gamble Company
31 Gannett
32 UPS
33 PricewaterhouseCoopers

34 Starwood Hotels & Resorts Worldwide
35 Eastman Kodak Company
36 Safeco
37 Denny's
38 Con Edison Corporation of New York
39 DaimlerChrysler
40 General Motors
41 Bausch & Lomb
42 PHI
43 Alliant Energy
44 American Express
45 Federated Department Stores
46 International Truck & Engine Corporation
47 Shell Oil Co.
48 Wachovia
49 Time Warner
50 USPS

2003

1 Ford
2 Fannie Mae
3 American Express
4 Verizon Communications
5 IBM
6 Safeco
7 Deloitte & Touche
8 Eastman Kodak Company
9 Bank of America
10 Xerox Corporation
11 Altria
12 SBC Communications
13 JPMorgan Chase
14 FleetBoston
15 Citigroup
16 Allstate
17 Wells Fargo & Company
18 The Coca-Cola Company
19 BellSouth
20 Freddie Mac
21 Prudential Financial
22 Sempra Energy
23 Aetna
24 McDonald's
25 PepsiCo
26 Northeast Utilities Service Company
27 Pitney Bowes
28 KPMG
29 Darden Restaurants
30 Shell Oil
31 PricewaterhouseCoopers
32 SC Johnson
33 Washington Mutual

34 Marriott International
35 Texas Instruments
36 Intel
37 HSBC Bank USA
38 Wachovia
39 Merck & Co.
40 United Technologies
41 Seagate Technology
42 Microsoft
43 Morgan Stanley
44 Starwood Hotels & Resorts Worldwide
45 International Truck & Engine
46 Hyatt Hotels Corporation
47 Blue Cross and Blue Shield of Florida
48 Reynolds and Reynolds
49 Chubb Group
50 Wyndham

2002	2001
1 JPMorgan Chase	1 SBC Communications
2 Eastman Kodak Company	2 Nordstrom
3 IBM	3 United Parcel Service
4 Prudential Financial	4 Bank of America
5 Philip Morris	5 American Express
6 SBC Communications	6 General Motors
7 Procter & Gamble	7 Fannie Mae
8 FleetBoston Financial	8 Freddie Mac
9 Johnson & Johnson	9 Ford Motor Company
10 Verizon Communications	10 The Chubb Corporation
11 Darden Restaurants	11 PepsiCo
12 Bank of America	12 Eastman Kodak Company
13 Deloitte & Touche	13 Xerox Corporation
14 American Airlines	14 Marriott International
15 Pitney Bowes	15 Quaker Oats
16 SAFECO Corporation	16 Qwest Communications International
17 Ford Motor Company	17 IBM
18 PricewaterhouseCoopers	18 Hilton Hotels
19 PepsiCo	19 JPMorgan Chase
20 Shell Oil Company	20 JCPenney
21 Hyatt Hotels Corporation	21 Lucent Technologies
22 Wells Fargo & Company	22 Darden Restaurants
23 Xerox Corporation	23 AT&T
24 Freddie Mac	24 Verizon Communications
25 Ernst & Young	25 Merrill Lynch
26 Sempra Energy	26 Johnson & Johnson
27 United Technologies Corporation	27 Prudential Financial
28 Allstate	28 The Allstate Corporation
29 SC Johnson	29 Wal-Mart
30 Lowe's Companies	30 Dole Food
31 KPMG	31 Colgate-Palmolive
32 Principal Financial	32 Pitney Bowes
33 Washington Mutual	33 Avon Products
34 General Motors	34 Charles Schwab
35 Northeast Utilities System	35 McDonald's
36 Seagate Technology	36 Wells Fargo & Company
37 Chubb Group of Insurance Companies	37 Sears Roebuck & Company
38 Arthur Andersen	38 Philip Morris
39 Intel Corporation	39 FleetBoston
40 International Truck & Engine Corp	40 Aetna
41 Nissan North America	41 Goldman Sachs
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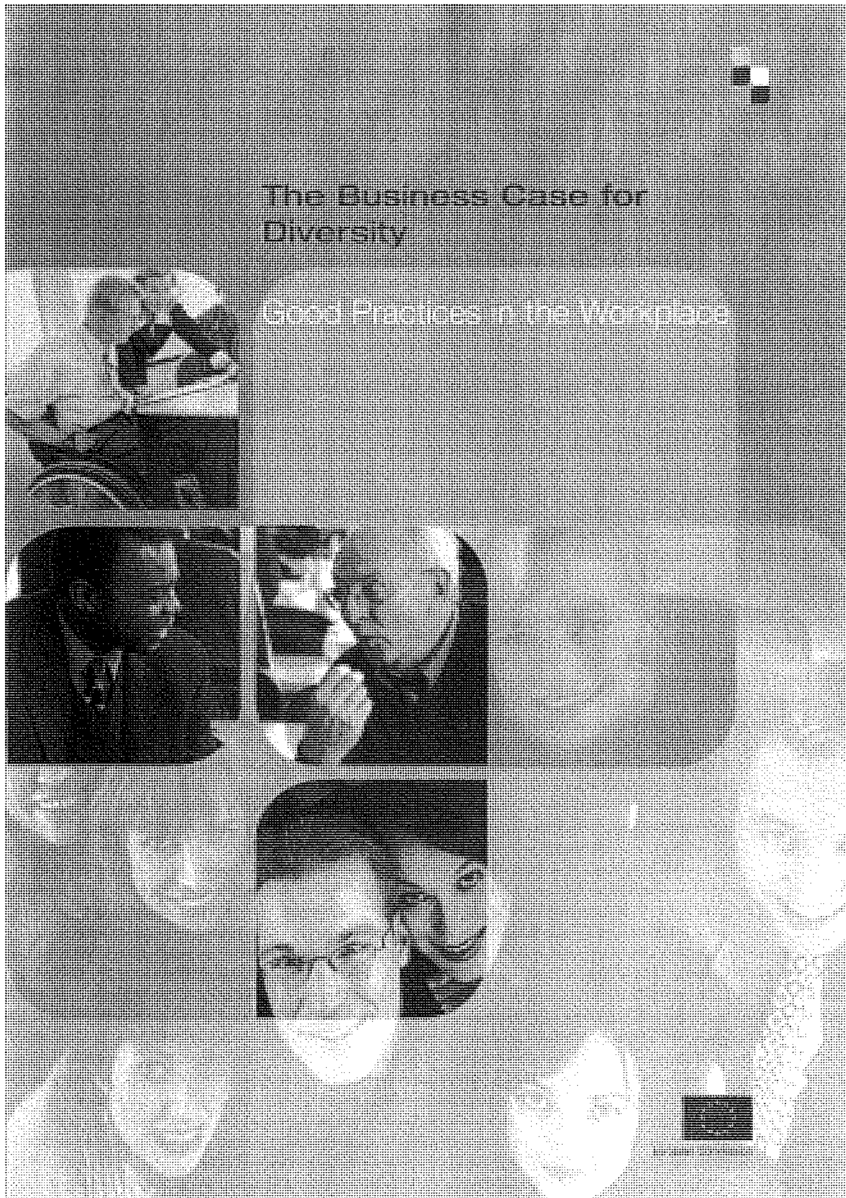
48 CSX Transportation	48 The Coca-Cola Company
49 Allegheny Energy	49 Target
50 Charter Communications	50 State Farm Insurance


The Business Case for Diversity
Good Practices in the Workplace

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THE BUSINESS CASE FOR DIVERSITY
GOOD PRACTICES IN THE WORKPLACE

European Commission
Directorate-General for Employment, Social Affairs and Equal Opportunities
Unit D.3

Manuscript completed in September 2005

This publication has been commissioned by the European Commission under the framework of the European Community Action Programme to combat discrimination (2001-2006).

The consortium producing this report comprises Focus Consultancy Ltd and The Conference Board Europe.

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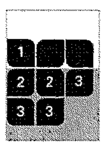

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Luxembourg: Office for Official Publications of the European Communities, 2005

ISBN 92-79-00239-2

Printed in Belgium

PRINTED ON WHITE CHLORINE-FREE PAPER

CONTENTS

EXECUTIVE SUMMARY

An increasing number of European companies are adopting diversity and equality strategies, not only for ethical and legal reasons but also for the business benefits they are expected to deliver. Among the most important of these benefits are enhanced employee recruitment and retention from a wider pool of high quality workers, improved corporate image and reputation, greater innovation and enhanced marketing opportunities.

These are some of the key findings of this report, which examines the business case for diversity on the basis of feedback to two surveys (in total 919 responses) carried out during 2005 among companies in the 25 Member States of the European Union. The first survey used questionnaires and in-depth interviews to identify examples of good practice in workplace diversity in the areas of race and ethnicity, age, sexual orientation, disability, and religion or belief. The second, complementary survey used an online questionnaire to investigate diversity awareness and practices of member companies of the European Business Test Panel (EBTP) across all areas of diversity.

Diversity initiatives expanding

Just under half of all businesses responding to the EBTP survey are actively engaged in promoting workplace diversity and anti-discrimination. Of these, 42% have policies that have been established for more than five years, 27% have policies that have been established within the past five years and the remainder are in the process of developing or implementing diversity policies.

This pattern of implementation is generally true of all countries and business sectors, despite variations in the number of responses per country and sector. Of the 798 responses to the EBTP survey, nearly half (49%) were from four countries (Germany, the Netherlands, Denmark and Poland). New Member States accounted for 23% of replies and Southern Europe only 7%. The 121 good practice survey results were also predominantly from the old Member States in northern Europe.

Access to new labour pool is key business benefit

Companies are adopting diversity policies for ethical, legal and economic reasons. However, the good practice research found that where the main driver is the ethical dimension, companies still expect their diversity efforts to produce tangible business benefits. They are also keen to go beyond legal compliance, sometimes aspiring to business leadership in this respect.

Of all the business benefits that companies either are achieving or expect to achieve from their diversity policies, one of the most important is resolving labour shortages and recruiting and retaining high quality staff. Among respondents to the EBTP survey, it was the single highest scoring benefit, cited by more than 42% of companies.

This finding acknowledges Europe's changing demographics (low birth rates, ageing population and shrinking workforce) that in the coming years will require many companies to consider a much more diverse pool of talent to meet their recruitment needs, including cross-border sourcing. Already, demographic change is acting as a catalyst for the development of age-related diversity strategies in some businesses.

The second major benefit of diversity, receiving a score of 38% in the EBTP survey, is its ability to enhance a company's reputation and image, and its standing within local communities. To achieve this, good practice companies take part in a variety of external activities in order to promote understanding of their principles and values. These include participating in research studies and benchmarking exercises, philanthropic giving to tackle social exclusion, supporting access to education and training, and sponsoring or taking part in community festivals.

A further important business benefit of workplace diversity is the opportunity it affords to improve innovation, leading to new products and services, and potential new markets. More than 26% of companies in the EBTP survey rated innovation and creativity as a benefit.

Among the good practice case study examples, it is evident that internal diversity is leading to marketing and product developments that cater for new market segments and traditionally excluded groups (such as the elderly, gays and lesbians, and ethnic minorities) as well as existing customers. These companies are aiming to increase their revenues, their customer satisfaction and their corporate image. In some cases, they are also using the new developments to address social exclusion and disadvantage faced by particular members of society.

Combating discrimination in the workplace

For diversity strategies to succeed, they need to overcome an overriding obstacle that is common to most businesses – opposition in the workplace. Among companies taking part in the EBTP survey (both those with and without diversity policies), 17% highlighted discriminatory attitudes and behaviours as their biggest challenge in promoting diversity.

To address this issue, good practice companies approach diversity as a culture change process, applying lessons they have learned previously about effective change management, including defining a clear case for action, building leadership commitment, establishing an infrastructure to support implementation, and communicating diversity and inclusion principles to staff, customers and other stakeholders.

In these companies, diversity is a business-wide concern, rather than being the sole preserve of human resources. Ownership and accountability for diversity goals are built into strategic frameworks that include goal setting, allocation of funding and resources, and performance measurement and appraisal. Business managers, first and foremost, are responsible for meeting the goals and often rewarded according to their progress.

The need for extensive staff development programmes is recognised in good practice companies to increase understanding and awareness of diversity, including legal and compliance issues as well as the implications for recruitment, promotion and appraisal processes. Many companies also provide managers with a series of performance planning frameworks, diversity checklists and toolkits to support them in policy implementation.

Support from unions, works councils and other staff groups or networks, is another prerequisite for successful implementation of diversity policies, according to many good practice companies. Involving workers' representatives in policy planning, implementation and monitoring is key to help underscore management's commitment to diversity for the long term, as well as its aims and objectives and how they will affect workers and the working environment.

Measuring the results can be difficult

One of the key findings of this report is the lack of systematic monitoring and evaluation of the progress and benefits of diversity among both good practice companies and EBTP survey companies. Nearly 70% of EBTP companies that have or are implementing diversity policies fail to regularly monitor their impact. According to 20% of EBTP respondents, the difficulty of measuring the results of diversity is a major challenge to addressing workplace diversity and anti-discrimination.

Among good practice companies, a few examples of comprehensive monitoring are found. These companies tend to place a great deal of emphasis on internal and external benchmarking, and on the value of effective monitoring systems to enhance their demographic knowledge of markets and local communities.

Many other good practice companies also undertake some goal setting and monitoring activities, stressing their value in helping them to make a case for action by providing vital information about workforce and customer make-up. These activities also help to demonstrate companies' commitment to effective implementation of diversity policies.

While a range of models and frameworks for setting indicators and measuring diversity performance already exists, the challenge is to promote wider application of such tools across businesses that have adopted diversity policies. Some of the common performance indicators used are: the increase in the representation of women, disabled people and ethnic minorities, especially at senior levels, in some cases linked to specific targets for each; the retention rate for high calibre managers, especially women and ethnic minorities; and the improvement in employee perceptions of diversity issues, measured against a target percent satisfaction rating in employee attitude surveys.

Presenting the Business Case

A key conclusion of this report is that for those companies already implementing policies to promote diversity, the business case is already being made. EBTP survey companies are convinced about the business benefits of diversity. When asked whether diversity initiatives have a positive impact on their business, the vast majority (83%) of the 495 companies that replied agreed that they did. Good practice companies are similarly confident of the business outcomes of their diversity policies. They see the benefits of diversity as almost self-evident and are keen to stress their commitment to diversity as a matter of ethics, progressive outlook and good management practice.

However, with around half of the companies responding to the EBTP survey having yet to develop diversity policies and practices, the business case needs to be more widely disseminated. The biggest challenge to addressing workplace diversity and anti-discrimination is the lack of information and awareness of diversity issues and practices. This was cited as the key challenge by over 20% of EBTP respondents. The main source of information on workplace diversity for all EBTP survey respondents is employers' organisations and networks, cited by nearly half of all companies. They are therefore likely to continue to play a key role in the dissemination of good practice materials and in the wider adoption of diversity and equality policies and practices.

Introduction 1

This project and report on *The Business Case for Diversity – Good Practices in the Workplace* was commissioned by the European Commission's Directorate General for Employment, Social Affairs and Equal Opportunities under the framework of the Community Action Programme to combat discrimination (2001-2006). The project is part of the Commission's ongoing efforts to promote diversity in the workplace and combat discrimination across the enlarged European Union. Its aim was to examine and better understand the business case for diversity with a view to assessing what further policies, actions and recommendations are needed at European Union, national, local and business level. In this context, the project aimed at identifying and analysing a selection of successful and innovative examples of good practice in diversity management implemented by employers and businesses across the European Union, which are presented in this report. In line with the Community Action Plan to combat discrimination supporting the recent EC anti-discrimination directives adopted in 2000, the principles of diversity and non-discrimination in the framework of this project focused on aspects of ethnic and racial origin, disability, religion or belief, age and sexual orientation.

The project builds on previous work undertaken by the Commission, most importantly the EC study of Methods and Indicators to Measure the Cost-Effectiveness of Diversity Policies in Enterprises (2003), which made a number of key recommendations to enable the further development of a persuasive and credible business case for diversity. Following on to this as well as complementing other current initiatives, including pan-European campaigns promoting diversity and anti-discrimination in the workplace, the Commission is supporting a number of additional activities, including:

- This report on the business case for diversity, which is a compendium of good practice in the implementation of diversity and anti-discrimination approaches in the workplace and the business sector
- A complementary survey of existing diversity awareness and practices among companies in the 25 Member States of the EU undertaken in summer 2005 in partnership with the Commission's European Business Test Panel (EBTP)
- A European conference on the business case for diversity, to be held in late 2005, to promote the findings of this report, stimulate a debate and exchange of practice and experience in workplace diversity among employers, companies and stakeholders.

This compendium of good practice in workplace diversity consists of the following four main parts:

- Outline of the approach, methodology and selection criteria applied (section 2)
- Thematic analysis of the EBTP consultation and good practice research findings (section 3)
- Conclusions and ways forward (section 4)
- Presentation of case studies of good practice in workplace diversity and anti-discrimination (section 5).

Methodology and selection criteria 2

Research for the Compendium utilised two broad survey methodologies. Firstly, a questionnaire survey was conducted among members of the European Business Test Panel (EBTP), a panel of around 3 000 businesses from the 25 EU Member States coordinated by the European Commission (DG Internal Market). This consultation allowed members of the EBTP to submit their views on workplace diversity and anti-discrimination measures via an online questionnaire. The questionnaire was therefore circulated to around 3 000 EBTP panellist companies across the enlarged European Union and online consultation was open for participation from mid-June to mid-July 2005. It elicited 798 responses (26.6% return). Full statistical results of the EBTP consultation can be found in Annex I to the report.

Whilst the questionnaire could not be exhaustive, to respect principles of limited length and completion time applying in the framework of EBTP consultations, it included a number of key areas for investigation aimed at:

- Assessing perceptions and awareness concerning the concept and understanding of diversity in the workplace.
- Finding out how widespread diversity policies and practices are across the business sector, and the lengths of time these have been in operation.
- Seeking the views of companies about the actual or perceived benefits for their businesses of implementing workplace diversity and anti-discrimination approaches.
- Finding out what companies see as the main obstacles and barriers preventing businesses from adopting equality measures. The survey therefore asked companies to highlight the main challenges they face in this respect, and to suggest practical ways forward in overcoming these.

The second and main survey was carried out among companies of various sizes and from different industrial sectors operating in an enlarged EU to identify, codify and analyse examples of 'good practice' in diversity management and anti-discrimination. Both questionnaires and in-depth interviews were used to identify good practice examples, as follows:

- An initial qualifying questionnaire was disseminated to around 3 000 contacts across Europe, inviting them to participate in the research and to submit their diversity initiatives. 121 submissions from companies were received.
- 58 companies with promising practices were invited to complete a more detailed questionnaire outlining the diversity initiative they proposed to be considered for inclusion in the compendium.
- On-site visits and interviews were conducted with 28 companies to gather addi-

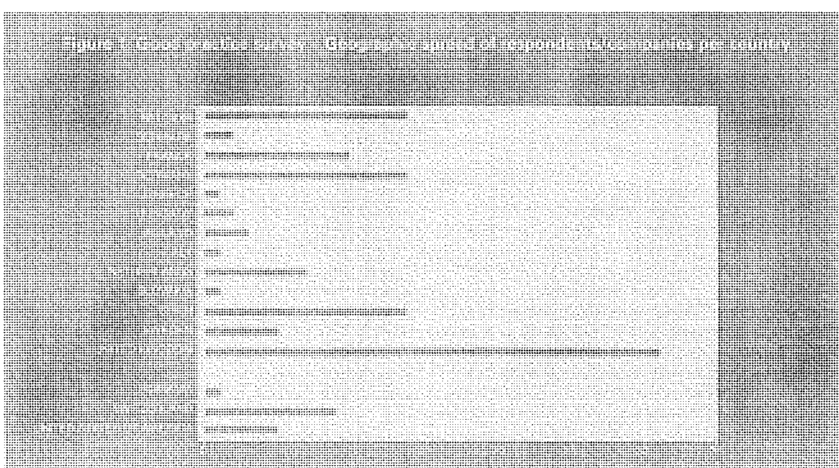
tional information about their diversity practices in order to complement detailed questionnaire information and validate the quality and impact of the diversity initiative. To this aim, both management and workers' representatives were consulted with regards to the perceptions, implementation and impact of the corporate diversity initiative.

The good practice examples subsequently selected as case studies for the Compendium, are those seen to have valuable experiences and insights to share with other businesses in implementing diversity policies and demonstrating the business case. The selection criteria used essentially considered companies' diversity initiatives in terms of their:

- Context (drivers, originality/innovation, measurability and replicability)
- Implementation (commitment/leadership, strategy/action plan, communication, sustainability and follow-up, investment in resources)
- Impact (results and benefits, impact on business, the working environment and society) of their diversity initiatives
- Addressing one or more of the following five grounds of discrimination: race and ethnicity, age, sexual orientation, disability, religion or belief.

The last point covers the diversity strands addressed by the two EU anti-discrimination directives (the Racial Equality Directive 2000/43/EC and the Employment Framework Directive 2000/78/EC). In this context, the research and project did not concentrate on gender equality, which has already been the subject of much previous research. In the case of the good practice survey this meant that companies with policies and practices that were solely gender specific were qualified out. In addition, for those companies with multidimensional initiatives covering many or all of the diversity strands, the non-gender aspects of the policy or practice were analysed and presented.

The Compendium aims to provide a broad spread of good practice across a range of around ten EU Member States with some level of geographic balance while at the same time ensuring a balance between companies from various sectors and of different sizes. The level of responses to the good practice survey and subsequent selection provided a reasonable balance. However, the level of responses and good practice submissions received from companies based in the new EU Member States and from southern Europe was relatively low (Figure 1), and it generally appeared that, for those participating, corporate diversity initiatives were still mostly focused on gender equality issues. Detailed figures on geographic participation and full results on responses to the initial questionnaire are included in Annex II.



Thematic analysis of consultation and Research findings 3

The analysis of the business case for diversity and good practice examples was carried out within the framework of various studies and existing reports into the costs and benefits of diversity, especially the study of Methods and Indicators to Measure the Cost-Effectiveness of Diversity Policies in Enterprises (2003), as well as the EBTP Consultation on Workplace Diversity and Anti-Discrimination (2005).

The analysis is structured under the following key headings:

- Current situation relating to the implementation of diversity policies and practices
- Drivers for diversity policy and practice
- Implementation of equality and diversity practices
- Perceived benefits of diversity
- Measuring the impact of diversity approaches
- Key challenges in implementing equality and diversity approaches.

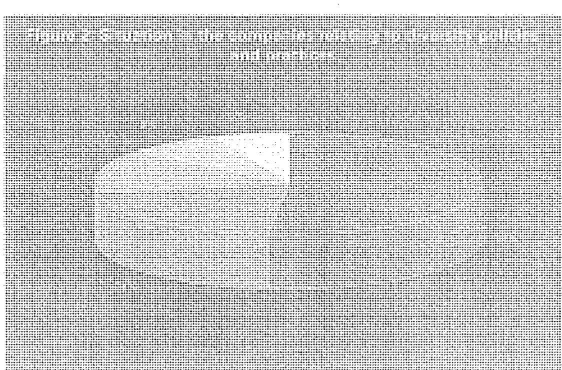
3.1. Current situation relating to the implementation of diversity policies and practices

The EBTP survey asked companies to indicate whether or not they had any diversity policies and practices in place, and the length of time these have been in operation. They were also asked to indicate whether or not their policies were well embedded, i.e. in place for more than five years, or adopted more recently (within the last five years). The questionnaire also asked companies to state whether they are currently in the process of implementing diversity policies, but with the understanding that more needs to be done in the process of developing an effective equality and diversity approach.

The results indicate that 48% of all companies in the business sector are actively engaged in promoting workplace diversity and the anti-discrimination agenda in one form or another (Figure 2). Whilst less than a quarter have well established policies and procedures, many more are in the process of implementing diversity policies within their company. However, with the other 52% of companies in the business sector still not engaging in the broad range of strands covered by the current legislative requirements on equality and anti-discrimination, there is an urgent need for all relevant stakeholders to increase their efforts in developing awareness and expertise to spread implementation.

Despite variations in the number of responses per country and business sector, this pattern of implementation is generally true of all countries and sectors.

There are possible differences in the level of adoption between old and new Member States, but conclusions concerning these must be drawn with caution. A proportional analysis of the ten countries



with the highest number of responses shows that the picture is quite complex (see Annex I for fuller report). It suggests that broadly speaking companies in northern and western Europe are more likely to have diversity policies and practices than the new Member States in eastern Europe, but there are exceptions. Also, the overall percentage of companies with well embedded policies is higher in Germany, The Netherlands, UK, and Norway, and lower in the new Member States like Hungary and the Czech Republic. However, whilst countries like Poland and Hungary have a lower percentage of companies with policies in place, a higher percentage are in the process of implementation, and hence in the process of reducing this regional difference in implementation.

3.2. Drivers for diversity policy and practice

The good practice research indicated that employers and companies tend to adopt diversity policies and practices for ethical, regulatory or economic reasons, or a combination of these. The EBTP survey confirms this finding.

The Ethical Case for Diversity

Increasing numbers of companies stress that ethical reasons are the primary driver for adopting equality and diversity practices. Simply stated, they are taking action because 'it is the right thing to do'. These companies are aware of changes in society and in social values, and their impact on how businesses operate. They know that the public has higher expectations of how companies ought to do business in relation to equal opportunities, fair trade, ethical investment, environmental impact, impact on local communities, individual human rights and other social justice issues.

In response to these changes, many companies are making strong links between Diversity and Inclusion strategies on the one hand, and Corporate Social Responsibility (CSR) on the other. Indeed, a small number of companies, such as British Telecom (BT) for example, have gone further and specifically use the principles of the UN Convention on Human Rights to guide the way they do business internally, as well as how they relate to suppliers, customers, local communities and other stakeholders.

Employees too have changing and growing expectations of ethical behaviour in the workplace, valuing work environments that promote inclusion, respect, openness, collaboration and equity. Good practice companies therefore seek to achieve a positive company image in terms of equality, diversity and inclusion, and believe that a commitment to these issues is essential for any business to be viewed as modern, progressive and well managed.

Underpinning visions and values that emphasise the creation of environments that are equitable for all increasingly influences the way companies operate. Indeed, the research found that many companies often begin to address diversity and inclusion by first considering their fundamental values and corporate philosophies. It is these that are translated into statements of principles and standards for implementation. Values such as integrity, respect for people, community and respect for the individual are seen by many companies as crucial to business success.

Some companies in the Compendium have been established with the express purpose of tackling social exclusion and disadvantage, e.g. Manchalan (Spain). Others seek to be role models and examples to other companies and society in general in tackling prejudices and discriminatory attitudes. Examples include Bertelsmann AG (Germany), which has spearheaded a high profile public awareness campaign aimed at addressing negative attitudes towards disability in employment.

The Regulatory Case for Diversity

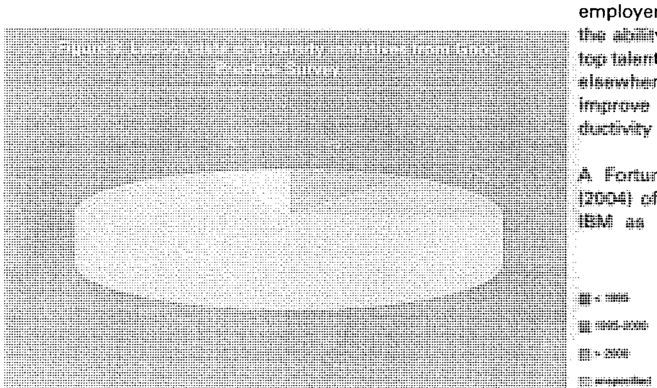
A broad regulatory framework currently exists to promote equality and anti-discrimination in the workplace. This ranges from legal compliance with EU Directives and national legislation, to the influence of industry standards and awards. Sector regulatory agencies also play a key role in controlling business conduct and representing customer interests, as do individual governments that out-source and fund enterprises on the basis of stringent equalities standards and performance requirements.

Companies are increasingly mindful of the need for legal compliance and for meeting regulatory standards with regards to equality. These are now almost mandatory for companies seeking new clients, particularly in the public sector where targets and quantifiable data relating to their work on diversity is a prerequisite for many proposals and tenders.

It is also important for companies to avoid litigation, as well as the reputational risks and financial costs that employment tribunals can involve. Additionally, the EC Study of Methods and Indicators (2003) suggests that new legislation should act as a signal to employers and businesses of the wider social changes, and changes in social expectations on which they need to act.

The EBTP survey did not ask companies that have adopted diversity approaches whether or not they have done so in response to the need for legislative compliance with the EC anti-discrimination Directives. However, given the high proportion of companies that have recently implemented, or are currently in the process of implementing equality policies and initiatives, it is reasonable to infer that recent EU anti-discrimination legislation has had a considerable impact in promoting action in this respect (Figure 3). This may be particularly true in the case of some countries in the enlarged EU where implementation of the anti-discrimination Directives could have been viewed as a precondition of membership.

For many companies legal compliance is a crucial reason for adopting equality and diversity policies and practices. The majority of companies however stress that it is not a driver for implementation, but the desired outcome of their policies. The research also found that most companies that respond voluntarily to social changes, and that have proactive diversity practices, wish to go beyond mere legal obligations and become 'best in class'.



The Business Case for Diversity

The social and cultural map of Europe has changed beyond recognition over the past twenty years. The greater participation of women, ethnic minorities, the elderly and people with disabilities in the labour market presents companies with new sources of labour, but also challenges them to create environments that value difference and operate fairly.

These huge demographic changes have a tangible impact in determining business success. An ageing population in many European countries, and correspondingly fewer young people entering the labour market, leaves many companies facing the prospect of labour shortages within their traditional recruitment pools. It is in their interests therefore to seek to widen this pool by targeting groups that have not been represented within their workforces in the past.

In addition to attracting new recruits from non-traditional backgrounds, employers also see real business benefits in having a reputation as an employer of choice, and hence the ability to attract and retain top talent from universities and elsewhere, and possibly improve their creativity, productivity and competitive edge.

A Fortune magazine survey (2004) of MBA students rated IBM as one of the top five most desirable employers and one of the most quoted reasons was IBM's focus on an inclusive workplace. Similarly Volvo Car Company and Tetra Pak in Sweden also cite high rankings by Swedish university students. Other companies suggest that cultural diversity and an international focus are also a key attraction in the retention of staff.

The increasing diversity of European citizens and residents has been matched by a corresponding change in customer tastes, needs and lifestyles. In this context it is beneficial for companies to have employees who can provide appropriate services and solutions to customers from diverse customer backgrounds. This is particularly important for companies with international business operations.

The aims of companies operating in such contexts is to provide a broad cultural mix to service the needs of diverse clients, and to ensure that no one is discriminated against on any grounds.

Increasing social diversity also has a direct impact on the development of new products and market segments. In terms of the benefits of diversity initiatives, many employers maintain that the diversity of their R&D personnel results in more diverse thinking, and hence in broader and more creative portfolios of new product opportunities.

In response to the question of whether diversity initiatives have had a positive impact on their business, 83% of the 495 companies in the EBTP survey that replied answered positively compared with 17% that felt that they do not (Figure 4).

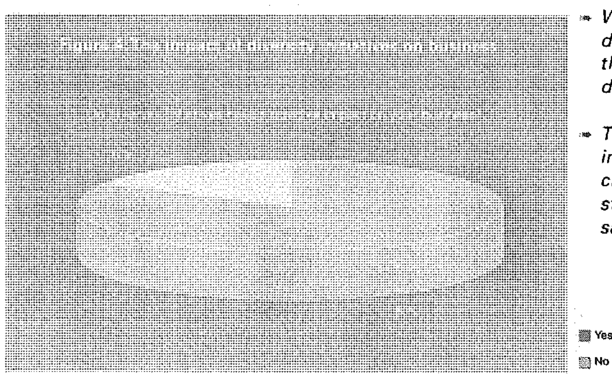
Conclusion

Companies rarely act on the basis of just one driver alone. Although many of the case study examples in the Compendium adopted equality policies mainly for ethical reasons, they still expect their efforts to produce business benefits. The research also found that these companies are keen to go beyond legal compliance, in many cases aspiring to business leadership in this respect.

In PricewaterhouseCoopers' guide to equality and diversity 'Looking at People from Different Perspectives', Kieran Poynter, its UK Chairman, sums up the variety of reasons and drivers for change in the following case for diversity within the firm:

There are several reasons why diversity is important to the firm; I believe that each of these reasons, on its own, is justification enough for ensuring we promote an inclusive culture and so manage diversity for the benefit of both our people and the firm. But put them all together and I believe the case for diversity is compelling:

- *It is just plain right; behaviour that discriminates on any grounds is inconsistent with our core values*
- *Managing diversity is also about gaining competitive advantage in the market place*
- *Retaining people makes sound business sense*
- *We have to review our traditional resource models in the light of fundamental demographic changes*
- *This shift is being mirrored in the workforces of our clients who, in turn, are starting to demand the same from their suppliers*



- *Managing diversity and creating a culture of inclusion are essential ingredients to building a sustainable business for the future.*

3.3. Implementation of equality and diversity practices

Successful implementation of diversity policies and practices depends on a number of key organisational factors. Companies that manage this well approach diversity and equality as a culture change process, using lessons learned about managing change to ensure success.

These lessons include defining a clear case for action, building leadership commitment, establishing infrastructure to support implementation and communicating diversity and inclusion principles to staff, customers and other stakeholders. In such companies, business ownership and accountability for diversity and inclusion goals are built into strategic frameworks that include goal setting, allocation of funding and resources, performance measurement and accountability that taps into business rewards/recognition processes. Diversity in these companies is a business-wide concern, rather than being HR-owned without involvement from other business functions.

Active senior leadership commitment and the engagement of managers at all levels are vital for the successful implementation of diversity approaches. Additionally, research findings suggest that managers' behaviour towards diversity can have a direct impact on employee productivity. Independent research by the University of Sheffield into the diversity initiatives of Royal Mail (UK) indicated that the more positive senior managers are towards diversity, the greater their team members' levels of job satisfaction and organisational commitment. Many companies recognise this and increasingly include diversity as an integral part of their leadership standards.

The wide variety of diversity practices currently undertaken by employers and businesses fall under three main types of policy and strategy focus:

All encompassing diversity policies and initiatives

At Unilever for example, this is described as *looking through a diversity lens in everything we say and do.* In practice this encompasses a statement of values and commitments, list of actions, tangible structures for implementation and strong management accountability. It also includes providing guidance and planning frameworks to enable the development of targets and strategies, as well as monitoring and regular reporting against diversity targets. For companies operating across many countries, such comprehensive strategies cover individual, business division, company-wide and country plans, supported by a global strategy and regional diversity boards.

Such approaches also address diversity issues on an inclusive and multi-faceted basis. Examples include the 'Effortless Inclusion' philosophy and procedures of BT that are seen as encapsulating a maturity of thinking derived from over a decade of addressing equality and diversity issues. The initiative ensures that an understanding of inclusion informs everything BT does. This includes human resources policies and practice, product development and ensuring that product and service designers are informed about the needs of the future users of their products and services. It also incorporates a supply chain initiative, 'Sourcing with Human Dignity', to ensure that its equality and ethical business principles permeate across all areas of its external operations.

These programmes and approaches seek equality not just in terms of representation and enhanced productivity. Many aim at complete organisational culture change, reflected in some of the titles of the initiatives submitted as part of the research, such as: Diversity Transformation Initiative (Booz Allen Hamilton), Living Diversity (Deutsche Telekom Group), Diversity and Inclusiveness Process (Royal Dutch Shell), Diversity Journey (Intel Ireland Ltd), Doing Well by Doing Diversity (APCO). Dow Europe for example sums up this holistic approach towards diversity management as: *thinking, acting and working together in ways that ensure the impact of difference is positive.*

A number of companies included in the Compendium are excellent examples of successful enterprises established and operating along the principles of diversity and inclusion in everything they do. Diversity practices hence represent the mainstream values and activities of companies such as Coco-Mat (Greece) and Manchalan (Spain) amongst others.

Manchalan is a manufacturing company specifically set up as a partnership between the social and industrial sector to address the economic exclusion of people with disabilities. Whilst focusing on the integration of people with disabilities as a specific strand, Manchalan does not see its work in terms of a particular initiative or programme, but as its core objective, that it mainstreams in all its activities. More than 90% of its workers are disabled.

Likewise, more than 70% of Coco-Mat's employees are refugees from the former Soviet Union or Turkey. The company employees represent 13 nationalities and 9 religions, and Coco-Mat expressly targets recruitment from what it terms 'special skilled' groups, i.e. those who face discrimination on various grounds such as race, class, ethnicity, religion, caring responsibilities, disability, etc.

Single initiatives concerning specific diversity strands

Company practices vary widely in relation to the focus of their diversity approaches. Whilst more companies are developing all encompassing and holistic approaches to diversity and inclusion, some choose to prioritise particular diversity strands depending on their local contexts or interests. Examples included in the Compendium represent both individual diversity initiatives concerned with just one specific strand, as well as examples of targeted approaches toward addressing a specific priority within an overall comprehensive diversity strategy.

Goldman Sachs International is an example of a company whose equality and diversity practices cover all the main grounds of discrimination, and which has received widespread recognition for its effort in the areas of ethnicity, gender and sexual orientation. The case study of good practice from the company is however based on a specific initiative, the Disability in Action Taskforce, the aim of which is to place disabled individuals in successful internships, and to raise the profile of disability in the workplace.

The Compendium also includes examples of specific initiatives by an employment organisation, such as the Disability & Skills Programme launched by Adecco to enable enhanced vocational skills development for people with disabilities, coupled with awareness raising activities aimed at employers. Comparable examples include major disability initiatives of companies like Bertelsmann, IBM, Pfizer and L'Oreal.

The research also revealed many examples of good prac-

tice across other specific diversity strands, notably age and ethnicity. Age related initiatives are a response to what many companies see as the biggest corporate challenge in the EU – demographic change. The 'Seniority' initiative at Danfoss (Denmark), and 'Getting Older, Thinking Younger' at Pfizer Deutschland are good examples of policies and practices that seek to ensure that no one is discriminated against on the grounds of age.

The aim of these policies is to encourage young people to join their companies, and ensure that older people already employed remain rather than seek early retirement. Companies also want to ensure that they retain the experience of senior employees and hence encourage exchanges between older and younger employees. Practice approaches also focus on creating flexibility for senior employees in the content of jobs, work hours, forms of retirement, retraining and health matters.

Many examples of initiatives specifically targeted towards ethnic minority employees and potential employees have been highlighted by the research. One example is targeted recruitment activities, such as the graduate recruitment programme by Linklaters (UK). They adopt a multi-agency approach involving universities, community associations and employers' networks to enable ethnic minority graduates to access jobs in the legal profession.

Most initiatives involving ethnic minorities are positive action programmes that involve access to education/training, practical work experience and mentoring. Examples of such initiatives include a training scheme by Yorkshire Forward, and an internship programme called 'I have a dream' for the hiring of ethnic minority trainees by Deutsche Bank. Like many other companies, TPG Post (Netherlands) has a comprehensive integration programme for ethnic minority trainees, which includes language teaching, practical work experience and mentoring of potential employees. This is followed by a temporary job contract and further professional/vocational, skills and language education. Once fully trained and deemed suitable, candidates are then offered contracts for unlimited periods.

Widening existing policies to cover a broader range of diversity areas

A large number of companies have been addressing issues of gender for some time. Many of these are now in the process of widening their equality approaches, and transferring skills and experience gained through the implementation of gender policies and practices to other areas of diversity. Lufthansa, for example, started with gender diversity initiatives in the 1970s with the support of the works council. In 2000, the Executive Board initiated the current broader diversity programme. All managers throughout the company are now responsible for implementing and practicing diversity. Deutsche Telekom is another company that has launched a comprehensive diversity policy entitled Living Diversity, which builds on previous initiatives that were primarily aimed at gender issues. Within this it has a particular focus on age in recognition of the ageing population in Germany and other European countries in which it operates. However, the policy also embraces the other three grounds of discrimination, as well as being implemented globally across all its business operations.

3.4. Perceived benefits of diversity

Whilst the aims and projected benefits of diversity policies and approaches vary considerably, companies tend to see improvements on a number of key fronts, including: effecting culture change; improving workforce diversity and cultural mix; enhancing market opportunities; external recognition and image. This is reflected in the functional areas that their diversity initiatives are targeted towards (Figure 5).

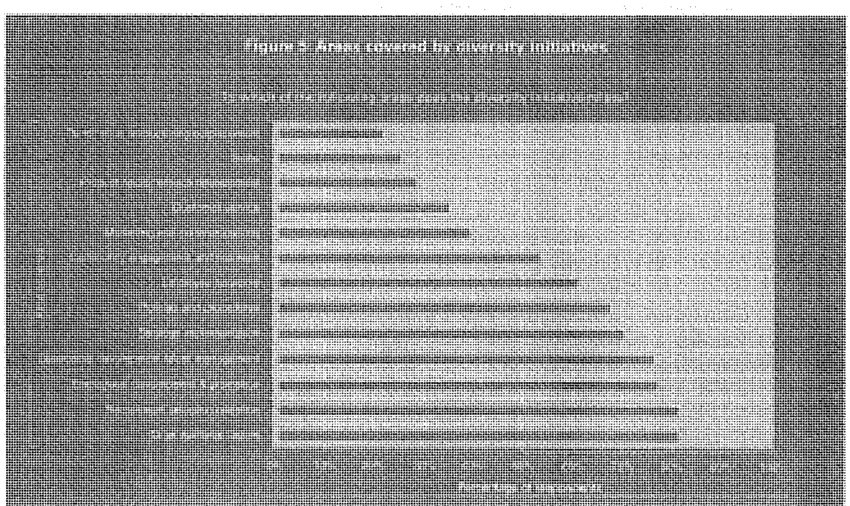
Effecting culture change and enhancing organisational capital

In line with the importance companies increasingly place on shared corporate values and philosophy, the efforts of many companies focus on achieving lasting culture change. In promoting organisational environments that respect diversity and practice anti-discrimination, businesses are very aware of the need to achieve active employee support for their equality initiatives.

The EBTP consultation highlighted discriminatory attitudes and behaviours in the workplace as a key obstacle in promoting diversity approaches and practices. For many companies therefore, strategies to raise awareness and understanding about diversity issues and policies is a fundamental part of the process of implementing equality initiatives. This desire to raise awareness and win 'hearts and minds' is evident in the titles and slogans of many company diversity programmes. Examples include: 'Everyone is Welcome at Tesco', 'Open Minds, Open Markets' (UBS), 'Getting Older, Thinking Younger' (Pfizer Deutschland), and 'Success Through Inclusion' (Barclays PLC).

Diversity policies that contribute to the creation of environments that promote respect and inclusiveness are seen by many companies as essential to business success, helping to attract high quality recruits and reduce operating costs through lower staff turnover and absenteeism. Based on independent research into the consequences of bullying and harassment, Royal Mail (UK) for instance estimates that it has achieved a £7m saving from the introduction of anti-bullying and harassment policies and procedures.

TNT, which has a global business network, has a worldwide diversity and inclusion strategy with many examples of good practice across its different businesses. TNT Austria, which has won a number of diversity awards, calculates that as a result of effective management of diversity and inclusion, it has seen a reduction of yearly



staff turnover from 25% in 2000 to 10% in 2003, and a similar reduction in absenteeism. It has also saved €15 000 in taxes from the employment of disabled employees.

Communication programmes and awareness raising campaigns aimed at staff and customers accompany many initiatives. Increasingly, companies also conduct annual employee attitude surveys that seek to assess the views and opinions of staff on equality and diversity issues, as well as to measure changes in staff perceptions/satisfaction with company policies and practices.

Changes in wider society and in labour and product markets are often accompanied by increasing diversity, and require companies to adapt. To achieve sustainable growth, it is imperative for businesses to become skilled at managing and harnessing the full potential that diversity can offer. One of the pioneers of comprehensive change management in the face of diversity is Royal Dutch Shell, which has a three-level diversity and inclusion management programme to facilitate its change process. The programme focuses on systematic change, and is underpinned by a belief that change must occur simultaneously at personal, interpersonal and organisational levels.

Some companies have found that initiatives to implement and embed diversity policy and practices have a wider knock-on effect and cultural impact, by improving communication and information-sharing channels across companies. Improved communication capabilities in turn enhance the ability to foster shared cultures, norms and values across companies and groups of companies. Similarly, diversity and inclusion practices are credited with having a beneficial impact on improving managerial styles, skills and performance in areas such as communication, people management, goal setting and planning.

Improving workforce diversity and cultural mix – human capital benefits

A highly skilled, innovative and diverse workforce is important for business success, as has been emphasised in earlier sections of the report. Indeed, resolving labour shortages and recruiting and retaining high quality staff from diverse backgrounds are key reasons for companies to implement diversity policies. More than 40% of all the companies in the EBTP survey gave this as the primary business benefit.

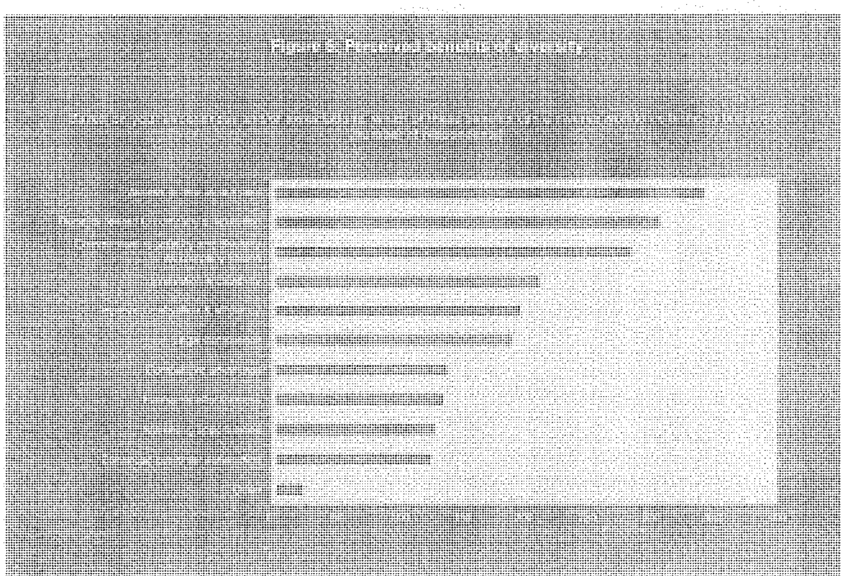
Achieving greater workforce diversity is a key aim for many companies. The EBTP consultation highlighted the fact that increasing access to a wider labour pool and developing the ability to attract and retain high quality employees from diverse

backgrounds is one of the most important reasons for companies to adopt diversity policies and practices (Figure 6). Some companies also suggest that increasing their recruitment efforts to target particular communities has resulted in an improved standing within those communities at a much wider level.

To achieve such changes in their staffing profiles, companies undertake a wide range of initiatives. These include specially targeted advertising to reach disadvantaged and socially excluded communities, and the establishment of partnerships with community and statutory agencies to enhance their recruitment efforts, as well as to support local/regional social and economic development goals. The previous section highlighted some of the targeted positive action strategies aimed specifically at under-represented groups such as ethnic minorities and disabled people adopted by many companies, including: supporting access to work experience, vocational skills training and access to higher education.

Internal human resources policies that support recruitment aimed at increasing workforce diversity often complement such outward facing activities. In some companies person specifications have been changed to try to actively welcome and attract diversity, for instance, by requiring applicants to have an open outlook, the ability to speak more than one language, cross cultural experience, ecological sensitivity, commitment to equal opportunities, etc.

Some companies in countries or sectors facing severe labour shortages have signed trade agreements with foreign and local labour departments to hire and train specific numbers of workers from abroad. Grupo Vips (Spain) for example has such arrangements with countries including Romania, Bulgaria, Morocco, Ecuador, Columbia and the Dominican Republic. It supports such recruitment efforts with preparatory training for potential employees, often done in their countries of origin, and which includes teaching Spanish. The company stresses that once recruited, these foreign workers are guaranteed equal opportunities in all aspects of their employment and further development.



Some employment companies, like Manpower, Randstad and Adecco also play an important role in supporting their business customers' efforts to increase workforce diversity and address the under-representation of disadvantaged groups. They all have innovative and proactive initiatives to address social exclusion, enhance skills development and bridge the gap between employers and diverse communities. For example, Randstad, which has consistently been rated as one of the best employers in Belgium for the past three years, has a special Diversity Division that encourages employers to apply the principles of equality in their recruitment procedures, as well as helping companies to realise the potential benefits of diversity.

Multinational companies in particular are seeking to enhance their global management capacity through initiatives to ensure they attract and retain a diverse and culturally competent workforce able to work across national, linguistic and cultural boundaries. They are also seeking to recruit employees representing local communities and country contexts at all levels of operations and management.

As well as improving workforce diversity, companies also need the skills to effectively manage it and create environments that ensure respect and equity for all. Companies have responded to this need by implementing a range of human resource policies and programmes aimed at enhancing the work environment and experience of staff. These include: anti-bullying policies, flexible working and home working policies, grievance, complaints and safety at work policies and procedures, together with recording and management information systems to measure progress against equality goals.

A large number of programmes are also aimed at employee development and awareness raising to cover a broad spectrum of staff development needs. These include: diversity awareness training, cross cultural competence and exchange programmes, legislative and compliance issues, building leadership/managerial commitment and skills, language and integration programmes for migrant workers, fair recruitment, selection and appraisals processes, and change management programmes. Many companies also provide managers with a series of performance planning frameworks, diversity checklists and toolkits to support them in policy implementation.

A diverse workforce with high quality people skills also helps companies to more easily accommodate the demands of their diverse customer base, improving customer service. It

also provides additional resources for accessing new markets and market intelligence. Many companies currently support a range of special interest employee resource groups to improve two-way communication processes, and to assist companies in their consultation and information seeking strategies.

Enhancing market opportunities

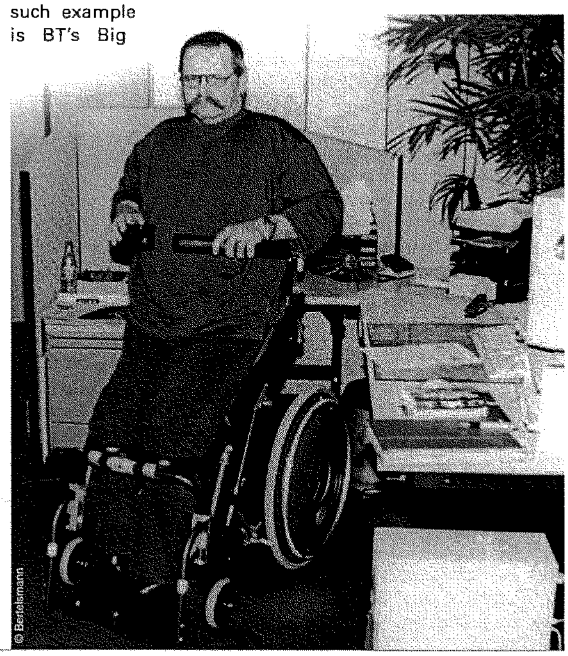
Diversity strategies to enhance market-related benefits aim to achieve better market segmentation and improved customer satisfaction. They also aim for an increase in repeat business and referrals to potential new customers through existing satisfied clients and customers.

Companies committed to diversity see many opportunities for expansion of their services and products. Research for the Compendium uncovered a range of examples of targeted marketing and product developments aimed at increasing revenue by catering for new market segments and traditionally excluded groups. Some of these developments aim to enable more people to access existing products and services. For socially progressive companies, such initiatives are not driven solely by the desire to increase revenue, but with a commitment to tackling social exclusion and disadvantage faced by particular groups. They also contribute to enhancing the company's image and making them more attractive to society in general.

Examples include the design and marketing of products for visually impaired customers, such as the Internet Driver's License (IBM Germany) and voice texting (BT). The Internet Driver's License is a talking web browser that helps overcome barriers to accessing particular technologies by enabling people with visual impairments to surf the Internet and communicate electronically by e-mail. Similarly, the BT product enables them to access the text function on mobile phones by allowing them to send and receive SMS (text) messages in voice format.

Some companies like Bertelsmann have initiated and developed unique practical working and living aids to benefit people with disabilities in their working environment. These aids are also made available to society in general. Another such example is BT's Big Button Telephone. Originally designed by an employee who had arthritis, it has found a wider customer base, attracted to its ease of use as compared to the increasingly smaller alternatives available in the marketplace. Similarly, a Volvo car designed by women has had wide cross-over appeal because of its many user-friendly features, originally designed with women drivers in mind. These companies see such inclusive thinking and approaches simply as a matter of good design that makes it possible for everyone to use a product.

Depending on their sector of business, good practice companies also contributed a wide range of examples of targeted marketing campaigns



© Bertelsmann

with strong diversity and inclusion messages, to promote uptake of their products and services by particular groups such as the elderly, women, gays and lesbians, and ethnic minorities. These include Tesco's introduction of multicultural food ranges in different neighbourhoods to meet local customer food preferences and Deutsche Bank's retail banking unit's targeted marketing campaign to increase its gay and lesbian customer base. The bank achieved a directly traceable profit and business success with its pilot in Berlin, and is now in the process of extending the campaign to other major cities in Germany. Other examples include the Dove soap marketing campaign by Unilever, underpinned by a clear diversity philosophy and message, which resulted in a 700% increase in sales of the product line.

Coco-Mat and Manchalan both show that applying equality and diversity principles to mainstream industrial performance is compatible with business success. Since its creation in 1999, Manchalan has increased its revenue from €332 475 to €2.7m, and its staff from 56 to 236 in 2004. Similarly, Coco-Mat, founded in 1989 by three former refugees, has grown dramatically and has a current turnover in excess of €12.3m and stores in Greece, a number of other European countries and China.

Media coverage in general is seen as essential in helping raise the public profile and image of businesses by promoting their equality and diversity values and commitments. But beyond that, it is also equated by some companies with revenue savings equivalent to the advertising costs of marketing campaigns.

External recognition and image

Good practice companies recognise the importance of corporate image and reputation, and undertake a wide range of outward-facing activities and initiatives that help raise their external standing in society, and contribute to an understanding of the principles and values they wish to project.

Such external activities include developing partnerships and links with academic and research institutions, participating in research studies and benchmarking exercises, entering for equality and diversity recognition awards, philanthropic giving to tackle social exclusion, supporting access to education and training opportunities, sports development activities, presence/sponsorship of community festivals and financial support to NGOs and the charitable sector.

Good practice companies also seek external validation of their diversity efforts, using diversity awards as an important form of external recognition. They are often keen to enter their companies for a broad spectrum of these awards, and to measure their progress against the various standards and levels of performance set by them.

Many good practice companies also stress the importance of participating in external networks and forums, and for their senior leaders to speak externally at conferences, employer networks, to the media and to other platforms concerned with equality and diversity.

The Compendium highlights the activities of companies that positively seek to embrace their social responsibilities. As a media company, Bertelsmann used its capacity and communications infrastructure to launch an initiative to raise internal and external awareness, and promote education about disabilities within the company and among the public at large. It estimates that 64 million people watched the TV spots that formed part of its campaign. Similarly, Grupo Santander (Spain) sees its support of marketing campaigns around social issues (Red Cross, Doctors without Frontiers, UNICEF) as an important part of its effort to enhance its customer base and corporate image.

3.5. Measuring the impact of diversity approaches

One of the key challenges identified by companies in relation to addressing workplace diversity is the difficulty of measuring the results of diversity policies. The EBTP survey found little evidence of systematic monitoring or evaluation of the progress and benefits of diversity (Figure 7).

This may be because it is difficult to measure the full impact, including the intangible and long-term benefits, of diversity initiatives when they may be only one of many other factors contributing to overall improved corporate performance.

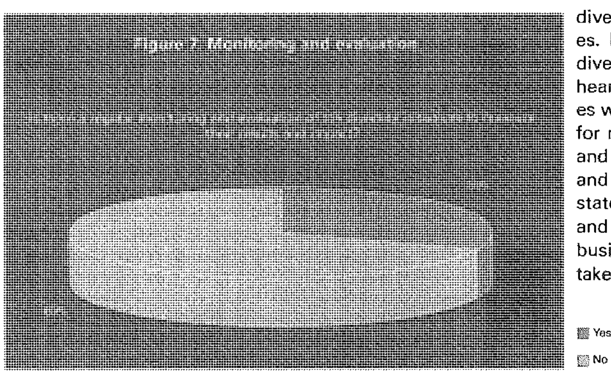
However, a number of models and frameworks for measuring the costs and benefits of diversity in ways that take account of both tangible and intangible factors already exist. These include the Harvard Balanced Scorecard[1], the European Quality Model[2] and the Measurement Framework for Diversity developed as part of the EC Methods and Indicators study.

All these models and frameworks recognise the complex interplay of cause and effect, and the relationships between inputs, intermediate outcomes and overall business performance. The models combine qualitative and quantitative approaches, and take account of the links between processes that drive performance and the results of strategy.

Such comprehensive business and performance management systems are not in widespread use except in the largest multinational companies. Companies which do use them tend to place a great deal of emphasis on internal and external benchmarking, and on the value of effective monitoring systems to enhance their demographic knowledge concerning their markets and local communities. These same companies also stress the value of effective monitoring in helping them make a case for action by providing vital information about workforce and customer make-up, as well as demonstrating their commitment towards effective implementation of equality and diversity policies. In most business environments there is a perception that 'what gets measured gets done', especially when measurement of progress is linked to management performance and appraisal. Monitoring and evaluation is thus seen as extremely important in signalling the company's strategic and financial priority to employees.

An example of good practice is the Global Diversity Network - a network of global companies that include Dow Chemical, Shell, BP, Deutsche Bank, Unilever, Kraft Foods, Philip Morris, Barclays and Tyco - aimed at assisting member companies in integrating and measuring equality, diversity and inclusion within their business processes through the sharing of information and best practice. A key output from this has been the Global Diversity and Inclusion Benchmarking Survey developed jointly by members and diversity consultants Schneider~Ross. Structured around 14 goals that describe the ideal organisation in terms of global diversity and inclusion, this assessment tool enables members to assess their performance both against the 'ideal' and their peer companies within the network - thereby identifying the steps to further accelerate progress and best practice.

Shell's own internal Diversity and Management Framework is also a good example of an interconnected framework that allows managers globally to own, lead on and monitor diversity and inclusion processes. Its emphasis is on putting diversity and inclusion at the heart of all its business processes with a greater accountability for results at business, country and individual levels. Its Vision and Standard Policy includes statements of commitments and a list of actions that each business must formally undertake. It also provides managers



1 www.hbs.edu
2 www.efqm.org

with a Standard Planning Template to support business leaders in integrating and mainstreaming equality and diversity into core processes. Whilst it provides consistency, the framework also allows implementation discretion at local and business level, and is accompanied by two annual formal performance monitoring processes.

Whilst only a minority of companies have comprehensive target setting, measurement and evaluation processes in place, many companies undertake a range of goal setting and monitoring activities to support their diversity approaches. Some common performance indicators used by companies to guide their progress include:

- Increase in the representation of women, disabled people and ethnic minorities, especially at senior levels, in some cases linked to specific targets for each
- Retention of high calibre managers – especially women and ethnic minorities
- Improvement in the perception of minority and majority groups in the company around diversity issues – measured against a target percent satisfaction rating in employee attitude surveys
- Involvement in business standards and processes, and other quality models (like the UK's Investors in People Standard) that help companies to adapt management frameworks and benchmarks for their own requirements concerning equality and diversity performance.

Such goals or performance measures are accompanied by a wide range of monitoring activities that include:

- Employee surveys to assess employees' attitudes and levels of satisfaction, as well as to identify any particular areas for further investigation and potential action
- Ongoing consultations with employee networks and resource groups
- Workforce profiling including ethnicity, nationalities, religions, languages spoken, gender and age mix to enable identification of particular areas of under-representation, as well as to enable comparisons against local area demographics
- Establishment of employee skills databases and talent pools to measure staff mobility and progression
- Inclusion of equality and diversity perspectives in all normal business reviews, as well as specific equality considerations such as equal pay reviews
- Monitoring the numbers of bullying and harassment complaints, and the speed with which these are resolved
- Calculation of costs to the business through sickness absence and tribunal cases
- Monitoring the results of exit interviews by gender, ethnicity, etc.

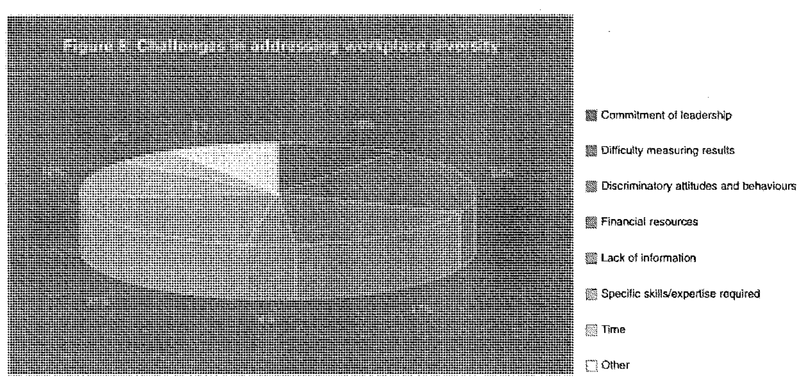
3.6 Key challenges in implementing equality and diversity approaches

The EBTP questionnaire asked companies to indicate what they felt to be the most difficult challenges and barriers to implementing adequate equality and diversity practices in the workplace. Foremost amongst the barriers suggested is the lack of information and awareness, followed by a lack of understanding and expertise in developing and implementing an equality and diversity approach. Various other reasons also prevent companies from doing this. These range from not being able to see any particular competitive advantage, to following recruitment policies and practices that are solely qualifications based, and hence assumed to ensure everyone has an equal chance. The following figure (Figure 8) details a range of challenges highlighted by the survey.

These findings indicate that there are clear areas for further action to promote more widespread adoption of policies and anti-discrimination legislation. Addressing the information and awareness needs of companies is an important first step forward, as is better guidance and support to companies on processes for monitoring and measuring the results of diversity policies and practices. Around 45% of companies participating in the EBTP survey confirmed this need by indicating that awareness-raising activities in the field of workplace diversity are in their view insufficient and that more needs to be done.

The survey has highlighted that companies are further behind in addressing issues of religion and belief, and sexual orientation than other areas of diversity. This may be due to a considerable lack of awareness about how businesses should respond to these issues compared with others that have been raised for some time. Information, guidance and awareness-raising about these 'new' equality strands requires concerted effort if businesses are to begin to address these grounds of workforce diversity effectively.

Companies were also asked to indicate what their existing and/or preferred sources of information and help on these issues is. Approximately half of the responding companies pointed to employers' organisations and networks, followed by other businesses and companies as their main information sources. 25% felt that national governments are an important source, and 13% thought the EC has an important role in this respect. The majority of responding companies would prefer to receive more information through employer networks and organisations in preference to all other sources.



Conclusions and Ways forward 4

Companies are making steady progress in the implementation of diversity and equality policies in Europe with about half of those taking part in the EBTP survey saying that they either have initiatives in place or are in the process of developing and implementing them. While it is true that the business case for diversity may still be at an early stage of development in the region and a powerful case for investment in workforce diversity policies may still need strengthening, this report showed positive results in some areas and indicated possible ways forward.

Business case for diversity

- There is a considerable level of activity in the promotion and implementation of diversity policies across the business sector and more multi-dimensional diversity and anti-discrimination approaches are emerging, with the majority of good practice companies embracing all six grounds of discrimination.

- EBTP survey companies are convinced about the business benefits of diversity. When asked whether diversity initiatives have a positive impact on their business, the vast majority (82%) of the 495 companies that replied agreed that they did.

- Good practice companies are similarly confident of the business outcomes of their diversity policies. They see the benefits of diversity as almost self-evident and are keen to stress their commitment to diversity as a matter of ethics, progressive outlook and good management practice.

- Of the main benefits of diversity that were highlighted by companies in the EBTP survey and good practice companies, the main one is access to a new labour pool and the likelihood of attracting and retaining high quality employees. It was the single highest scoring benefit among EBTP respondents, cited by 42% of companies. Others benefits include good community relations and enhanced corporate image and reputation.

Awareness raising essential

- Half of the companies in the EBTP survey have yet to develop diversity policies and practices and point to the lack of information and awareness of diversity issues as their biggest challenge.

- The main source of information on workplace diversity for all EBTP survey respondents is employers' organisations and networks, cited by nearly half of all companies.

- Employers' organisations, therefore, are likely to continue to play a key role in the dissemination of good practice materials and should be encouraged to provide a regular output of relevant information, ensuring that it meets the needs of all companies in all Member States.

- Small and medium-sized enterprises that often lack the resources of their larger counterparts are a particular focus of attention for awareness-raising, as are companies in southern Europe and the new Member States, which were poorly represented in the surveys carried out for this report. In the EBTP survey, only 7% of responses were from southern European and 23% from new Member States.

- Given the openness of companies that took the time and effort to participate in this diversity exercise, many others should be willing to share their experiences and expertise to extend good practices more widely, in particular in areas of diversity that are seen to be difficult to address, like religion and belief and sexual orientation.

- The European Year of Equal Opportunities for All in 2007 will be an ideal opportunity to promote the business case for diversity, providing an impetus for further action by employers in combating discrimination and promoting workplace diversity.

Organisational change and the role of human resources

- According to the EBTP survey, the single most important area that diversity policies cover is human resources management (recruitment, retention, selection, etc.), which was cited by about 55% of companies. Given the problems that many companies will face in future in attracting and retaining quality new recruits, human resources will no doubt remain a key focus.

- Many good practice companies are developing approaches that encourage business-wide ownership of diversity and performance management. These view Human Resource and diversity specialists as internal experts and consultants, with accountability for equality and diversity delivery resting with managers and leaders. To encourage action, they are increasingly linking diversity competences and performance targets to appraisal and rewards processes for managers.

- Good practice companies have extensive internal culture change programmes for senior leaders and staff to address significant obstacles such as discriminatory attitudes and behaviours. These include awareness-raising activities aimed at fostering greater understanding of the benefits and practices of diversity in the workplace and beyond.

Measuring and monitoring need urgent attention

- Nearly 70% of EBTP companies that have or are implementing diversity policies do not have systematic measurement or review mechanisms in place for their diversity initiatives. However, many of the good practice companies have a range of monitoring and feedback processes to allow them to take an organisational pulse check on equality and diversity matters.

- While a range of models and frameworks for setting indicators and measuring diversity performance already exists, the challenge is to promote wider application of such tools across businesses that have adopted diversity policies.

Case studies – Good Practice in Workplace Diversity 5

Adecco

Company Name	No. Employees:	Website
ADECCO	5 000 (France), 30 000 (global), up to 700 000 temporary staff per day (global)	www.adecco.com
Country		**Primary Business**
France / Europe	Turnover: €17.2 billion (global)	Recruitment and career services
Title of Initiative	**Disability & Skills Programme**	

Specific Grounds:
Disability

Country(ies) scope:
France, Spain, Italy, Belgium, Netherlands, UK

Launch date:
1986 in France
2000 across Europe

Highlights:

- Implementation in six EU Member States
- Non-discrimination and disability inclusion training to all staff
- Skills gap training offered to disabled candidates to help ensure long-term employment
- Access to work for 9 578 persons with disabilities at European level in 2004

Disability is not an obstacle to competency.

Jérôme Caille, CEO Adecco

The Disability & Skills initiative was initially launched within Adecco in France in 1986 to facilitate the access of persons with disabilities to the labour market. Following the success of the programme in France, it has been extended to Spain, Italy, Belgium, the Netherlands, the UK and Switzerland, and will be further extended to other European countries in 2005. The programme promotes equality of opportunities only on the basis of personal skills, qualities and experience. The objective is to identify and provide work opportunities matching candidates with disabilities, whilst also helping develop additional skills to ensure sustainable employment.

A dedicated Business & Disability coordination team was set up in 2004 at international level to manage the implementation and results of the programme across the group. It is headed by a Corporate Social Responsibility/Disability & Skills project director at group level working in collaboration with a team of project leaders responsible for programme implementation at national and local levels. The coordination team ensures the transfer of know-how and mainstreaming of disability inclusion throughout Adecco's major business units.

Internally, compulsory induction training on non-discrimination and disability inclusion is provided to managers and staff to ensure understanding of corporate diversity values and personal engagement in the policy's implementation, and to help them deal with potential cases of discrimination. Evaluation of the diversity programme includes monthly, quarterly and yearly monitoring and reporting on the achievements and number of people with disabilities at work.

Results

Adecco sets targets and objectives relating to the work placement and employment of people with disabilities. In 2004, it facilitated access to work to 9 578 persons with disabilities across Europe, an increase of 9% compared to 2003, exceeding its own targets. The Disability & Skills initiative has brought organisational cultural change in a previously hostile environment through demystification of disability in the workplace. The programme benefits from the support of staff and temporary staff, disabled and non-disabled, and creates enhanced satisfaction amongst staff and clients. The commitment to disability inclusion has been a key factor in Adecco winning calls for tenders with some clients.

AIR PRODUCTS

Company Name	No. Employees:	Website
AIR PRODUCTS	5 500 + (Europe) 20 000 (global)	www.airproducts.com
Country	Turnover: €1.8 billion (Europe)	**Primary Business**
UK / Europe and worldwide		Industrial gases, chemicals, equipment and services provider
Title of Category	Valuing Diversity	

Founded more than 60 years ago, Air Products serves customers in technology, energy, healthcare and industrial markets worldwide. However, its success was complicated by some prejudicial attitudes leading to a feeling of exclusion and low contribution from some valuable staff, before a training and awareness diversity programme called Valuing Diversity began in 2001.

The programme has seen improvement in staff progression and a trained and more effective workforce. It includes awareness training, supported by posters to reinforce the learning from diversity workshops and 'Coffee talks' to explain the overall initiative and its local implementation. Regular diversity reports appear in employee magazines and corporate Intranet sites. Diversity leadership teams in each major business or region drive change towards an environment in which every employee can contribute fully and feels valued and included. Employee networks, have been set up, for example Gay and Lesbian Empowered Employees (GLEE), Ethnically Diverse Employees (EDEN) and All Asian Americans at Air Products.

The increased awareness has transformed the organisation and created an environment encouraging a significant number of local initiatives, typically related to improving communication, inclusion, building trust, improving teamwork and cultural awareness.This has been achieved through the development of unique training methods tailored for each individual country and allowing for its social and cultural context. Over 5 300 employees have now been trained across Europe.

Results

In France for instance, a newly formed logistics team used the concepts of team integration, acceptance and mutual learning to achieve a forecasted €600 000 productivity improvement (exceeding a €450 000 target). Also specific efforts to recruit and accommodate Muslim employees in the Maurepas Depot have improved the standing of the company in the local community. In Spain, employees created a succesful diversity internet site and information posters, introduced a mentoring programme and training for managers, engaged in self assesment and in recruiting from the local community. The overall initiative has led to a positive impact on the working environment, shifts in management style and enhanced worker innovation Europe wide.

Specific Grounds:

Diversity training across all grounds

Country/Geo scope:

Europe

Launch date:

2001 ongoing

Highlights

- Over 5 300 staff trained in diversity across a large number of EU country operations
- Active employee-driven mentoring programme and networks

So I will continue to foster tolerance, understanding, respect, integrity and an open working environment. These are essential components of a modern, high performing corporation and fundamental to retaining and nurturing talented people.

Bernard Guerini, President, Air Products Europe

BERTELSMANN

media worldwide

Company Name	No. Employees:	Website
BERTELSMANN	76 266 (global), 27 500 (Germany)	www.bertelsmann.com
	Turnover: €17 billion (global)	
Country		**Primary Business**
Germany / Global		Media
Title of Initiative	**Making a Commitment to People with Disabilities – Dismantling Prejudice**	

Spurred by the European Year of Disabled People in 2003, Bertelsmann has implemented a diversity initiative that is increasing internal and external awareness about disabilities in the workplace while at the same time providing support for its own disabled employees in Germany. Bertelsmann's premise was simple: When given appropriate tools and an inclusive working environment, disabled people are as capable as their non-disabled colleagues of enhancing the performance of the company, employee motivation and loyalty.

Communications to raise awareness were extensive but a crucial turning point was a panel discussion in 2003, broadcast live over the intranet to all Bertelsmann's German employees, giving them the chance to question the company's proposed disability initiative. The panel, all supporters of the project, included Bertelsmann's chief executive, its head of HR, the group representative for the disabled and workers' representatives.

Bertelsmann has since used its position as a creative media company to broaden awareness of the skills and capabilities of disabled people. For example, it has producedTV commercials aimed at breaking down misperceptions about people with disabilities broadcast by Bertelsmann companies across the EU, reaching an estimated 52 million viewers.

The company has also generated ideas for innovative aids to help disabled employees. They include a wheelchair that helps physically disabled people to stand and a car that gives wheelchair users mobility without having to leave their wheelchair. These products have increased the well-being and efficiency of disabled employees and their loyalty to the company.

In addition, Bertelsmann has a human resources policy that requires all vacancies within the German operations to be open to disabled people. It also has an apprenticeship programme for disabled people that is among the first in Germany to offer successful apprentices a job for life.

Results

At present 4.3% of Bertelsmann's German workforce is disabled, nearly double the 2002 figure. This number is expected to rise as the company's reputation as an equal opportunities employer increases and as more disabled people are moved to apply for advertised vacancies. Non-disabled employees have also benefited from the disability initiative, being better informed about disability and more willing to cooperate inside and outside the company with disabled colleagues.

Specific Grounds:
Disability

Country(ies) scope:
Germany

Launch date:
2002 ongoing

Highlights:
- 4.3% of employees are disabled, nearly double the 2002 figure
- Successful disabled apprentices offered job for life
- Advertising campaign about disabled people reaches 52 million EU TV viewers

People with disabilities should not only have the same opportunities as their colleagues without disabilities – they should also receive the full support of their employers.

Gunter Thielen, Chairman of the Executive Board and Chief Executive Officer, Bertelsmann

BT

Company Name	No. Employees:	Website
BT / British Telecommunications plc	102 000 (UK) Turnover: £18.6 billion	www.bt.com
Country		**Primary Business**
UK / Global		Communications/ICT solutions/Software
Title of Initiative	Effortless Inclusion	

BT is a leader in the communications industry, confident of its ability to communicate to a diverse and multicultural Britain. Successful mainstream advertising has consistently featured a diverse range of people including those with disabilities and from a variety of ethnic backgrounds. One result suggests that £217m revenue was retained by BT as a result of an advertising campaign featuring an ethnic minority engineer that launched BT's drive to increase the use of broadband.

At the heart of BT today is a philosophy called Effortless Inclusion, which represents BT's thinking about equality and diversity developed in the last 20 years. During this time, BT has been convinced of the business benefits of a diverse workforce and diverse audiences, and has integrated an understanding of inclusion throughout the company, from employment policies to product development and customer service. Effortless Inclusion is research driven, influenced by future-gazing and underpinned by sophisticated demographic analysis, enabling BT to collect data about changes in its workforce composition and customer base. This information has helped to develop concepts such as spoken text messages for the visually impaired.

BT has also trained over 600 volunteer diversity coaches to deliver a variety of diversity packages to their peer groups. There are a number of successful employee networks representing, amongst others, disabled, ethnic minority, gay, lesbian, bisexual and transsexual employees and those who follow a range of beliefs and religious traditions. These networks provide feedback and information to designers and marketing during the product design phase, as well as supporting employee communities.

Results

As a result of its diversity initiative, the percentage of people promoted in BT who are from ethnic minorities is higher than the representation of people from ethnic minorities in the associated talent pool. BT also has a high number of female and ethnic minority graduates.

In addition, BT's policies enable over 10 000 people to work flexibly from home. Employee attitude surveys show that these employees are more efficient and deliver more profit to the business. Results indicate 2% less absenteeism than the UK average and home workers are 7% happier than site-based colleagues. Flexible working also enables employees to take more responsibility in their local communities.

Specific Grounds:
Ethnicity, religion/belief, disability

Country(ies) scope:
UK, Europe

Launch date:
2000 ongoing

Highlights
- Percentage of ethnic minority workers promoted is higher than their representation in the associated talent pool
- £217m revenue retained as a result of a broadband ad campaign

At BT we will only be able to deliver innovation, ensure excellent service and provide the range of products that will drive our business forward if we have a workforce that is every bit as diverse as the customers we serve.

Ben Verwaayen, Chief Executive Officer, BT Group

COCO-MAT

Company Name	No. Employees:	Website
COCO-MAT	200	www.coco-mat.com
Country	Turnover: €12.3 million	**Primary Business**
Greece		Manufacturing and retailing
Title of Initiative	Special Social Groups	

From its foundation in 1989, Coco-Mat's vision has been to build a company that is committed to equality of opportunity. At the beginning, the founders believed that recruiting, training and developing people without discrimination, was the best and right way to run a company. Today, after years of steady growth and high levels of both employee and customer satisfaction, Coco-Mat has shown that it is also a profitable way.

The company, which makes mattresses, bed linen and furniture in a factory at Xanthi, recruits from a wide base but focuses on 'special social groups'. These are people who have been subjected to racial, ethnic or religious discrimination, who are disabled or who have large families to support. At present, Coco-Mat's workforce comprises 13 nationalities and nine religions. About 70% of employees are refugees from the former Soviet Union and Turkey, and a further 12% are disabled.

The company is known locally and internationally, helping it to attract new recruits and accounting for the large number of unsolicited résumés it receives each year. When interviewing potential employees, Coco-Mat is as interested in their personality, commitment, behaviour and ecological awareness as it is in their qualifications and work experience.

New recruits are given language training (if needed) as well as skills training. Importantly, they are also encouraged to suggest ideas for improving the business. Coco-Mat believes that by involving people in the decision-making process about its future it is capitalising on the total knowledge and creativity of the company while at the same time fostering a cooperative working environment. This leads to innovation (about 30% of the company's new products are based on ideas from employees in special social groups) and to motivated and content employees.

Results

The results of Coco-Mat's corporate philosophy, which combines equal opportunities with a democratic management style, are seen internally and externally. Staff turnover is low because people are proud of the company. Absenteeism is close to zero because people enjoy their work and are treated fairly.

Customer satisfaction with Coco-Mat's products and service is very high and in 2003, was recognised when it won the European Foundation for Quality Management's European Quality Award. In addition, the company continues to grow.

Specific Grounds:
Ethnicity, religion/belief, disability

Country/ies of scope:
Greece

Launch date:
1989 ongoing

Highlights
Coco-Mat employs:
- 13 nationalities
- 8 religions

It achieves:
- High customer satisfaction
- High employee satisfaction, low staff turnover
- Increased product development through its diverse workforce

When I first joined Coco-Mat they helped me become what I am. Now I am happy and enjoy living in Coco-Mat's world.

Christina Klaniotis,
employee of 2005

Company Name	No. Employees:	Website
DANFOSS	Approx. 18 000 (global), 14 000 (Europe), 6 000 (Denmark)	www.danfoss.com
Country	Turnover: €2.2 billion	**Primary Business**
Denmark		Mechanical and electronic components and controls
Title of Initiative	Age Diversity	

For about 25 years, Danfoss has considered age as an integral part of its human resources management policy, initially in support of its efforts to provide a non-discriminatory work environment in compliance with Danish, European and global laws and guidelines. However, the prospect of changing demographics and workforce ageing (the average age of Danfoss employees is about 40 years) led to a comprehensive revision of the company's age-related programmes under the slogan, Continuous Learning & Development Irrespective of Age.

Every employee over 55 years of age is eligible for participation in the programme which is voluntary. The programme is part of the annual employee development and performance appraisal consultations and is based on value creation and mutual flexibility. It includes a broad range of activities and tools, such as: an HR policy component; a guide to age diversity; management communication, guidelines and empowerment; employee development consultations; orientation meetings for employees and their spouses; and individual coaching and development.

In addition to the employee and his or her manager, the key actors are: corporate HR and business unit HR, psychological advisor, pension advisor, legal advisor, and training and development resources. Moreover, the age programme options include flexible schemes such as job sharing, flexible retirement and freelance consulting assignments.

Results

Although the age initiative was initially received with some scepticism among older employees, Danfoss launched a company-wide campaign to promote it, emphasising its mutual benefits and reinforcing the value of older employees. As a result, it is avoiding unnecessary loss of vital corporate skills. A key factor to successful implementation of the initiative was (and still is) the genuine commitment of management. Several articles and success stories in the Danish press have featured senior Danfoss employees.

Specific Grounds:
Age

Country(ies) scope:
Denmark

Launch date:
Re-launched 2002, ongoing

Highlights:
- Danfoss signs European Declaration of Businesses against Exclusion (1995)
- Awarded annual Age Diversity Award for its age diversity programme (2003)

Danfoss strives to act in a socially responsible way. Thus we have signed the UN Global Compact and we are implementing the principles in all our internal policies and guidelines. Therefore any kind of discrimination due to race, gender, age and religion is forbidden.

Ole M. Daugbjerg,
Corporate Vice President
Communications & Reputation Management, Danfoss A/S

Deutsche Bank

Company Name	No. Employees:	Website
DEUTSCHE BANK	65 400 (global), 27 000 (Germany)	www.db.com
	Turnover: €21.9 billion (global)	
Country		**Primary Business**
Germany / Global		Financial services
Title of Initiative	Global Diversity at Deutsche Bank – Target Group Marketing to Diverse Groups	

Specific Grounds:
Sexual orientation

Country(ies) scope:
Germany, Italy, Spain, UK

Launch date:
1999

Highlights
- Employee networks raise diversity awareness
- Gay and lesbian marketing campaigns generate ten-fold return on investment
- Max-Spohr prize winner in 2002

Diversity is key to our business growth. Our success is driven by our ability to leverage and manage our diversity in order to create outstanding solutions for our clients.

Dr. Josef Ackermann,
Chairman of the Group Executive Committee,
Deutsche Bank

Deutsche Bank aims to foster an inclusive work environment in which all employees can contribute their full potential. To achieve this, it set up a global diversity team in 1999 to supports various initiatives, such as talent and development initiatives, employee networks and diversity training. However, it initially received a reserved response among business managers. Only when the team started to connect diversity with the business did managers become more open to discussion.

Today at Deutsche Bank, senior managers of each business division act as diversity champions. Diversity management workshops are held for all managers who are also required to set personal diversity objectives. Members of the diversity team now work as business consultants to the business divisions, helping them to analyse data, develop projects and monitor their impact. One project that is being undertaken with Deutsche Bank's retail banking business in Germany is targeting potential gay and lesbian clients with the aim of gaining market share by positioning the bank as an open-minded and empathetic financial services provider.

The project started in Berlin in late 2003 when Deutsche Bank began placing advertisements in a gay and lesbian magazine. The advertisements gave the names of people to contact, providing the bank with an opportunity not only to sell its services but also to gauge individuals' responses to the campaign. Internally, Deutsche Bank has gay and lesbian employee networks in Germany, the UK and the US, and it is arguable that the gay and lesbian marketing activities would not have been considered without their influence.

Externally, Deutsche Bank supports gay and lesbian advocacy groups and the Christopher Street Day gay pride parades held annually in German cities. In 2002, its commitment to diversity was rewarded when it won the Völklinger Kreis (Federation of Gay Managers) Max-Spohr prize.

Results

Deutsche Bank is succeeding in its target marketing activities in Berlin, attracting new clients and sales revenues. Encouraged by this response, the retail banking business decided to launch a similar gay and lesbian marketing campaign in Hamburg in 2004. Together the Berlin and Hamburg projects have generated a ten-fold return on the initial investment. More recently, projects have been started in Cologne and Munich.

Deutsche Telekom

Company Name	No. Employees:	Website
DEUTSCHE TELEKOM	243 000 (global), 162 000 (Germany)	www.telekom3.de
Country	Turnover: €57.9 billion (global)	Primary Business
Germany / Global		Telecommunications
Title of Initiative	Living Diversity	

Over the past few years, Deutsche Telekom has undergone major change, expanding overseas while at the same time rationalising its domestic operations. What is emerging is a company that is more international (present in 65 countries and employing a third of its staff outside Germany) but with an ageing workforce, particularly in Germany, where continued efforts to cut personnel costs are slowing the recruitment of young people.

To address these developments, Deutsche Telekom launched a comprehensive diversity policy in November 2004 that builds on previous initiatives that were primarily aimed at gender equality issues. The policy is promoted from the top, approved and supported by trade unions and workers councils, and welcomed by employee networks.

One of the main aspects of the policy focuses on age diversity, particularly the rising average age of company employees (currently 42 years), mainly in Germany but also in Italy and Hungary. This challenge has led Deutsche Telekom to become a founder member of the New Quality of Work Initiative (INQA), a venture between the German Government, social partners and business to find solutions to the demands of tomorrow's world of work, one of which is ensuring people remain employable into and beyond their 50s.

Aligned with this initiative, Deutsche Telekom is sponsoring free courses about the internet across Germany for people over 50 years of age to help ensure they are aware of and able to use this important technology. At the same time, it is running a marketing campaign offering internet access products specifically designed for older people. The company has also recently appointed an age manager who is working closely with the group's diversity team to further develop its age diversity strategy.

Results

Since 2004, Deutsche Telekom has provided free Internet courses to more than 42 500 over 50s, contributing to the recent high growth in home-based Internet access among the over 50s in Germany and to Deutsche Telekom's continuing strong sales in Internet service provision.

The company's employees are supportive of the age initiative and have responded well to a new mentoring programme, enabling Deutsche Telekom to match every trainee with a mentor who is over 40 years of age and to preserve valuable knowledge and experiences. Staff members are also taking advantage of voluntary health awareness programmes.

Specific Grounds:
Age

Country(ies) scope:
Germany initially, globally later

Launch date:
1995 (equal opportunities)
2004 (group diversity policy)

Highlights
- Age manager appointed
- Marketing activities target over 50s

We are a company that respects diversity and workplace equality. A commitment to equal opportunities and diversity is an integral part of our corporate culture and the group's human resources strategy.

Dr. Heinz Klinkhammer, Member of the Board responsible for Human Resources, Deutsche Telekom

Dublin Bus

Serving the entire community

Company Name	No. Employees:	Website
DUBLIN BUS	3 432	www.dublinbus.ie
Country	Turnover: €177.5 million	Primary Business
Ireland		Public transport
Title of Initiative	Equality & Diversity Programme	

Dublin Bus employs staff from over 50 different countries and has a high public profile as a state-funded company that is proactively promoting diversity and equality and an intercultural workplace. Its commitment to diversity and inclusion started in 2001 when the company conducted an Equality Review to understand and analyse its position. This prompted strategic action with the launch of an Equality and Diversity Action Plan in 2003.

The plan's priorities, objectives and actions are set in relation to dignity and respect at work, recruitment and positive action, ethnic diversity, disability, training and participation, work life balance as well as marketing and advertising. In particular, the plan has led to the introduction of specific internal policies (e.g. Equality & Diversity policy, Dignity & Respect, Intercultural Workplace Policy).

Working groups involving management, staff and trade unions are active on many diversity issues. One such group is the Intercultural Working Group that involves staff and bus drivers from different origins and ethnic backgrounds. It has initiated various projects to raise awareness and promote an intercultural workplace both internally (e.g. policy on intercultural workplace, training for trainers for selected staff to deliver intercultural training in induction courses) and externally (e.g. an annual all nations gaelic football match).

An Equality and Diversity panel of 40 trained employees from various grades and locations has also been set up to act as a resource to the working groups and as diversity champions in the workplace, communicating diversity objectives to other staff and bus drivers at different work locations.

Results

The diversity initiative has significantly enhanced the external corporate reputation of Dublin Bus, as well as its internal people management skills and good practice in human resource processes. Since 2001, the success of its Equality & Diversity Programme has been highlighted in the Irish media. The Equality Authority in Ireland has also listed Dublin Bus as a Company of Best Practice in relation to its intercultural workplace. Dublin Bus has a high level of worker satisfaction, and employees report the company as an employer of choice which has led to increasing numbers of job applications from ethnic minorities, older people and people with disabilities.

Specific Grounds:
Ethnicity

Country(ies) scope:
Ireland

Launch date:
2001 ongoing

Highlights
- High level of worker satisfaction
- Success of the diversity programme highlighted in media
- Listed as a Company of Best Practice by the Equality Authority
- Increase in number of candidates from ethnic minorities, older people and people with disabilities

We believe that the principles of equality and inclusion enhance the efficiency and fulfilment of our employees, empower us to meet the changing needs of our customers and connect us to the entire community that we serve.

Joe Meagher, Managing Director, Dublin Bus

Company Name	No. Employees:	Website
FORD (incorporating GB, Europe and Jaguar LandRover)	14 000 (UK)	www.ford.com
Country	Turnover: $28.5 billion (Ford of Europe)	Primary Business
UK / Europe		Car Manufacturing
Title of Initiative	Dignity at Work	

In 2000, Ford set up a diversity team to drive diversity into the business. The team adapted the Commission for Racial Equality's racial equality standard to create a Diversity Equality Assessment Review (DEAR), a systematic procedure to ensure a complete internal audit and setting of achievable goals. Each of Ford's ten factories in the UK underwent a diversity review and, as a result, four specific areas for action were identified. They were: the development of a Dignity at Work (DaW) programme to help ensure everyone feels included and respected; a new diversity training programme; review of recruitment and selection processes; and a corporate citizenship and communications strategy.

In 2002, Jaguar also set up a diversity team, conducted its own diversity audit and developed a strategy similar to that at Ford that included a DaW programme.

Ford's diversity training programmes were developed with a range of partners to target individual learning styles, and include modules for shadowing, mentoring and e-learning. They are supported by trade unions. A top-down, bottom-up approach is used that is holistic and inclusive. All managers are required to set personal diversity objectives, which are linked to their performance appraisal.

Ford has set up robust structures to monitor workforce data and develop individual staff. It also sponsors employee networks that act as information points and lobbying groups for members, as well as providing market development panels and focus groups for Ford. Ford's Gay, Lesbian or Bisexual Employees (GLOBE) group is an example of a network that has brought new business to the company and helped Ford to diversify its customer base. GLOBE in the UK has hosted the Gay Pride Festival for the last three years which has resulted in a 24% increase in Ford product purchase consideration by attendees.

Results

Since 2000, Ford has made progress on 97% of diversity-related objectives and initiatives. In Jaguar Land Rover, all managers and 8 000 staff have been trained in DaW, with the remaining staff due to be trained by 2006. In Ford, employee attitude surveys show a 10% increase in awareness among those participating in DaW training. The diversity initiatives have impacted positively on workers' perceptions of the company with 82% of staff supporting diversity efforts and 62% being honoured to work for Ford.

Specific Grounds:
Sexual orientation, ethnicity, religion/belief

Country(ies) scope:
UK and 21 other European countries

Launch date:
2000 ongoing

Highlights
- Systematic Diversity Equality Assessment Review ensuring ongoing audits and setting of achievable goals
- Diversity training programme for managers and staff
- Increased awareness and commitment of staff to corporate diversity goals

We want to be the Brand of Choice. This means we must understand the needs of all communities in which we operate. We are strongly committed to a diverse workforce that reflects these communities and strengthens our business.

Lewis Booth, Chairman and CEO, Ford of Europe

Company Name	No. Employees:	Website
GOLDMAN SACHS	Approx. 20 000 (global)	www.gs.com
Country	Turnover: $4.55 billion (2004 net earnings)	**Primary Business**
UK / Global		Investment banking, securities and investment management
Title of Initiative	**Disability in Action Taskforce**	

Goldman Sachs provides a range of services to a global diverse client base that includes corporations, institutional investors, governments and individuals. Its human face is less well known. Goldman Sachs has profited from the contributions of its diverse workforce and from four employee networks. The work undertaken by the Gay and Lesbian network has ranked the company seventh in the 2005 UK top 100 employers by Stonewall. The Asian Professional Network and the firm-wide Black Network have hosted many events including successful symposia for potential ethnic minority recruits. Complementary to the work of these networks is a Disability in Action Taskforce.

The Disability in Action Taskforce at Goldman Sachs works across three areas: accessibility, communication and awareness, and recruitment and retention. Its work is supported by a CEO-appointed Disability Champion and some fifty commmitted staff volunteers who help implement business plans for set projects. As a result, the profile and awareness of disability in the workplace has been raised exponentially through a series of speaker events, CEO communications, publications and partnership with external organisations (such as the Employers Forum on Disability, Scope, Prospects, Blind in Business and AbilityNet).

Under the banner Disability in Action, high profile events were held including a presentation given to the company in December 2004 on Aspergers Syndrome by the President of the National Autistic Society. Other internal projects have included a workshop on disability for recruiters and the showcasing of the latest e-accessibility software for the workplace.

Results

One of the most successful projects around disability has been Goldman Sachs' partnership with Prospects, the employment agency of the National Autistic Society, which resulted in paid internships for individuals with Aspergers Syndrome. Since 2003, there have been 12 placements and one of the interns developed an invaluable technology programme that is still in use. Goldman Sachs is now moving forward with a new initiative for visually impaired people working with Action for Blind People.

There have been many benefits to the organisation, and those who have been involved in the Disability Action Taskforce and worked in teams with the interns have reported enormous satisfaction and productivity from creating a more inclusive environment.

Specific Grounds:
Disability

Country(ies) scope:
Europe

Launch date:
2004 ongoing

Highlights
- Initiative championed by senior leaders and staff volunteers
- Partnerships with several disability organisations
- Enhanced awareness and commitment of staff to disability

Raising awareness and understanding of the needs, priorities and potential of people with disabilities is a key element of our diversity strategy.

Trevor Smith, Managing Director and Disability Champion, Goldman Sachs

Grupo VIPS

Company Name	No. Employees:	Website
GRUPO VIPS	7 300	www.grupovips.com
Country	Turnover: €305 million	Primary Business
Spain		Restaurants and retailing
Title of Initiative	Diversity as an Opportunity	

Grupo VIPS is a fast growing restaurant and retail company that has introduced a diversity initiative to meet one of its most important strategic objectives which is to expand to 450 establishments in 2007. This is more than double the number of outlets the company had in Spain at the end of 2004 and will require a staff increase of a few thousand people.

Recruiting these numbers in Spain is difficult because fewer young people are interested in starting careers in the restaurant and retail business, often preferring further education and the prospect of more qualified positions. Grupo VIPS solution, developed in 2001, is a diversity initiative that centres on hiring from a much broader talent pool. The company has signed agreements with the labour departments of Bulgaria, Poland, Romania, Morocco, Colombia, Ecuador and the Dominican Republic, not only to hire people from these countries but also to train and develop them. It is one of the first companies in Spain to adopt this approach.

Foreign recruits are offered the same job opportunities, the same salary and the same training as their Spanish counterparts. Crucially, they are also guaranteed a full-time contract of employment while still in their home country. To make the transition to Spain easier, Grupo VIPS finances Spanish language training in the recruits' country of origin and, in some countries, basic job training. Once in Spain, recruits are given further training and an introduction to life in the country to help their social integration. In addition, Grupo VIPS is introducing programmes to increase understanding between different ethnic backgrounds, religious traditions and nationalities.

Results

Since the beginning of 2001, Grupo VIPS has hired 2500 people from the seven countries in its diversity initiative. In 2005, it will recruit 650 more. These members of staff are proving to be more loyal, more conscientious and more sales oriented than group employees considered as a whole. Staff turnover, for example, is about 1.4% a month among foreign recruits compared with 3.3% for the company as a whole (the restaurant industry average is about 12%). Foreign recruits are also interested in a career in the restaurant business, pursuing more education and training in order to progress. At present, a third of restaurant managers are foreign compared with 23% in 2003.

Specific Grounds:
Ethnicity

Country/local scope:
Spain

Launch date:
2001 ongoing

Highlights

- Grupo VIPS is meeting ambitious growth plans by expanding its recruitment horizons
- The result is a multicultural company where staff loyalty and motivation are increasing

Diversity, as well as being one of our five corporate principles has also become part of our business strategy and it is our contribution to achieve a globalised society based on equality of opportunity.

Miguel Angel García Andrés, Manager Human Resources, General Manager, Grupo VIPS

IBM

Company Name	No. Employees:	Website
IBM	94,000 (EMEA), 330,000 (global)	www.ibm.com
Country	Turnover: €50 billion (global)	**Primary Business**
Europe Middle East and Africa (EMEA)		Computer and technology, business and professional services
Title of Initiative	EMEA Diversity & Inclusion	

IBM's Diversity & Inclusion policy aims to create an inclusive workplace for people of any race, age, gender, culture, nationality, religion, physical ability and sexual orientation. In Europe, Middle East and Africa, a specific diversity and inclusion strategy was launched in 2003 that included diversity goals in the areas of: disability; gay lesbian, bisexual and transgender (GLBT); and cultural diversity. Six full-time staff are responsible for implementing the strategy, supported by a diversity council, comprising five taskforces, which outline yearly objectives and chart progress. Separate country councils help to ensure the diversity objectives and policies are implemented across IBM's local operations.

IBM employee initiatives include GLBT network groups in Austria, Belgium, Denmark, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Spain, UK and Slovakia. In 2004, IBM launched its first EMEA GLBT Empowerment Conference in the UK with around 200 employees from 15 countries. This initiative is ongoing. Externally, IBM also promotes GLBT equality and collaborates with various GLBT organisations.

IBM's diversity policy is also strongly focused on implementing equal opportunities for people with disabilities. An 'academic partnership' initiative involving the academic world and disabled students in Europe was launched in 2003 aimed at removing the barriers for people with disabilities to equal access to higher education. The ultimate aim is to integrate people with disabilities not only in the company but also in business and society in general.

Results

The awareness and commitment of IBM managers and employees to diversity issues has been enhanced significantly. Employee network groups and diversity training have resulted in a change of mindset, especially with regards to sexual orientation issues. Similarly, mentorship and internship for disabled students have helped reduce misconceptions about the performance of people with disabilities and create a better understanding of the barriers they face. In 2004 IBM hired 152% more people with disabilities than in 2003.

IBM's diversity strategy has also resulted in the development of innovative products and services for people with disabilities by IBM Accessibility Center and teams led by disabled employees (e.g. IBM's talking web browser for individuals with visual impairment).

Specific Group(s):
Sexual orientation, disability

Country(ies) scope:
Europe, Middle East and Africa (EMEA)

Launch date
2003

Highlights
- GLBT employee network groups in 12 EU countries
- Increase in the hiring of people with disabilities by 152% in 2004
- Innovative products for people with disabilities developed by IBM Accessibility Center and disabled employees

D&I are about attracting people from a wide range of backgrounds and perspectives – and making IBM a place where everyone feels confident and able to contribute to their full potential. And that has direct impact on our ability to serve client needs and deliver results.

David Cornick, Vice President, IBM

Company Name	No. Employees:	Website
MANCHALAN	204	
Country	Turnover: €2.7 million	Primary Business
Spain		Manufacturing
Title of Initiative	Manchalan – Integration of people with disabilities	

Manchalan, a small manufacturing company based in Guadalajara, was set up in 1999 by a Spanish cooperative and non-profit foundations to meet two significant challenges. One was to supply the world's leading domestic appliance company with top quality components and the other was to provide safe and stable employment for as many disabled people as possible.

From the start, the venture had a sound business base. Mondragón Corporación Cooperativa, Spain's seventh largest industrial group, was considering how to give a better service to one of its customers (Electrolux) by moving component production closer to it. It was also interested in the social implications of the project. After meetings with Fundosa Grupo, which helps create employment for the disabled, and Grupo Gureak, which is experienced in setting up workshops for people with disabilities, the partners agreed to a joint venture to provide employment and social integration for people with disabilities.

More than €7 million was invested in Manchalan's plant which makes plastic components, cabling and industrial assemblies. Each of the production areas is designed, using Grupo Gureak and Fundosa's expertise, to accommodate people with disabilities. This is achieved by breaking down the production process into simple steps and ensuring that work is not passed to employees too quickly or in too large quantities (because most workers have mental disabilities).

Disabled people, most of whom are unemployed or in care of occupational centres, are recruited from the region with the help of local social services groups. Employees receive extensive advice and training not only about their specific jobs and responsibilities but also about the workplace. The training is ongoing.

Results

Manchalan has exceeded its founders' expectations, showing that commercial and social objectives can be combined while making a profit. Since 1999, the company has increased its revenues from €332 000 to €2.7 million in 2004 and the number of staff from 59 to 204 at present. The number of workers with disabilities has grown from 56 to 186 in 2005, with 140 now having permanent contracts with the company. Of the 186 disabled employees, 112 have mental disabilities, 51 have physical disabilities and 23 have sensory disabilities. They represent 16% of all workers with disabilities in the Castilla-La Mancha region.

Specific Grounds:
Disability

Country(ies) scope:
Spain

Launch date:
1999 ongoing

Highlights
- Revenue has increased from €332 000 in 1999 to €2.7 million in 2004, exceeding expectations
- Staff has increased from 56 in 1999 to 204 employees in May 2005, 186 of whom are disabled

Before being employed at Manchalan, I was a totally dependent person and was spending some hours a day in an Occupational Center. I did not have any autonomy and had never worked before. Since I joined Manchalan, I live independently in a flat shared with friends and take my own decisions, as anybody else.

Employee of Manchalan

randstad

Company Name	No. Employees:	Website
RANDSTAD BELGIUM	1 200 permanent staff, 22 500 temporary staff on a daily basis	www.randstad.be
Country	Turnover: €673.8 million (BeLux)	**Primary Business**
Belgium / Worldwide		Staffing agency
Title of Initiative	Randstad Diversity	

A leader in providing placement services and one of Belgium's biggest employers, Randstad works with a large variety of client companies and candidates of different needs and characteristics. In order to promote the employment of all its candidates and remedy any inequalities in their chances to find a job, Randstad has set up a special division to develop specific projects on diversity.

The diversity division encourages employers to apply the principle of equality in their recruitment procedures and helps them to become aware of, and to realise, the benefits of diversity. Building on an analysis of the needs of both candidates and clients, Randstad develops tailored solutions in the form of small locally-based projects. The projects typically involve training and coaching for candidates, and support for the client in the form of awareness-raising and practical tools for equality. Due to its success, Randstad's diversity programme has grown significantly and in 2004 almost 1 000 candidates from target groups found employment through the different diversity projects.

Randstad works closely with both the client companies and other local actors in developing and implementing projects. For example, it has been a driving force in the EQUAL project Paradox, which is aimed at increasing employment of persons over 45 and of ethnic minorities in the Antwerp region. The objective was to find placements for disadvantaged candidates in local SMEs and the main output was the development of tools for awareness-raising and guidance on diversity for both employers and recruiters. A follow-up project is envisaged.

Results

Randstad sees the business case for diversity as multi-dimensional, encompassing benefits not only for the company but also for its major stakeholders. The projects developed under the framework of Randstad Diversity reflect this vision and holistic approach. The projects are designed to produce a win-win situation for all partners, with clear benefits for clients, candidates, the company, society and the community.

Randstad's diversity philosophy and projects have contributed to high percentages of employee satisfaction (98%), and to high numbers of temporary workers who would recommend Randstad (97%). The competitive advantage of this level of satisfaction is clearly visible in the company's continuous growth in market share in the past few years.

Specific Grounds:
Ethnicity, age

Country/local scope:
Belgium

Launch date:
2002

Highlights:
- Tailored projects for disadvantaged groups
- The diversity philosophy is put into practice both internally and externally
- Multi-dimensional business case: a win-win situation for all stakeholders involved in the projects

Randstad strives for optimal profit, not for maximal profit.

Stef Witteveen, CEO,
Randstad Belgium 1989-2005

Company Name	No. Employees:	Website
ROYAL DUTCH SHELL	112 000 (global)	www.shell.com
Country	Turnover: $337.5 billion (global)	Primary Business
Netherlands / UK / Global		Energy and petrochemicals
Title of Initiative	Shell Group Diversity and Inclusiveness Process	

Shell has been committed to diversity and inclusiveness since 1997 but over the past three years it has developed a management framework that is helping business and country leaders to more easily develop diversity plans and deliver tangible results. The framework includes: a vision; a standard that defines diversity expectations; three targets measuring the number of women in the group, the nationality of local leaders and workplace climate; a planning template; and two annual processes to monitor progress. As a result of the framework, in 2004, 90% of country chairs worldwide (and 97% of EU chairs) said diversity plans were in place, as well as processes to chart their progress, compared with only 65% in 2002.

At the workplace level, change is also evident with 72% of employees saying in Shell's 2004 employee survey that differences in cultural backgrounds and lifestyles are respected in the company. This is reflected in the increasing number of employee networks that are being formed and receiving support from Shell. In the Netherlands and the UK, for example, gay, lesbian, bisexual and transgender (GLBT) networks have been operating for more than four years and another may be launched in Germany.

Employee networks, once they are formally established, receive financial support and are championed by Shell senior executives who support, guide, counsel and advocate the network. The executives also act as a link to other senior leaders and advise network leaders how to achieve the network's mission and add value to the business.

Results

Shell recognises that employee networks are vital to the bottom-up part of its approach to improving diversity and inclusiveness. The Dutch and UK GLBT networks are effectively raising awareness of inequities and micro-inequities by taking part in events such as the 2004 European diversity and inclusiveness conference attended by Shell's top 70 European executives. They are also helping to create a fairer human resources system that ensures same-sex partner benefits and accepts that alternatives may have to be found when posting GLBT employees to countries that are GLBT hostile.

In addition, the GLBT networks are having an impact on the company as an employer, helping it to recruit and retain people, and as a brand, helping it to improve its image.

Specific Grounds:
Sexual orientation

Country/local scope:
Netherlands, UK

Launch date:
1997 ongoing

Highlights:

- 72% of employees say differences in cultural backgrounds and lifestyles are respected
- Employee networks recognised as key to bottom-up approach to diversity

Diversity and inclusiveness are vital for winning in today's business environment. They create a competitive edge by helping us to attract and retain the best people, increase creativity and improve decision-making. Most importantly, diversity and inclusiveness build trust and strengthen relationships with all our stakeholders.

Jeroen van der Veer, CEO,
Royal Dutch Shell plc

TESCO

Company Name	No. Employees:	Website
TESCO	292 000	www.tesco.com
Country	Turnover: £37 billion (global)	Primary Business
UK / Global		Retail
Title of Initiative	Everyone is Welcome at Tesco	

Tesco is a leading international retailer, with over 2 300 stores worldwide, 1 780 of which are located in the UK with the remainder spread across the rest of Europe and Asia. Tesco is the UK's largest private employer with 237 000 staff. It also employs 55 000 in Central Europe and has created 7 000 news jobs in the region over the last year. All Tesco businesses reflect the diverse communities in which they operate. Over 95% of management positions are filled by local staff and all Boards have a strong local element.

Tesco carries out a number of diversity projects throughout its business. Recently it launched a new programme to further understand and promote diversity among its staff and customers. The Everyone is Welcome at Tesco programme was launched in 2004, when the Board asked the Tesco Diversity Advisory Group to analyse the diversity of Tesco's UK workforce compared with the UK population. The main aim was to mirror the composition of the population in Tesco staff and customers. Since then, Tesco has provided stores with a demographic profile of their local community, to identify groups they need to attract to shop and work at Tesco. It has also provided stores with a selection toolkit that provides information about diverse recruitment.

The Everyone is Welcome at Tesco initiative includes inclusiveness workshops to inform and facilitate discussions with staff and managers on behaviours that promote diversity, and help them build diversity action plans for their own stores. A Cultural and Religious Factbook helps staff and managers to understand various cultural and religious practices. Tesco has also introduced flexible working to support staff during the observance of non-Christian festivals. The initiative also focuses on increasing Tesco's appeal to a diverse range of customers by, for example, introducing product ranges tailored for Asian, Afro-Caribbean, Greek and Kosher customers.

Results

As a result of the programme, significantly more people from an ethnic minority background are joining Tesco. Last year, 57.8% of new staff came from an ethnic minority, a rate of growth considerably faster than the 10.7% growth in the UK labour market. Tesco has also seen a clear customer demand for its ethnic product ranges, with sales growth of 250% over the last two years. The programme also addresses age and disability.

Specific Grounds:
Ethnicity, religion/belief, age, disability

Country(ies) scope:
UK and rest of Europe

Launch date:
2004

Highlights:
- 58% of all new staff come from ethnic minority back grounds
- 250% increase in sales of products tailored to the needs of different ethnic, religious and cultural groups

Understanding diversity is about treating people with respect. Get it right, and you are rewarded with increased loyalty and satisfaction from staff and customers.

Leonie Morris, Diversity Manager, Tesco plc

Company Name	No. Employees:	Website
TNT N.V.	161 500 (in 63 countries), network covers 200 countries	www.tnt.com
Country	Turnover: €12.6 billion	**Primary Business**
Netherlands (Worldwide)		Mail, express and logistics services
Title of Initiative	**Diversity and Inclusion**	

Because TNT operates around the globe, both its customers and its people represent the diversity of the world population. TNT recognises, however, that the benefits of a diverse workforce can be translated into bottom-line results only if diversity is effectively managed. In 2004, CEO Peter Bakker chaired the Ambassador's Network, a Dutch government programme to promote advancement of women into higher management. Inspired by the success of the programme, TNT set up its own global Diversity & Inclusion initiative that builds on existing activities and experience within TNT's national businesses.

TNT's Diversity & Inclusion initiative aims to secure full senior management support, integrate diversity management into TNT's day-to-day business and ensure that managers and staff own diversity activities. A network of more than 40 diversity champions was created to drive the initiative in national businesses by exchanging ideas and sharing best practices. The TNT Board of Management backs the network, and senior human resources managers provide support.

The global Diversity & Inclusion initiative is tailored for local priorities. TNT's Mail division in the Netherlands, for example, is committed to reflecting the diversity of its customer base and Dutch society. The division successfully increased ethnic diversity among its workforce through a programme to recruit and train newly arrived immigrants. The programme offers participants language courses and on-the-job training, and each recruit receives guidance from mentors. To date, 200 immigrants in 15 cities have joined the company through the programme. Recruits demonstrate excellent motivation and high levels of satisfaction, and retention rates are high.

Results

TNT's business case for its Diversity & Inclusion initiative includes its ability to enhance employee satisfaction, as well as its benefits for TNT's brand reputation. TNT's business in Austria is a good example. It adopted an integrated quality approach that includes effective diversity management. The approach reduced employee turnover from 25% in 2000 to less than 7.5% in 2004. Absenteeism went from eight days per employee in 2000 to five days in 2004. These results represent significant savings in employment and training costs. TNT Austria was awarded the national HuMan award in 2003 and 2005, and the HEWITT Best Employer award in 2004 and 2005.

Specific Grounds:
Ethnicity

Country(ies) scope:
Europe

Launch date:
2004 ongoing

Highlights:
- Combined top-down and bottom-up strategy
- Focus on local initiatives and best practice exchange
- Link to business strategy is key

Attracting, developing and retaining a diverse talent base makes TNT an organisation where everyone can make their unique contribution to the best of their abilities. And that makes us a better company.

Peter Bakker, Chief Executive Officer, TNT

VOLVO

Company Name	No. Employees:	Website
VOLVO GROUP	81 000 (global)	www.volvo.com
Country	Turnover: €22 billion (global)	Primary Business
Sweden / Global		Manufacturing
Title of Initiative	Volvo Group Diversity Initiative	

Whilst Volvo Group has acknowledged for some time the importance of diversity in a global business, in 2004 senior management elevated it to become one of the group's top seven strategic issues and signalled clearly that diversity – in all its forms – adds business value. Group management believes that successfully leveraging diversity will have a positive impact on Volvo Group's public image (which influences shareholder opinion), on employee satisfaction and ultimately on global competitiveness.

A Diversity Steering Committee was created, chaired by Volvo Group CEO and with business area CEOs as members, to increase management ownership and involvement. To add a necessary local element, country networks have also been created. Country networks, involving HR staff and line management, are operating in Sweden, Belgium and the US, and diversity contacts have been established in France and the UK. Their goals include ensuring that global diversity initiatives are successfully implemented at a local level, sharing information and best practices, and collaborating on common initiatives.

Employee networks, focusing on specific areas of diversity, are another part of the diversity initiative. Although most European networks currently revolve around women's issues, others are being encouraged. An Employee Association for Gays and Lesbians was launched in mid 2005 and has co-chairs in Sweden and France. A feature article about this network appeared in Volvo's global magazine to inform a much wider audience about this strand of diversity and indicate the group's support of this segment of its employee population.

Results

Volvo Group firmly believes that its diversity objectives and activities demonstrate its commitment to the values described in The Volvo Way, as well as the behavioural standards in the Volvo Group Code of Conduct. Maintaining high integrity and a reputation for social responsibility will have a favourable impact on the way potential employees and customers, as well as shareholders, view the group. This in turn is expected to have a positive impact on business success.

The group's 2004 Employee Attitude Survey showed that a majority in every business operation considered the group's commitment to diversity as either stable or improved, and awareness of the diversity initiative increased across all business areas.

Specific Grounds:
Sexual orientation

Country(ies) scope:
Sweden / Europe

Launch date:
2003 ongoing

Highlights
- Diversity is one of top seven strategic issues
- Diversity Steering Committee chaired by CEO
- Country and employee networks key to awareness-building and adding local touch to initiatives
- Gay and lesbian network established by employees in 2005

Diversity is important from a business perspective. Volvo operates globally and the ability to attract a diverse group of employees is critical to our competitiveness in all countries and towards all customers. Besides, diversity creates a more interesting and attractive workplace. It is the Volvo Way.

Leif Johansson, President and CEO Volvo Group

Annex

EUROPEAN BUSINESS TEST PANEL (EBTP) RESULTS OF THE CONSULTATION ON WORKPLACE DIVERSITY AND ANTI-DISCRIMINATION

Date open: 14/06/2005
End date: 15/07/2005
Total: 798 responses

Identification of case for EBTP

Indicate your main sector of activity (compulsory)

		% of total
D - Manufacturing	223	(27.8%)
K - Real estate, renting and business activities	103	(12.8%)
G - Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	100	(12.5%)
F - Construction	84	(10.5%)
I - Transport, storage and communication	76	(9.5%)
J - Financial intermediation	65	(8.1%)
O - Other community, social and personal service activities	49	(6.1%)
E - Electricity, gas and water supply	33	(4.1%)
H - Hotels, restaurants and bars	27	(3.4%)
N - Health and social work	26	(3.2%)
C - Mining/Quarrying	12	(1.5%)

Indicate in which EU/EEA countries your company is based? (compulsory)

		% of total
DE - Germany	125	(15.6%)
NL - The Netherlands	97	(12.1%)
DA - Denmark	92	(11.5%)
PL - Poland	75	(9.3%)
HU - Hungary	49	(6.1%)
IE - Ireland	45	(5.6%)
UK - United Kingdom	45	(5.6%)
BE - Belgium	44	(5.5%)
CZ - Czech Republic	33	(4.1%)
NO - Norway	31	(3.9%)
PT - Portugal	24	(3.0%)
FI - Finland	23	(2.9%)
SV - Sweden	23	(2.9%)
AT - Austria	17	(2.1%)
ES - Spain	17	(2.1%)

FR - France	15	(1.9%)
EL - Greece	14	(1.7%)
LT - Lithuania	12	(1.5%)
SI - Slovenia	7	(0.9%)
EE - Estonia	4	(0.5%)
IT - Italy	3	(0.4%)
LV - Latvia	3	(0.4%)
SK - Slovak Republic	0	0
IS - Island	0	0
MT - Malta	0	0
LU - Luxembourg	0	0
CY - Cyprus	0	0

Number of employees in your company (compulsory)

		% of total
50-249	196	(24.4%)
500 +	187	(23.3%)
10-49	157	(19.6%)
1-9	134	(16.7%)
250-499	93	(11.6%)
0	31	(3.9%)

Apart from your country, in how many countries of the European Union do you regularly sell products and services? (compulsory)

		% of total
None	299	(37.2%)
More than 5	177	(22,2%)
2-3	110	(13.7%)
1	84	(10.5%)
4-5	56	(7.0%)

Questions

1. How would you describe the situation in your company relating to diversity policies and practices? (Select one)

		% of total
We have no such policies or practices in place	403	(50.2%)
Policies and practices have been well embedded for some time (more than five years) and are constantly updated/improved	163	(20.3%)
Policies and practices have recently been implemented (within the last five years)	106	(13.2%)
We are implementing policies but more needs to be done	67	(8.3%)
We are in the process of developing an equality and diversity approach	54	(6.7%)

1a. Could you tell us why no diversity policies and practices are in place? (Select all that apply) (Please go to questions 9.-13.)

		% of total
We only look at qualifications when we hire and promote	283	(35.2%)
We have not given particular thought to diversity	114	(14.2%)
We are concerned, but do not see particular competitive advantages	60	(7.5%)
We have no expertise in this field	41	(5.1%)
We would need more information about it	38	(4.7%)
We are not sure what diversity really means	38	(4.7%)
Other - please specify:	28	(3.5%)
We have no budget available	21	(2.6%)

2. Which of the following diversity areas / grounds of discrimination do these initiatives address? (Select all that apply)

		% of total
Gender	340	(42.3%)
Age	314	(39.1%)
Nationality	262	(32.6%)
Disability	250	(31.1%)
Racial or ethnic origin	244	(30.4%)
Religion or belief	203	(25.3%)
Language	154	(19.2%)
Sexual orientation	150	(18.7%)
Other – please specify:	40	(5.0%)

3. Do these diversity initiatives have a positive impact on your business?

		% of total
Yes	418	(52.1%)
No	87	(10.8%)

4. Based on your experiences and/or expectations, which of these benefits can a diverse workforce bring to business? (Select all that apply)

		% of total
Access to new labour pool and/or attraction of high quality employees	342	(42.6%)
Benefits related to company's reputation, corporate image or good community relations	307	(38.2%)
Commitment to equality and diversity as company values	284	(35.4%)
Innovation & creativity	211	(26.3%)
Improved motivation & efficiency	196	(24.4%)
Legal compliance / avoidance of fines or sanctions	189	(23.5%)
Competitive advantage compared to other firms	137	(17.1%)
Economic effectiveness and profitability	134	(16.7%)
Marketing opportunities to a wider customer base	127	(15.8%)
Enhanced customer satisfaction & service level	124	(15.4%)
Other – please specify:	22	(2.7%)

5. In broad terms, which of the following areas do your diversity initiatives cover in practice? (Select all that apply)

		% of total
Human Resources (e.g. recruitment, selection, retention, progression, training, networks, work-life balance)	436	(54.3%)
Organisational culture	262	(32.6%)
Community engagement and outreach	157	(19.6%)
Sales and customer services	102	(12.7%)
Marketing and communications	91	(11.3%)
Other - please specify:	17	(2.1%)

6. Is there a regular monitoring and evaluation of the initiatives to measure their results and impact?

		% of total
No	368	(45.8%)
Yes	166	(20.7%)

6a. Do you use data on workforce composition for monitoring and evaluation of the initiatives?

		% of total
Yes	129	(16.1%)
No	35	(4.4%)

7. Does the company set any specific diversity targets for the recruitment and promotion of staff from given under-represented groups?

		% of total
No	454	(56.5%)
Yes	91	(11.3%)

7a. Please specify these target groups:

		% of total
Gender	50	(6.2%)
Age	38	(4.7%)
Disability	28	(3.5%)
Racial or ethnic origin	24	(3.0%)
Nationality	22	(2.7%)
Language	15	(1.9%)
Religion or belief	12	(1.5%)
Sexual orientation	5	(0.6%)
Other – please specify:	2	(0.2%)

8. Are financial resources/a specific budget allocated to workplace diversity and anti-discrimination?

		% of total
No	494	(61.5%)
Yes	49	(6.1%)

9. What in your view is the **most important** challenge to addressing workplace diversity and anti-discrimination in practice in the workplace? (Select one)

		% of total
Lack of information and awareness	162	(20.2%)
Difficulty of measuring results of diversity policies	161	(20.0%)
Discriminatory attitudes and behaviours	132	(16.4%)
Specific skills/expertise required	88	(11.0%)
Commitment of leadership	79	(9.8%)
Other – please specify:	70	(8.7%)
Time	41	(5.1%)
Financial resources for this purpose	27	(3.4%)

9a. What in your view is the **second most important** challenge to addressing workplace diversity and anti-discrimination in practice in the workplace? (Select one)

		% of total
Lack of information and awareness	164	(20.4%)
Difficulty of measuring results of diversity policies	129	(16.1%)
Specific skills/expertise required	119	(14.8%)
Discriminatory attitudes and behaviours	100	(12.5%)
Time	75	(9.3%)
Commitment of leadership	68	(8.5%)
Financial resources for this purpose	56	(7.0%)
Other – please specify:	42	(5.2%)

10. What are your main information sources on the subject of diversity in the workplace? (Select all that apply)

		% of total
Employers' organisations or networks	376	(46.8%)
Other businesses and companies	239	(29.8%)
National government	206	(25.7%)
Chambers of commerce	129	(16.1%)
European Commission	109	(13.6%)
Works councils or trade unions	101	(12.6%)
Other – please specify:	99	(12.3%)

11. From which actors would you welcome more information on the benefits of diversity in the workplace? (Select all that apply)

		% of total
Employers' organisations or networks	313	(39.0%)
National government	306	(38.1%)
Chambers of commerce	217	(27.0%)
European Commission	164	(20.4%)
Other businesses and companies	141	(17.6%)
Works councils or trade unions	81	(10.1%)
Other – please specify:	47	(5.9%)

12. Do you think that current rules and legislation in the field of workplace diversity are

		% of total
About right	331	(41.2%)
No opinion	184	(22.9%)
Too much	147	(18.3%)
Insufficient – more needs to be done	124	(15.4%)

13. Do you think that awareness-raising activities in the field of workplace diversity are

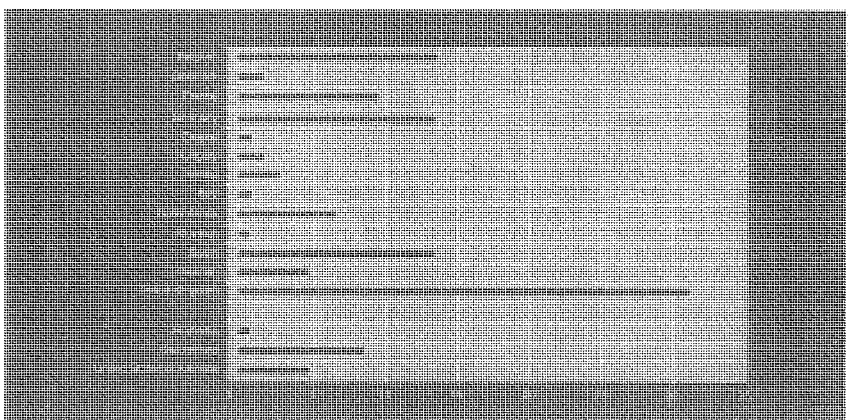
		% of total
Insufficient – more needs to be done	359	(44.7%)
About right	223	(27.8%)
No opinion	151	(18.8%)
Too much	55	(6.8%)

Annex II

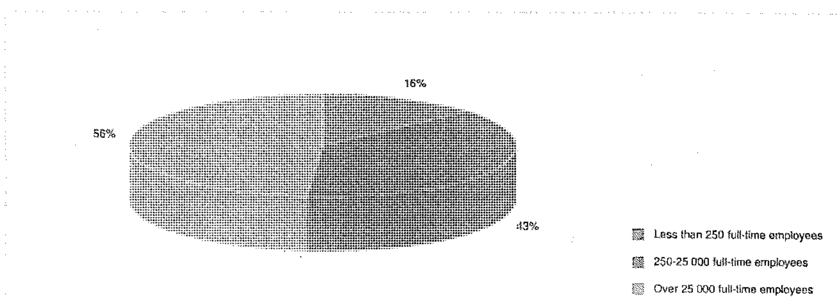
OVERVIEW OF RESPONSES TO PRELIMINARY QUESTIONNAIRE ON 'THE BUSINESS CASE FOR DIVERSITY - GOOD PRACTICES IN THE WORKPLACE'

I - Total Number of questionnaire submissions received = 121

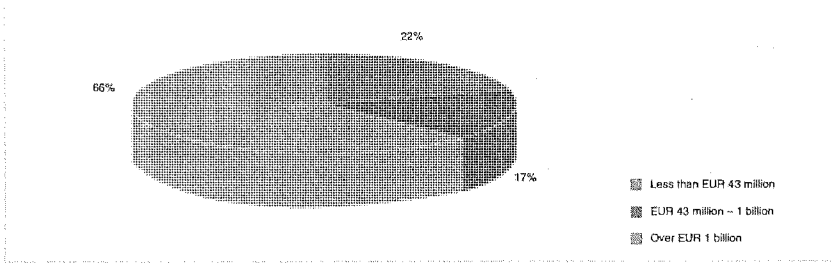
II - Geographic spread of respondents / companies per country



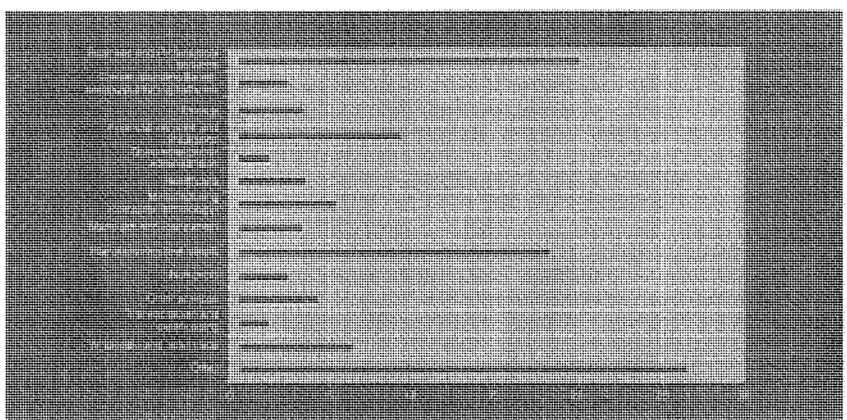
III - Responses by company size (number employees)



IV - Responses by company size (turnover)

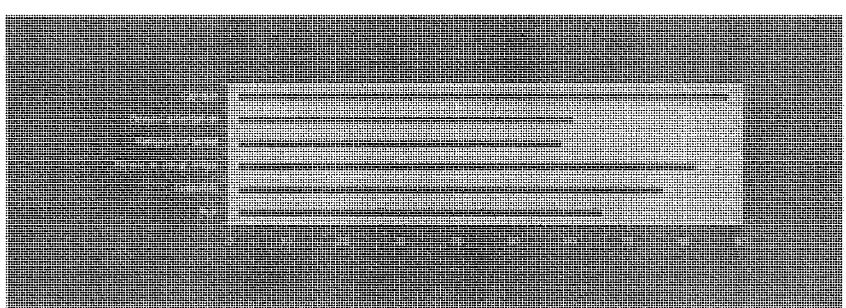


V - Responses by sector / primary business of activity



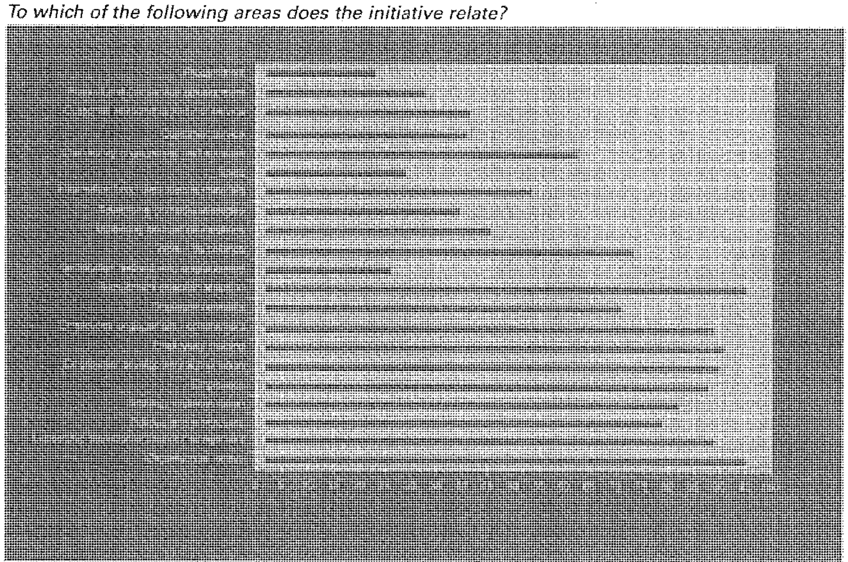
VI - Diversity grounds

Which of the following diversity areas / grounds of discrimination does the initiative address?



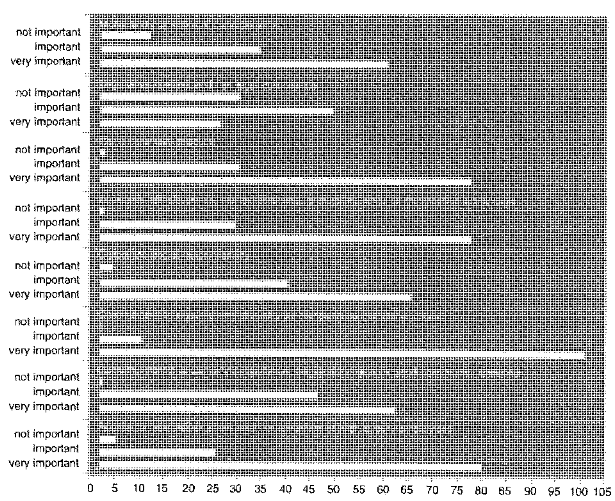
VII - Areas covered by diversity initiatives

To which of the following areas does the initiative relate?

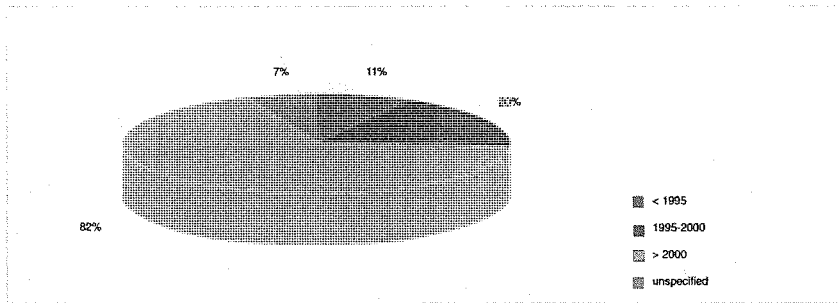


VIII – Main business challenges and motivation to diversity initiatives

What were the business challenges that served as the motivation to the diversity initiative?



IX - Launch date of diversity initiatives



Annex III

LIST OF PARTICIPATING COMPANIES	
AB Volvo	Sweden
ABB	Switzerland
Accenture (UK) Ltd	United Kingdom
Adecco Group	France
ADICE	France
Ahold	United States of America
Air Products plc	United Kingdom
Alfa Laval	Sweden
Amos Recruitment and Training Ltd	United Kingdom
APCO Worldwide	Europe
ASFODEP	France
Avon Cosmetics	Spain
Banesto	Spain
Barclays Bank Plc	United Kingdom
BASF AG	Germany
Bertelsmann AG	Germany
BOC Group plc	United Kingdom
Booz Allen Hamilton	France
British Airways	United Kingdom
BT	United Kingdom
Cargill Inc	Belgium
Caterpillar SARL	Switzerland
Centrica plc	United Kingdom
Chamber of Shipping	United Kingdom
Citibank	Belgium
Coco-mat	Greece
Condis Supermercats SA	Spain
DaimlerChrysler AG	Germany
Danfoss A/S	Denmark
Danone Group	France
Danske Bank	Denmark
De Post – La Poste	Belgium
Delhaize Group	Belgium
Deloitte & Touche LLP	United Kingdom
Deutsche Bank AG	Germany
Deutsche Lufthansa AG	Germany
Deutsche Post World Net	Germany
Deutsche Telekom	Germany
Diageo plc	United Kingdom
Dow Chemical Company	Switzerland
DSM	Netherlands
Dublin Bus (Bus Átha Cliath)	Ireland
EADS	Netherlands
Enel S.p.A.	Italy
European Chemical Transport Association (ECTA)	Belgium
European Petrochemical Association (EPCA)	Belgium
European Space Agency	France
Ford Motor Company (Europe)	United Kingdom
GE	Hungary
Getronics	Netherlands
Goldman Sachs International	United Kingdom
Grupo Santander	Spain
Grupo Vips	Spain
Guidant Europe	Belgium
Hewlett-Packard	Belgium
IBM	Global
INSA	Spain
Intel Ireland Ltd	Ireland
IVADIS	Spain
Janssen Pharmaceutica	Belgium
KBL AG	Switzerland
King's Kurry AG (Ltd)	Switzerland
KPMG LLP UK	United Kingdom
Linklaters	United Kingdom
L'Oreal	France
Manchalan S.A.	Spain
McKinsey & Company	Global
Metro AG	Germany
Miguel Torres SA	Spain
Miracles by Appointment	Netherlands
Mondi Business Paper SCP	Slovakia
National School of Government	United Kingdom

NHS Leadership Centre	United Kingdom	**Symantec**	Ireland
Novartis Farmaceutica SA	Spain	**Tesco plc**	United Kingdom
Novartis Pharma AG	Switzerland	**Tetra Pak**	Sweden
Opportunity Now	United Kingdom	**The Gallup Organization**	Germany
PA Consulting Group	United Kingdom	**TMB (Transports Metropolitans de Barcelona)**	Spain
Pfizer Deutschland GmbH	Germany	**TNT**	Netherlands
PricewaterhouseCoopers	United Kingdom	**Total**	France
Randstad Belgium nv/sa	Belgium	**UBS**	Switzerland
Royal Dutch Shell	United Kingdom	**Unilever plc**	United Kingdom
Royal Mail	United Kingdom	**Uniòn Fenosa**	Spain
Royal Philips International B.V.	Netherlands	**Volkswagen Financial Services AG**	Germany
SAP AG	Europe	**Volvo Car Corporation**	Sweden
Schneider-Ross Ltd	United Kingdom	**Washington Quality Group**	Spain
Standard Life Group	United Kingdom	**Yorkshire Forward**	United Kingdom
Strategic Decisions Group	United States of America		

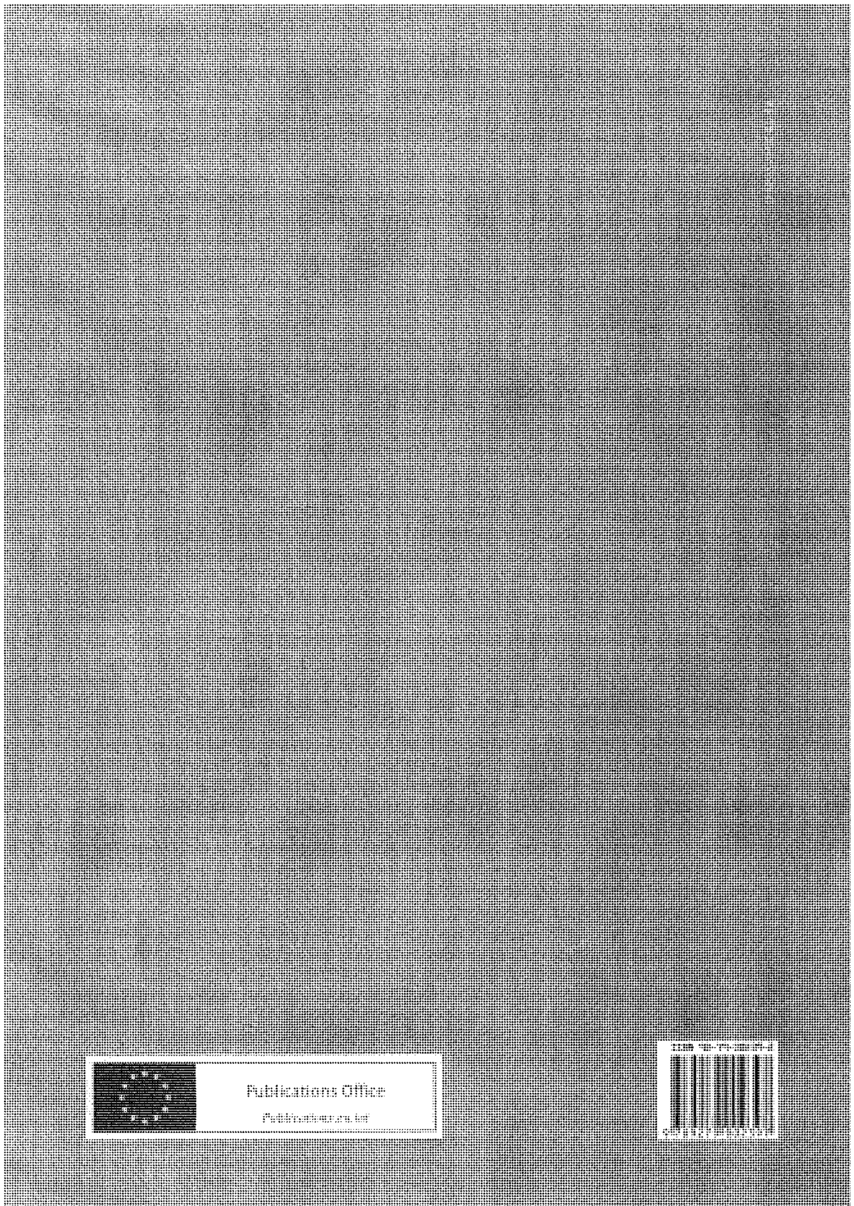
European Commission

The Business Case for Diversity – Good Practices in the Workplace

Luxembourg: Office for Official Publications of the European Communities

2005 – 62 pp. – 21 x 29.7 cm

ISBN 92-79-00239-2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Most Diversity Training Ineffective, Study Finds

By Shankar Vedantam
Washington Post Staff Writer
Sunday, January 20, 2008; A03

Most diversity training efforts at American companies are ineffective and even counterproductive in increasing the number of women and minorities in managerial positions, according to an analysis that turns decades of conventional wisdom, government policy and court rulings on their head.

A comprehensive review of 31 years of data from 830 mid-size to large U.S. workplaces found that the kind of diversity training exercises offered at most firms were followed by a 7.5 percent drop in the number of women in management. The number of black, female managers fell by 10 percent, and the number of black men in top positions fell by 12 percent. Similar effects were seen for Latinos and Asians.

The analysis did not find that all diversity training is useless. Rather, it showed that mandatory programs -- often undertaken mainly with an eye to avoiding liability in discrimination lawsuits -- were the problem. When diversity training is voluntary and undertaken to advance a company's business goals, it was associated with increased diversity in management.

The origins of diversity training trace back to the civil rights movement and the belief that education, sensitivity and awareness are key to reducing discrimination. While many companies have embraced such training as a way to make workplaces more inclusive and to cater to an increasingly diverse customer base, trainers and researchers note that other companies use "sensitivity training" superficially -- as a cosmetic response to complaints from internal and external critics.

Today, U.S. businesses spend from $200 million to $300 million a year on diversity training, but the new study is one of the first attempts to systematically analyze its impact. What it found is that programs work best when they are voluntary and focus on specific organizational skills, such as establishing mentoring relationships and giving women and minorities a chance to prove their worth in high-profile roles.

"When attendance is voluntary, diversity training is followed by an increase in managerial diversity," said Alexandra Kalev, a sociologist at the University of Arizona, who led the research. "Most employers, however, force their managers and workers to go through training, and this is the least effective option in terms of increasing diversity. . . . Forcing people to go through training creates a backlash against diversity."

Kalev said many trainers and executives told her they were not surprised by her findings. What this means, she said, is that many companies are not just pursuing poor policies, but are doing so even though their own experts know the training is ineffective or counterproductive.

Several experts offered two reasons for this: The first is that businesses are responding rationally to the legal environment, since several Supreme Court rulings have held that companies with mandatory diversity training are in a stronger position if they face a discrimination lawsuit. Second, many companies -- with the implicit cooperation of diversity trainers -- find it easier to offer exercises that serve public relations goals, rather than to embrace real change.

"They are more symbolic than substantive," said Lauren Edelman, a University of California professor of law and sociology, who independently reviewed Kalev's study. "It is a response to the general legal environment and the fact organizations copy one another."

Longtime diversity trainer Billy Vaughn said the results match what he has seen in practice. Vaughn is the co-founder of the national firm Diversity Training University International, which has been hired by organizations including wireless phone giant Qualcomm and the Central Intelligence Agency.

"If they are doing it for legal protection, they don't care" whether the training works, he said. It was hardly surprising that training could have counterproductive effects, he added, when the attitude often is, "Just do it, and just do it as cheaply as possible."

Kalev's latest research, which is not yet published, is the second comprehensive analysis that she and her colleagues have done. Her initial study, published in 2006 in the American Sociological Review when she was at the University of California at Berkeley, was the first systematic assessment of diversity training. It found that such training had minimal benefits.

Her new work sought to tease apart what works from what does not. Both studies compared reports that companies filed with the federal Equal Employment Opportunity Commission about the number of women and people of color in management positions with survey data about whether the firms offered diversity training.

All companies with more than 100 workers and federal contractors with more than 50 workers must submit the EEOC reports. To encourage participation in her survey, Kalev promised not to disclose the names of the companies.

"Executives must treat diversity like any other business goal and put someone in charge," Kalev said. When companies believe diverse workplaces give them a competitive advantage, they go beyond cosmetic changes. Companies that appointed task forces with the authority and responsibility to increase diversity in top jobs saw the number of female managers increase by 14 percent, the number of black women rise by 30 percent and the number of black men rise by 10 percent.

Clay Osborne, vice president of human resources and diversity at Bausch & Lomb, based in Rochester, N.Y., said the findings matched what his own company has discovered. Programs that work, he said, focus on the business advantages that come with diversity of thought, and that requires having people with diverse backgrounds.

"Most successful ventures in companies are tactics that help improve the bottom line," he said. "To the extent you can get diverse programs and initiatives into that model, you can minimize backlash."

Frank Dobbin, an organizational sociologist at Harvard and one of Kalev's co-authors, said narratives about interpersonal conflict that are sometimes featured in "sensitivity training" can be counterproductive. For one thing, he said, they upset many people, who then actively resist change. But more important, he said, they downplay the importance of organizational structure in embracing -- or resisting -- long-term change.

Women and minorities often fail to get ahead, he said, because people tend to form social groups with others who are like themselves -- and many managers are simply unaware of the talent in their own organizations. Policies that require or explicitly encourage managers to meet with subordinates in different departments can alert managers to talented employees with different social and ethnic backgrounds and help younger employees figure out what they need to do to get ahead.

Marc Bendick, an economist who researches diversity at Bendick and Egan Economic Consultants in the District, said his surveys suggest there is a role for conventional sensitivity training. But he agreed that the training is likely to be effective only in the context of an organization genuinely interested in cultural and structural change.

"If you ask what is the impact of diversity training today, you have to say 75 percent is junk and will have little impact or no impact or negative impact," Bendick said.

Orice M. Williams

Ms. Williams has spent her 17-year career in civil service at the Government Accountability Office (GAO). She is currently a Director in GAO's Financial Markets and Community Investment Team. In this capacity, Ms. Williams is responsible for leading numerous teams that work on a variety of cross-cutting public policy issues in the financial services sector. Her portfolio of work is generally concentrated in securities and futures oversight, banking, insurance, and accounting policy. Over the past decade, she has produced numerous reports and led a wide variety of efforts involving flood insurance, government-sponsored enterprises, energy derivatives, hedge funds, day trading, SEC enforcement, consumer/investor protection, human capital management practices, diversity management, and financial-regulatory coordination.

Ms. Williams received an M.B.A. with a concentration in finance from Virginia Tech in 1990 and B.S. degree in business and finance from Virginia Commonwealth University in 1988.

Patrick Ronald (Ron) Edwards

Ron Edwards is the Director of the Program Research and Surveys Division with the Office of Research, Information and Planning at the Equal Employment Opportunity Commission (EEOC). As Division Director he performs three major functions for the Commission: the supervision of the Employer Survey Collection system that collects employment data from all employers with more than 100 employees, the provision of analytic support to class investigations and the conduct of program research. Research efforts range from the development of regulatory impact analyses to the development of statistical evidence of discrimination. He is also the co-author of a number of research reports issued by EEOC that utilize EEO-1 data and is available on our web site. This includes, "High End Department Stores, Their Access to and Use of Diverse Labor Markets", "Diversity in Law Firms"," Glass Ceilings: The Status of Women as Officials and Managers in the Private Sector" and "Diversity in the Finance Industry". He holds a PhD in Government and Public Administration from the American University. He has been employed by the federal government since 1975 when he started work at the Office of Federal Contract Compliance Programs at the Department of Labor.

Luke Visconti
Partner and Cofounder
DiversityInc
570 Broad Street
15th Floor
Newark, NJ 07102
lvisconti@diversityinc.com

Luke Visconti is a partner and cofounder of DiversityInc Media LLC. He directs all editorial operations of the magazine, which has an audited circulation of more than 190,000, and the web site, which reaches more than 1,000,000 unique visitors monthly. He also oversees marketing and circulation.

Mr. Visconti developed and directs the methodology for The DiversityInc Top 50 Companies for Diversity®. His blog, "Ask the White Guy," is a top draw on DiversityInc.com. He is a frequent senior-level lecturer on the business benefits of diversity to corporations, business groups and nonprofit organizations.

He is a recognized leader in this field and has appeared on FOX, MSNBC, CNBC and NPR. Mr. Visconti is regularly quoted on diversity issues in publications such as The New York Times, Chicago Tribune, BusinessWeek, Fortune and The Wall Street Journal.

Mr. Visconti and his business partner founded DiversityInc in 1998.

Prior to entering the publishing industry, he was on active duty as a naval aviator and commissioned officer with the U.S. Navy from 1982 to 1990, and in the reserves until 1992.

Mr. Visconti holds a bachelor of science degree in biology from Rutgers University.

Associations

Trustee, Bennett College for Women
Trustee, Rutgers University
Board Member, New Jersey City University Foundation
Board Member, The PhD Project
Member, United States Navy Diversity Senior Advisory Group
Member, United States Navy Chief of Naval Operations, Executive Panel

Awards

- January 2006: "Bridge Builders Award" from the Rev. Jesse Jackson at the Wall Street Project conference
- May 2006: "Legacy of Leadership" award from Dr. Beverly Tatum, Spelman College
- January 2007, Member of the Year, PRIMER
- May 2007, named Distinguished Alumnus, Rutgers University

Nancy Sims

President
Robert Toigo Foundation

Nancy Sims brings more than two decades of knowledge of the finance industry and organizational leadership experience to the Robert Toigo Foundation ("Toigo") in her role as President of the Oakland, California-based non-profit. During her ten-years as President of Toigo, Sims has spearheaded the non-profits' evolution from a small, grassroots organization to a recognized partner to industry.

Sims' vision and strategic leadership has established Toigo as an organization recognized for developing and delivering highly qualified, sought-after diversity talent as well as a team that provides valued insights into issues relating to diversity, inclusion, and leadership development. Sims is the driving force behind Toigo's relationship-driven operating model and its commitment to constantly forge and foster connections among Toigo Fellows, Alumni, industry partners and finance firms as a way to *change the face of finance*.

Since Sims joined Toigo as President in 1998, Toigo's partnership base (both donors and collaborative relationships) have grown exponentially, as have the services and advocacy/outreach initiatives that position Toigo as the premiere diversity organization focused on leadership development within the field of finance. Previously, Sims served on the non-profit's Board of Directors for 5 ½ years and as a mentor to Toigo Alumni. Prior to joining the Foundation, she was Senior Vice President and Director of Institutional Marketing for McNeil Capital (1996 – 1998), and Vice President / Client Relations for the RREEF Funds (1981-1996), representing the real estate sector of Finance.

Walter E. Corey, Esq.
50 Gables Drive
Yarmouth, Maine 04096
207-831-4565
wcorey@maine.rr.com

EDUCATION

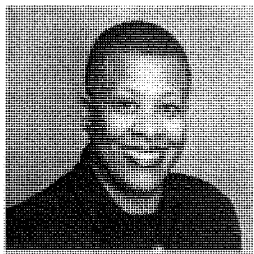
1958-1962	A.B., ***Princeton University*** (*magna cum laude*)
1962-1965	J.D., ***Yale University***
1965-1966	M.A., ***Yale University*** – Economics
1991-1994	M.Div., ***Bangor Theological Seminary***
2004-2007	D.Min., ***Bangor Theological Seminary***

EMPLOYMENT

1966	Associate, ***Bernstein, Shur, Sawyer & Nelson***, Portland, Maine
1967-1969	Federal Coordinator, ***Office of the Governor***, State of Maine
1970	V.P. and Counsel, ***International Research and Ventures-NE***
1971	General Counsel, ***Maine State Democratic Committee***
1972-1975	Chair, ***Maine Labor Relations Board***
1975-2005	Founding Partner and Counsel, ***Curtis Thaxter Stevens Broder & Micoleau, LLC***, Portland, Maine.
1979-2008	CEO and founder, ***Trusteeship, Inc.***, Portland, Maine

SERVICE ACTIVITIES

1975-1980	Chair, ***Maine Commission on the Humanities***
1976-2008	President and Director, ***Portland Humanities Committee***
1981-1988	Board, **Westbrook College**, ***Waynflete School*** and ***Cheverus High School***, all of Portland, Maine
1987-2008	President and Director, ***Phoenix Foundation***, Portland, Maine
1988-1989	Board, ***Human Rights Project*** (Castro/Cuban negotiations)
1990-1996	Jail Minister, ***Cumberland County Jail***, Portland, Maine
2002-2008	President and Director, ***Maine Adaptive Golf***, Portland, Maine



Geri P. Thomas
Senior Vice President

Geri Thomas is Global Diversity and Inclusion Executive for Bank of America. Since 2001, she has been Senior Staffing Executive responsible for staffing activities in support of the Global Consumer and Small Business Bank. She was named Corporate Diversity Executive in November 2002. In that role, she oversees corporate wide diversity results and serves as a diversity resource to business lines, working closely with the Diversity Advisory Council. She has been with Bank of America since 1970 where she started her career in Consumer Banking support.

From 1992 to 1999, Thomas was the HR Executive for the MidSouth Banking Groups, covering the states of Georgia and Tennessee. From 1999 through 2001, she assumed the additional responsibility for the states of North and South Carolina. From 1986 through 1992, Thomas was the HR Director for Georgia. Prior to 1986, Thomas performed in a number of different HR management roles including Manager of Human Resource Services, Manager of Employee Relations and HR generalist.

Thomas is current Chair of the State of Georgia Personnel Board. The board is responsible for providing policy direction for the State Merit System of Personnel Administration. Additionally, Thomas was appointed by the mayor of the City of Atlanta to serve on the board of the Atlanta Workforce Development Agency. The agency is dedicated to empowering residents to become educated, skilled and self-sufficient, leading to meaningful employment with local businesses, building an effective workforce and a vibrant, diverse economy for the City of Atlanta.

Education:

B.S. Human Resources – Georgia State University

MORGAN STANLEY

MARILYN F. BOOKER

MANAGING DIRECTOR, GLOBAL HEAD OF DIVERSITY AND WORK-LIFE

Marilyn F. Booker is a Managing Director and the Global Head of Diversity and Work-Life for Morgan Stanley. Ms. Booker works closely with her colleagues to design and implement innovative programs for Morgan Stanley's diverse employees and to help employees meet the demanding challenge of balancing work obligations with personal responsibilities. The programs that have been implemented at Morgan Stanley have received numerous accolades for their innovation and practical application from organizations like *Working Mother* magazine (one of the "100 Best Companies for Working Mothers"), *Latina Style* magazine (one of the "50 Best Companies for Latinas to Work for in the U.S."), *Piedmont Parent* magazine (one of the "Top 40 Family-Friendly Places to Work in North Carolina") and *Essence* magazine (one of the "Outstanding Companies for Black Women"), to name a few. In addition to her role as Head of Diversity and Work Life, emanating from the 2004 settlement between Morgan Stanley and the EEOC, Ms. Booker was selected by both parties to serve as the Ombudsperson and oversee implementation of the specific initiatives of the Consent Decree.

Ms. Booker is an attorney by training. She has practiced in the areas of criminal defense litigation, municipal finance, corporate bankruptcies and corporate restructuring. A native of Chicago, Ms. Booker received her B.A. *magna cum laude* from Spelman College and her J.D. from the Illinois Institute of Technology-Chicago Kent College of Law. Ms. Booker is a Trustee of the Morgan Stanley Foundation and serves on two of Morgan's Stanley internal committees – The Residential Mortgage Franchise Risk Committee and The Morgan Stanley Benefit Plan Administrative Committee. Ms. Booker appeared on *ABC World New Tonight with Charlie Gibson* in a segment on "Women and the Workforce" and was featured in a *CBS MarketWatch Weekend* segment highlighting Morgan Stanley's Emergency Day Care program. Ms. Booker was also recognized by the *Network Journal* as one of the "25 Influential Black Women in Business."

Ms. Booker is married and is the proud parent of three lovely children.

Zaid Abdul-Aleem

Biography

Zaid Abdul-Aleem attended Duke University where he earned an undergraduate degree in Comparative International Studies and History. While serving as Captain of Duke's Football Team and fulfilling a Fulbright Scholarship, he also earned his Masters Degree in History from Duke University.

Zaid began his career in financial services during 1990 at Refco where he worked until 1993 at the Paris Stock Exchange, Chicago Board of Trade, and Mercantile Exchange. In 1996, he joined Morgan Stanley in the Equity Capital Markets Division where he executed IPOs and Follow-on Offerings for US and Emerging Markets Corporations and Sovereigns totalling over $4Bn. In 1998, Zaid was promoted and relocated to Morgan Stanley's South Africa Office where he completed Domestic and Cross-Border Mergers as well as Equity and Debt financings. In 2000, Zaid was promoted and relocated to Morgan Stanley's London offices where he focused exclusively on M&A transactions for European Corporations. In pursuit of returning to the buyside, growth opportunity and leveraging his global expertise and network, Zaid joined North Carolina based investment management firm Piedmont Investment Advisors in 2003 and is currently Senior Vice President of the firm's Business Development Group, which oversees Strategy, Client Service, and Marketing. Recently, Zaid was instrumental in the sale of a minority stake in Piedmont Investment Advisors to the country's largest institutional investor CalPERS.

Zaid is a board member of Duke University Trinity Board of Visitors, Lake Forest Academy, College Summit New York, Evidence Dance Company and New Heights Youth Organization.

Biography
Don D. Graves, Jr. Esq.

Don Graves is a partner with Graves & Horton Cos., LLC, where his practice includes government relations and public affairs, corporate and commercial transactions, non-profit management and public and private finance.

Mr. Graves also serves as Chief Executive Officer of Progress Through Business (Progress), a non-profit corporation focused on sustaining and enhancing underserved communities through initiatives, research, networking and strategic business partnerships to empower people, and improve social and economic conditions within those communities. Progress' work includes the nexus of corporations and community and economic development, the support of long-term financial stability and the well-being of low-income employees, the national & international dissemination and adoption of models and best practices, and sustainable development.

He is the former Director of Public Policy for the Business Roundtable, an association of CEOs of the world's leading companies, with a combined workforce of more than 10 million employees in the United States and $4.5 trillion in revenues. As the Director of Public Policy, Mr. Graves managed legislative and lobbying activities on all major Health Care and Retirement issues pending before Congress and the Administration. In his capacity at the Roundtable he also served as the Executive Director of BusinessLINC^{sm}, a public-private partnership created to encourage business-to-business relationships between large corporations and small businesses, especially minority- and women-owned businesses and those located in economically distressed areas. Previously, Mr. Graves served as Director of Strategic Partnerships at the Roundtable, where he developed partnerships with organizations and constituencies to further the policy goals of the Roundtable, as well as the Staff Director of the Digital Economy Task Force. He also provided additional staff support on issues related to Security, Information Security, Antitrust Law, and day-to-day legal issues.

Prior to joining the Roundtable, Mr. Graves worked for the U.S. Department of the Treasury's Office of Domestic Finance where he provided guidance and direction on domestic policy issues and community development policy, and represented the Department on the Community Empowerment Board, the National Economic Council's New Markets Working Group, the White House Task Force on Livable Communities, the White House Task Force on Insular Areas, the Coordinating Committee of the White House Initiative on Asian Americans and Pacific Islanders, and the White House Native American Issues Working Group.

Mr. Graves holds degrees of Bachelor of Arts in Political Science and History from Williams College and Juris Doctor from the Georgetown University Law Center where he was President of the Student Bar and received the Dean's Certificate.

He currently serves on the Board of Trustees of the Community Reinvestment Fund and Boards of Directors of the Center for Business and Poverty and the Metropolitan Community Development Corporation, as well as the National Advisory Boards of Wall Street Without Walls and the Greater Washington Board of Trade's Small Business Network.

Mr. Graves resides in North Bethesda, MD, with his wife and daughters.