U.S. HOUSE OF REPRESENTATIVES
FINANCIAL SERVICES COMMITTEE

Diversity Practices within Financial Services – Retention Returns Survey 2006

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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.”

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 disenchanted 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.

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