

# Diversity Trends, Practices, and Challenges in the Financial Services Industry

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**Abstract:** *Diversity initiatives and efforts are broad-based and well established in the financial services industry. Nevertheless, the level of inclusion of women and minorities within the industry has continually been the focus of Congressional hearings and legislation, including the Dodd-Frank Act. Recent studies conducted by the Equal Employment Opportunity Commission and the Government Accountability Office present insight into the industry's efforts to achieve greater diversity, including changes in the composition of the industry's workforce. Since 1993 the industry has had limited success in increasing the representation of women and minorities. The industry faces a number of recruiting and retention issues that have been ongoing challenges.*

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**T**he benefits and desirability of achieving a diverse work force are well established in the financial services industry. For example, the diversity policy of J.P. Morgan Chase states:

At J.P. Morgan, we are committed to creating an inclusive organization where everyone can succeed based on merit. We understand that with diversity comes strength. ... This goal was set by our senior management and is fostered by all levels of employees. Jamie Dimon, our Chairman and CEO, leads the Corporate Diversity Council, a group of senior leaders from across the company who set the vision and strategy for diversity at the firm.<sup>1</sup>

The Financial Regulatory Authority's (FINRA) policy regarding diversity states that:

FINRA values excellence and recognizes that by embracing the diverse backgrounds, skills and perspectives of its workforce, it will sustain a competitive advantage and remain an employer of choice. Diversity is a business imperative, enabling us to attract, retain and develop the best talent available, and to approach regulatory challenges with efficiency, creativity and innovation.<sup>2</sup>

The widely recognized corporate governance principles of the California Public Employees Retirement System (CalPERS) directly address the importance of diversity in the composition of the board of directors.<sup>3</sup>

Between 2004 and 2010, Congress held hearings on the inclusion of women and minorities in the financial services industry. Members of Congress and witnesses expressed concern regarding the level of industry representation of women and minorities. Specifically, concern

was focused on the level of inclusion in key management-level positions.<sup>4</sup> The recent financial crisis again focused attention on the financial services industry's commitment to workforce diversity. Echoing this concern, the Dodd-Frank Wall Street Reform and Consumer Protection Act includes provisions requiring certain federal financial agencies and Federal Reserve Banks to each establish an Office of Minority and Women Inclusion.<sup>5</sup> Other federal initiatives to promote greater diversity in the workplace include Affirmative Action and the Equal Employment Opportunity Commission (EEOC). At the request of Congress, the Government Accountability Office (GAO) prepared and submitted three separate reports to Congress that specifically focus on diversity trends and practices in the financial services industry. These three reports were submitted to Congress in 2006, 2010, and 2013 and cover the period 1993 to 2011.<sup>6</sup>

### **Purpose and Organization of the Study**

This study first examines initiatives and efforts of the financial services industry to achieve a more inclusive workforce. Best practices to achieve diversity are then reviewed. The study then examines the results of the industry's efforts to achieve greater diversity by reviewing the composition of the industry's workforce from 1993 to 2011. Lastly, a discussion of the ongoing challenges facing the industry is presented, as are some practical suggestions for effective diversity management.

### **Key Definitions and Research Methods**

#### **Definitions**

The GAO defines "diversity management" as "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."<sup>7</sup> In the context of diversity management, "accountability" refers to the means to ensure that leaders are responsible for diversity by aligning their performance assessments and compensation to the progress of diversity initiatives.<sup>8</sup> In this study, the financial services industry includes the following sectors that employed more than 2.9 million people<sup>9</sup> in 2011:

- The insurance sector, including carriers and insurance agents that provide protection against financial risks to policyholders in exchange for the payment of premiums;
- 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;
- Holdings and trusts, which include investment trusts, investment companies, and holding companies;
- Depository credit institutions, which include commercial banks, thrifts (savings and loan associations and savings banks), and credit unions; and
- Nondepository credit institutions, which extend credit in the form of loans and include federally sponsored credit agencies, personal credit institutions, and mortgage bankers and brokers.<sup>10</sup>

### **Data and Statistics**

Most of the data and statistics used in this study were first published by the EEOC and later analyzed and used by the GAO in preparing reports for Congress regarding diversity in the financial services industry and certain federal financial agencies. The GAO reports also include workforce data from the Current Population Survey produced by the Bureau of Census and the Bureau of Labor Statistics.<sup>11</sup> Due to changes in the method of data collection by the EEOC in 2007 and 2008, this study is divided into two periods<sup>12</sup> (1993-2008 and 2007-2011); in addition, the data overlapping these two periods may differ slightly in years 2007 and 2008.

### **Interviews**

As part of the GAO's investigative efforts in preparing reports for Congress, the GAO interviewed financial service industry representatives to gain an understanding of the industry's initiatives and practices to achieve diversity, as well as the challenges they were experiencing. The GAO interviewed 10 industry representatives for its most recent report (2013) to Congress.<sup>13</sup>

### **Industry Efforts and Initiatives to Achieve Diversity**

Industry representatives described a wide range of initiatives being pursued by their respective firms. The

following initiatives and observations were listed by one or more industry representatives.<sup>14</sup>

### Diversity Efforts and Initiatives

Representatives described these initiatives:

- Scholarship and internship programs to encourage students to consider careers in the financial services industry
- Partnering with groups that represent minority professionals
- Partnering with local communities to recruit candidates through events such as conferences and career fairs
- Employee networks and mentoring programs
- Diversity training
- Leadership and career development programs
- Sponsorship of individual women within an organization where an executive acts as a guide to help women

navigate the system and expand their networks. This sponsorship practice goes beyond mentoring.

- Design and use of a promotion system that addresses biased perceptions of leaders being typically male.
- Establishment of diversity “councils” of senior leaders to set vision, strategy, and direction of diversity initiatives.
- Linking managers’ compensation with their progress in hiring, promoting, and retaining minority and women employees
- The use of metrics to measure progress in achieving workforce diversity. These include workforce representation, turnover, promotion of minorities and women, and employee satisfaction survey responses.

### Additional Observations of Industry Representatives

Further observations from industry representatives are described below:

- Senior-level involvement is critical to success of diversity initiatives.
- Performance reviews and management-by-objectives were the two top methods of measuring managers’ diversity performance.
- Most companies reported that they still did not offer managers financial rewards for improving diversity performance.
- The challenges faced by many firms during the financial crisis had no impact on diversity initiatives and practices. However, three representatives did cite specific instances where funding was scaled back as a result of the recent financial crisis.
- Creating awareness of the benefits of diversity for an organization among management and employees is important because it increases commitment to further the diversity goals of the organization.<sup>15</sup>
- One industry representative stated that there are still some firms that do not see the importance of diversity.

FIGURE 1

#### Leading Diversity Management Practices

- Top leadership commitment—a vision of diversity demonstrated and communicated throughout an organization by top-level management.
- Diversity as part of an organization’s strategic plan—a diversity strategy and plan that are developed and aligned with the organization’s strategic plan.
- Diversity linked to performance—the understanding that a more diverse and inclusive work environment can yield greater productivity and help improve individual and organizational performance.
- Measurement—a set of quantitative and qualitative measures of the impact of various aspects of an overall diversity program.
- Accountability—the means to ensure that leaders are responsible for diversity by linking their performance assessment and compensation to the progress of diversity initiatives.
- Succession planning—an ongoing, strategic process for identifying and developing a diverse pool of talent for an organization’s potential future leaders.
- Recruitment—the process of attracting a supply of qualified, diverse applicants for employment.
- Employee involvement—the contribution of employees in driving diversity throughout an organization.
- Diversity training—organizational efforts to inform and educate management and staff about diversity.

Source: Diversity Management—Expert-Identified Leading Practices and Agency Examples,” Government Accountability Office (2005): 13; GAO-05-90.

### Nine Leading Diversity Management Practices

Industry representatives indicated that the nine leading diversity management practices that the GAO had previously identified were still relevant (see Figure 1).<sup>16</sup> They also commented that commitment to diversity as demonstrated and communicated by top management drives the other

eight leading diversity practices. Industry representatives then observed that accountability helps to promote the implementation of all leading practices because an issue is more likely to be addressed if it is tracked.<sup>17</sup>

**Diversity in the Financial Services Industry, 1993-2008**

In May 2010, the GAO issued a report<sup>18</sup> regarding diversity in the financial services industry using EEOC data for financial services firms that had 100 or more staff in the years 1993, 1998, 2000, 2004, and 2005-2008.<sup>19</sup> Figure 2 divides the workforce into the following subgroups: white men, white women, and minorities including African-American, Hispanic, Asian, and “Other.” This last category includes American Indian, Hawaiian, and “Two or More Races.”<sup>20</sup>

During the period 1993-2008, both upper- and lower-level managers were combined into one category labeled “management level,” defined as “officials and managers [in] occupations requiring administrative and managerial personnel, who set broad policies, exercise overall responsibility for execution of these policies, and direct individuals, departments or special phases of a firm’s operations.”<sup>21</sup>

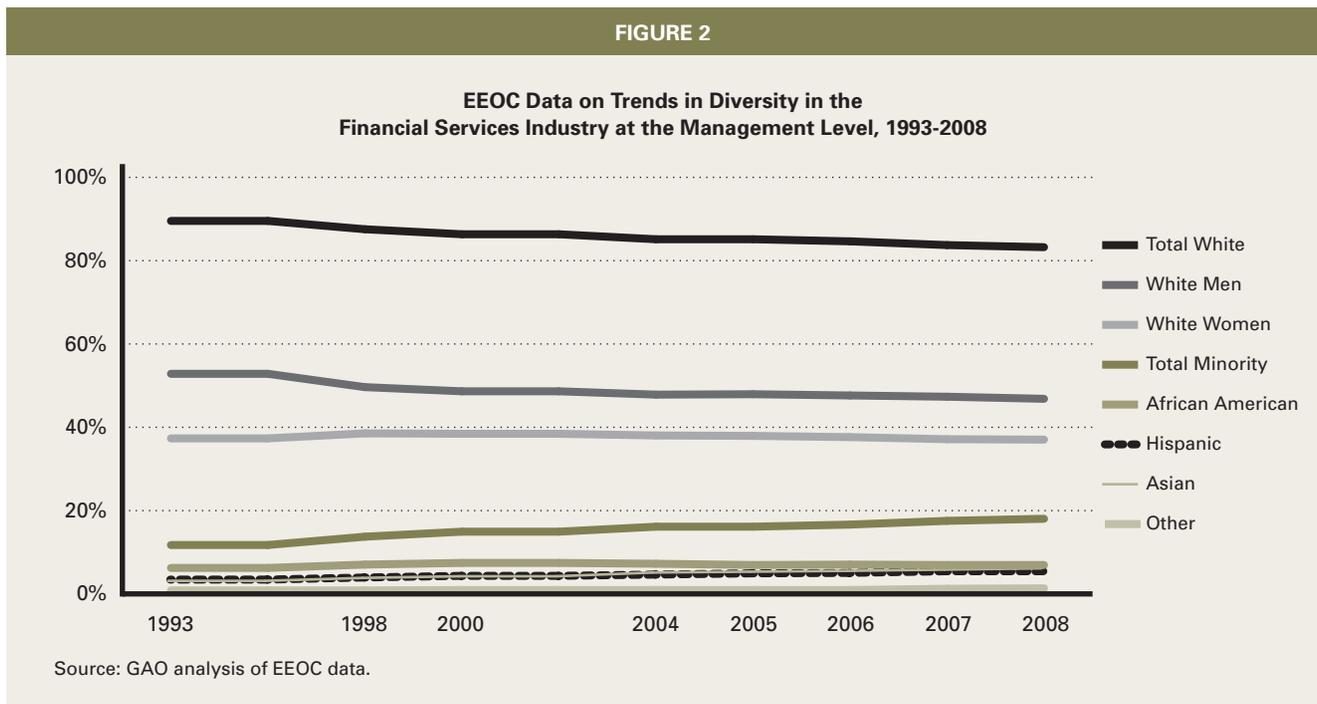
Figure 2 reveals that from 1993 to 2008, the total

percentage of minority-held management-level positions increased from 11.1 percent to 17.4 percent—a 6.3 percent increase.<sup>22</sup> Although all minority groups increased their representation, the increases over this 15-year period were modest. The GAO observed “from 1993 to 2008 overall workforce diversity in management positions in the financial services industry did not change substantially... .”<sup>23</sup> The percentage increases in total minority management-level positions held in 2008 relative to total positions held in 1993 are presented below:

	1993	2008	Percentage increase
African-American	5.6%	6.3%	12.5%
Hispanic	2.8%	4.8%	71.4%
Asian	2.5%	5.5%	80%
American Indian	0.2%	0.3%	50%

**Diversity in Upper- and Lower-Level Management**

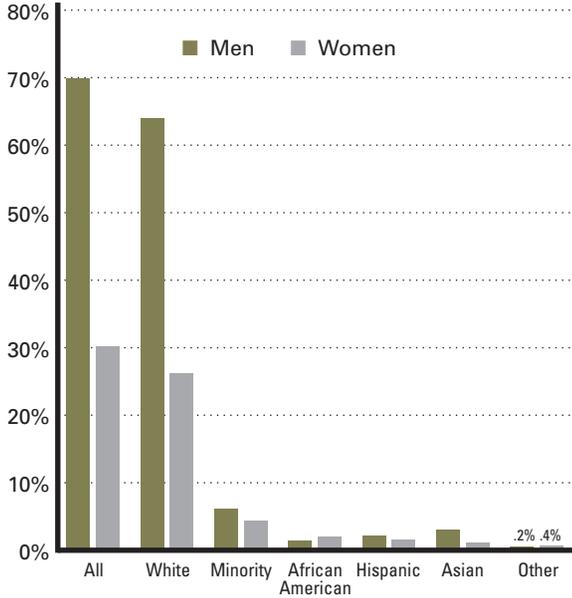
To better distinguish between minority representation in upper- versus lower-level management positions, EEOC divided the “officials and managers” category into two subcategories beginning in 2008. The first subcategory, “Executive/Senior Level Officials and Managers,” includes



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FIGURE 3

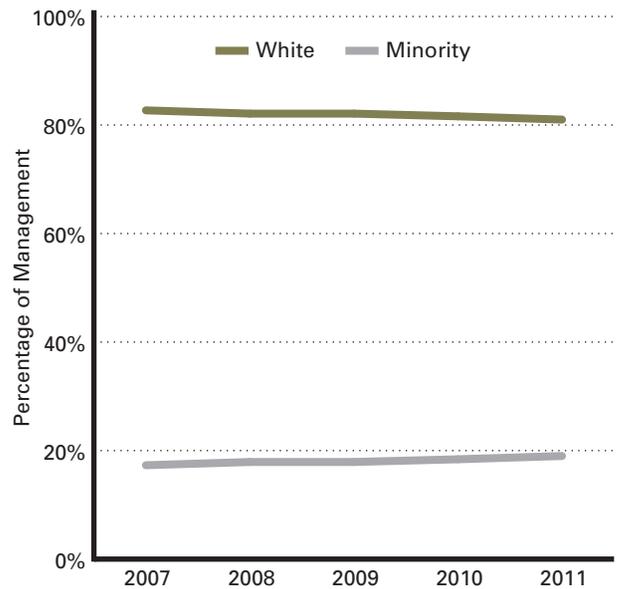
Executive/Senior Level Officers and Managers  
in the Financial Services Industry, 2008



Source: GAO analysis of EEOC data.

FIGURE 4

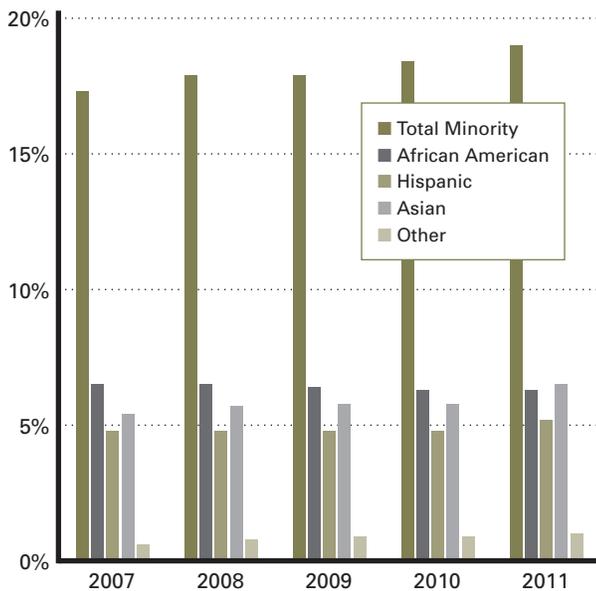
Percentage of White and Minority Managers in the  
Financial Services Industry, 2007-2011



Source: GAO analysis of EEOC data.

FIGURE 5

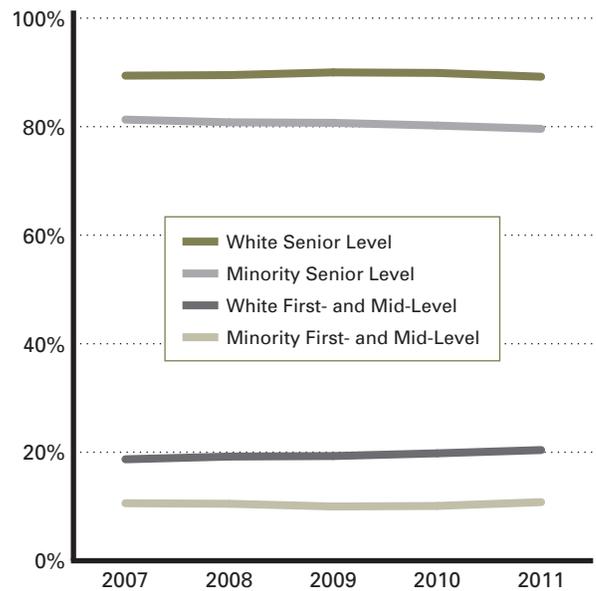
Percentage of Specific Races/Ethnicities in  
Overall Management Positions, 2007-2011



Source: GAO analysis of EEOC data.

FIGURE 6

Percentage of Whites and Minorities in First- and  
Mid-Level Management and Senior Positions, 2007-2011



Source: GAO analysis of EEOC data.

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“individuals who reside in the highest levels of organizations and plan, direct and formulate policies, set strategy, and provide the overall direction of enterprises/organizations for the development and delivery of products or services, within the parameters approved by boards of directors or other governing bodies.” The second subcategory, “First/Mid-Level Officials and Managers,” includes “individuals who receive directions from Executive/Senior Level management, and oversee and direct the delivery of products, services, or functions at group, regional or divisional levels of organizations.”<sup>24</sup>

These subcategories of data reveal that in 2008,<sup>25</sup> 17.4 percent of all management positions in the financial services industry were held by minorities, with 7.4 percent in the First/Mid-Level Officials and Managers category and the remaining 10 percent in the Executive/Senior Level Officers and Managers category. In the Executive/Senior Level Officers and Managers category, the 10% minority representation is distributed as follows: Asian, 3.5 percent; Hispanic, 3.0 percent; African-American, 2.8 percent; and “Other,” 0.6% (Figure 3).

### **Diversity in the Financial Services Industry, 2007-2011**

At the overall management level, the representation of

minorities increased from 17.3 percent to 19 percent from 2007 to 2011 (see Figure 4).<sup>26</sup> Although not a dramatic increase, minority representation at the overall management level increased consistently during this four-year period.

The representation of specific races/ethnicities in overall management positions in the financial services industry from 2007 to 2011 is presented in Figure 5.<sup>27</sup> The data reveal that Asian representation increased from 5.4 percent to 6.5 percent, while other minorities experienced only minor changes.

The representation of whites and minorities in first- and mid-level management positions and senior-level management positions for the period 2007-2011 is presented in Figure 6.<sup>28</sup> During this period, senior level representation was virtually unchanged for whites and minorities. However, minority representation in first- and mid-level management increased consistently each year for a total increase of 1.7 percent. Regarding the increase, the GAO observed “that first- and mid-level management positions may serve as an internal pipeline through which minority candidates could move into senior management.”<sup>29</sup>

The distribution of minority representation at first- and mid-level management and senior management positions for the period 2007-2011 is presented in Table 1.<sup>30</sup>

**TABLE 1**

**Percentage of Specific Races/Ethnicities in the  
Financial Services Industry at Various Management Levels, 2007-2011**

	2007	2008	2009	2010	2011
<b>Total Minority Senior Level</b>	<b>10.6%</b>	<b>10.5%</b>	<b>10.0%</b>	<b>10.1%</b>	<b>10.8%</b>
African-American Senior Level	3.1%	3.0%	2.9%	2.7%	2.7%
Hispanic Senior Level	3.0%	3.1%	2.8%	2.9%	3.3%
Asian Senior Level	4.1%	3.8%	3.7%	3.8%	4.1%
Other Senior Level	0.4%	0.6%	0.7%	0.7%	0.7%
<b>Total Minority First- and Mid-Level</b>	<b>18.7%</b>	<b>19.2%</b>	<b>19.3%</b>	<b>19.8%</b>	<b>20.4%</b>
African-American First- and Mid-Level	7.2%	7.2%	7.1%	6.9%	6.9%
Hispanic First- and Mid-Level	5.2%	5.2%	5.2%	5.3%	5.5%
Asian First- and Mid-Level	5.6%	6.1%	6.2%	6.5%	6.9%
Other First- and Mid-Level	0.6%	0.8%	0.9%	1.0%	1.1%

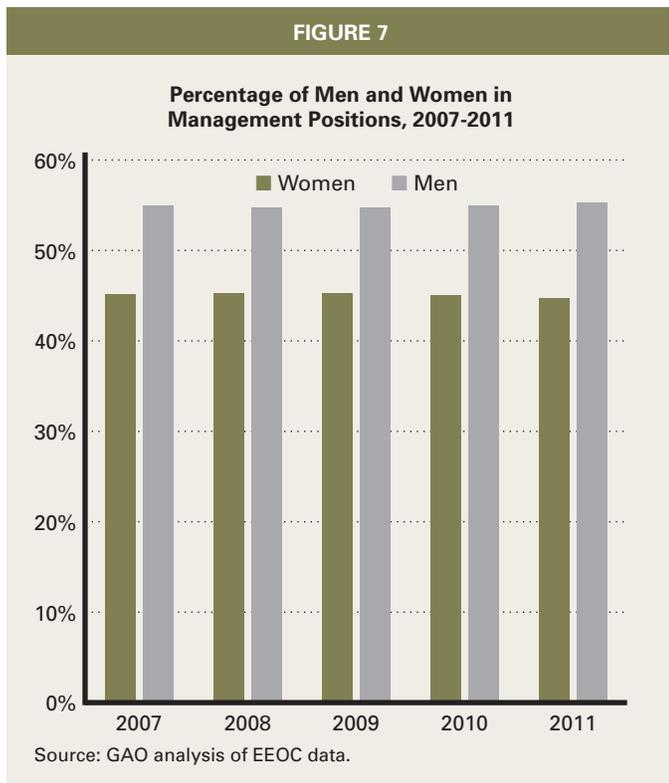
Source: GAO analysis of EEOC data.

Note: Percentages may not always add to 100 due to rounding.

At the senior management level, African-American representation declined slightly, with Hispanic and Other minorities experiencing small increases. Asian representation remained unchanged. At the first- and mid-level,

African-American representation declined slightly with Hispanic and Other minorities experiencing small increases. Asians experienced a significant increase of 1.3 percent over this period.

From 2007 to 2011, representation of all women in management positions decreased 0.4 percent, to 44.7 percent in 2011 (see Figure 7).<sup>31</sup> The representation of women in various management levels is presented in Table 2.<sup>32</sup> At the first- and mid-level of management, representation of all women decreased 0.7 percent to 47.5 percent. At this level, minority women representation increased 1.7 percent to 22.9 percent, with a corresponding decrease for white women to 77.1 percent. At the senior level of management, representation of all women decreased 1.6 percent to 28.4 percent. At this level, minority women representation decreased 0.2 percent, to 13.5 percent, with a corresponding increase for white women to 86.5 percent.



### Ongoing Challenges in Recruiting and Retention of Women and Minorities

Industry representatives cited several challenges to achieving a diverse workforce. The most significant challenges are examined below.

#### The Recruiting “Pipeline” for Women and Minorities

Six industry representatives said that diversity recruitment is difficult because the supply or pipeline of minority and women candidates is limited. This is an ongoing challenge that the GAO had reported previously in 2006 and 2010.<sup>33</sup>

#### External Pipeline

As part of the GAO’s 2010 report, data were gathered from the Association to Advance Collegiate Schools of Business (AACSB) regarding minority enrollment in MBA programs.<sup>34</sup> In 2000, minorities accounted for 19 percent of all students enrolled in MBA programs in AACSB-accredited schools. In 2006, the minority student population had risen to 25 percent. However, financial services firms compete for minorities in this pool not only with each other, but also with firms from all other industries. In 2010, the GAO concluded that the size of

**TABLE 2**

**Percentage of All Women by Management Level, 2007-2011**

	2007	2008	2009	2010	2011
<b>Total Women</b>					
<b>First- and Mid-level</b>	48.2%	48.1%	48.0%	47.7%	47.5%
White Women	78.8%	78.2%	78.1%	77.7%	77.1%
Minority Women	21.2%	21.8%	21.9%	22.3%	22.9%
<b>Total Women</b>					
<b>Senior Level</b>	30.0%	30.0%	29.9%	28.4%	28.4%
White Women	86.3%	86.7%	87.4%	87.6%	86.5%
Minority Women	13.7%	13.3%	12.6%	12.4%	13.5%

Source: GAO analysis of EEOC data.

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the “pool of minorities [enrolled in MBA programs], a source that may feed the ‘pipeline’ for management-level positions within the financial services industry and other industries is a limiting factor.”<sup>35</sup>

As part of the GAO’s 2013 report, enrollments in MBA programs were again examined during the period 2007-2011. Table 3 provides a breakdown of enrollments by race/ethnicity.<sup>36</sup> The table reveals that minority enrollments in MBA programs increased over this period from 26 percent to 29 percent. This

3 percent increase in total minority enrollments represents an 11.5 percent increase in minority enrollments from 2007 to 2011.

***Internal Pipeline***

The GAO report released in 2010 revealed that there are job categories within the financial services industry that generally have more overall workforce diversity than the “Executive/Senior Level Officials & Managers” category, particularly among minorities (see Figure 8).<sup>37</sup>

**TABLE 3**

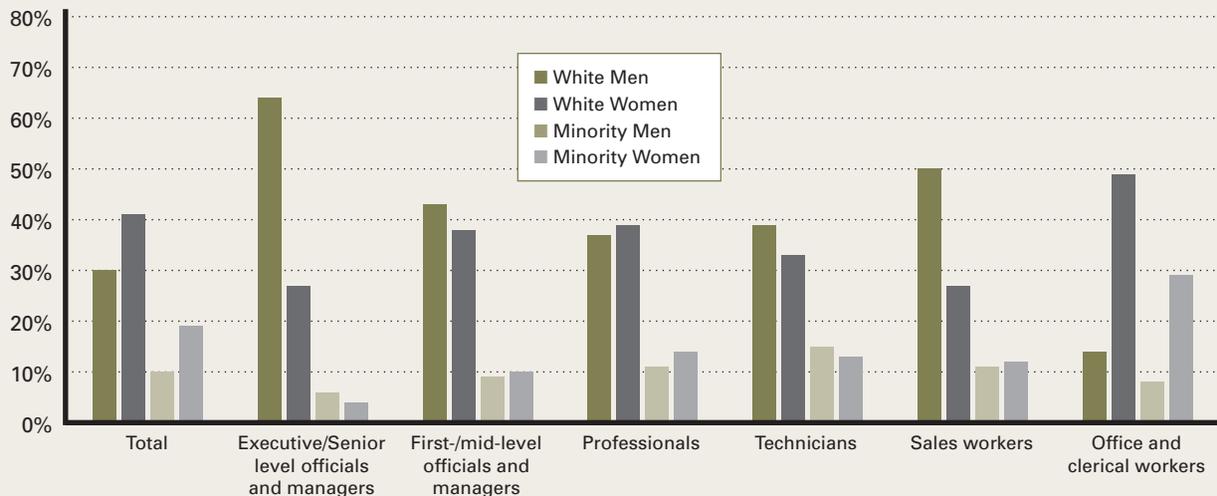
**Percentage of Students Enrolled in MBA Degree Programs at AACSB Member Schools in the United States by Race/Ethnicity, 2007-2011**

Year	Total Enrolled	White	Total Minority	African-American	Hispanic	Asian	Other
2007	100%	74%	26%	7%	6%	12%	0%
2008	100%	73%	27%	8%	6%	12%	0%
2009	100%	73%	27%	8%	7%	12%	0%
2010	100%	72%	28%	9%	7%	11%	1%
2011	100%	71%	29%	9%	7%	11%	2%

Source: GAO analysis of AACSB International data.

**FIGURE 8**

**Workforce Diversity in the Financial Services Industry by Position, Gender, and Racial/Ethnic Group, 2008**



Source: GAO analysis of EEOC data.

For example, minorities held almost 25 percent of “professional” positions in the industry in 2008, compared with only 10 percent of “executive/senior level officials and managers” positions. According to a 2006 EEOC report, the professional category represented a possible pipeline of available management-level candidates. The EEOC report stated that the chances of minorities and women (white and minority combined) advancing from the professional category into management-level positions were lower than the chances for white males.<sup>38</sup>

In 2013, the GAO reported results regarding the internal pipeline that were similar to those of its 2010 report described directly above. The representation of minorities was higher in all nonmanagement positions such as technical and clerical as compared to top management-level positions.<sup>39</sup> Industry representation of minorities in 2011 was higher for lower-management positions—about 20%—compared to about 11 percent of senior-level management positions.<sup>40</sup>

### Need for Role Models

Industry representatives stated that minorities and women in key management senior-level positions make invaluable contributions as role models. Without a critical mass of role models, industry representatives said that women and minority employees might lack the personal connections and access to informal networks that are often necessary to navigate an organization’s culture and advance their careers.<sup>41</sup>

### Securing the “Buy-In” of Key Employees

The GAO observed that middle managers are crucial to the success of diversity initiatives because they are often responsible for implementing key aspects of such initiatives. Middle managers also play a central role in explaining and promoting these initiatives. However, some industry officials said that middle managers often have numerous responsibilities that compete with their responsibility to implement the organization’s diversity initiatives. They also said that implementing diversity initiatives often requires a significant cultural and organizational change for all employees within the organization. One industry representative said that his firm had been reaching out to middle managers who oversaw

minority and women employees by instituting an “inclusive manager program.”<sup>42</sup>

### Negative Image of the Industry

Some industry representatives said that the negative industry publicity following the recent foreclosure crisis and the Occupy Wall Street movement have made recruiting more challenging. Industry representatives discussed the need to take new and innovative approaches to diversity recruiting to counter negative perceptions. For example, one industry representative said that his firm describes to prospective employees the social contributions made by financial services firms through microfinance or economic and community development.<sup>43</sup>

### Accountability

Several industry representatives highlighted the difficulty of implementing and maintaining an effective system of accountability for diversity initiatives. For example, one industry representative said it is difficult to promote results in diversity by linking diversity management with managers’ performance ratings because this practice may not provide enough incentive for many managers. Another industry representative stated “...that recognizing and compensating managers and employees for their diversity efforts can result in increased commitment to foster workforce diversity and an increase in diversity at firms.”<sup>44</sup>

### Practical Suggestions for Diversity Management

A number of best practices for diversity management were described earlier in Figure 1. Another, much broader management framework that may be useful for diversity management and managing employment-related legal risks is the Enterprise Risk Management (ERM)—Integrated Framework.<sup>45</sup> This ERM framework is sponsored by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In the context of diversity management, COSO’s ERM framework is a process, created by an organization’s board of directors, management, and other personnel, applied in a strategic setting across the organization, to provide reasonable assurance regarding the achievement of the

organization's objectives.<sup>46</sup> These objectives may include achieving greater representation of women and minorities in the workforce. The COSO ERM framework has three dimensions (Figure 9): 1) objectives (beginning with strategy), 2) components (beginning with the internal environment), and 3) organizational level (beginning with the entity level).

COSO's ERM framework is currently employed by most large U.S. publicly traded companies that must report on internal controls and comply with the Sarbanes-Oxley Act.<sup>47</sup> However, this framework is principles-based and may be adapted to firms of any size. To illustrate, the authors used the ERM framework to organize a number of diversity-related issues into an eight-phase action plan (Figure 10). The issues addressed in Figure 10 are not intended to be comprehensive since all firms will have unique workforce-related characteristics and circumstances. However, the comprehensive three-dimensional ERM framework illustrated in Figure 9 allows individual firms to adapt the framework to address the recruitment and retention challenges described earlier in this study. In addition to addressing diversity management, COSO's ERM framework allows for a broader inclusion of employment-related issues such as legal exposure to lawsuits based on EEOC violations.

### Conclusion

Congress and federal agencies have continually held inquiries and monitored the level of inclusion of women and minorities in key management positions in the financial services industry. Financial services firms have instituted a wide range of initiatives, programs, and firm policies to achieve greater diversity. Data gathered by the EEOC and the GAO indicate that over the 15-year period 1993-2008, minority representation in all management positions increased 6.3 percent to a total of 17.4 percent. Though the overall increase during this period was modest, the trend is consistently upward. From 2007 to 2011, minority representation increased to 19.0 percent of all management level positions while total women representation decreased slightly from 45.1 percent to 44.7 percent. There are a number of ongoing industry challenges to the recruitment and retention of

women and minorities for management positions. These challenges include a limited pool of candidates, the need for more role models, securing the buy-in of middle managers, negative industry publicity, and implementation of effective systems of accountability for diversity initiatives and programs.

The challenges facing the industry are substantial and there appear to be no quick fixes. Increasing the representation of women and minorities in the financial services industry will only be achieved through long-term sustained commitments to implementing and maintaining innovative diversity initiatives, programs, and policies. The nine best practices for diversity management described earlier and the use of COSO's Enterprise Risk Management framework should be integral components of any strategic planning process. ■

*The authors gratefully acknowledge the important contribution of Carmen Imbalzano in preparing the numerous graphs and tables in this article.*



FIGURE 10

**Applying Enterprise Risk Management to Achieve Diversity in Financial Service Companies**

**Phase I Internal Environment and Setting the Tone at the Top to Promote Diversity**

The CEO and/or owners must set the tone at the top for integrity and ethics including diversity. The firm's Code of Ethics should be reviewed to determine whether it expresses the values of fair and respectful treatment and inclusiveness with respect to all stakeholders in the company including co-owners, employees, clients, etc. Consideration should be given to centralizing responsibility for diversity in one top manager who has the overall oversight and responsibility for ensuring racial equity and diversity. Consulting with the firm's outside auditors and internal and/or outside legal counsel may be helpful in laying the foundation for the firm's updated diversity plan.

**Phase II Setting Objectives**

Measurable targets should be established regarding diversity goals. These objectives should be as concrete as possible. For example, after reviewing the racial composition of the existing workforce, establish measurable targets for improvement over the coming year.

**Phase III Identifying Events That Could Have Diversity Implications**

Top management should work with legal counsel to identify possible events that could impact the company's diversity program (e.g., a firm merger, an internal reorganization, required lay-offs). Many events may create the need to revisit the firm's diversity program.

**Phase IV Assessing Risks Surrounding Discrimination**

Top management should consult with legal counsel to assess the legal risks associated with hiring practices, assignment of employees to various teams, promotion policies, etc. There may be subtle ways in which inequalities are perpetuated through the gifting of accounts to various team members.

**Phase V Risk Response: Strategies for Achieving Diversity**

A variety of practical steps will need to be taken to minimize the legal exposure to lawsuits based on EEOC violations and to achieve the diversity targets that have been established for the year. For example, formal account distribution policies may need to be developed with the goal of directing more accounts to women and minorities. Firm practices concerning client entertainment may need to be restructured or coordinated with diversity goals. For example, special care may be needed to ensure that clients have opportunities to interact with a diverse array of the firm's financial advisors. A firm policy to provide scholarships to qualified minority students to pursue education in the financial services industry may be helpful in ultimately recruiting qualified minority candidates.

**Phase VI Control Activities to Eliminate Discrimination and to Promote Diversity**

Control activities will need to cover many areas, including but not limited to requiring: 1) diversity reporting on a quarterly basis by the top manager in charge of diversity and by other units within the firm, 2) rigorous review of recruiting and promotion practices, and 3) company-wide communication regarding diversity issues.

**Phase VII Information and Communication on Diversity**

Care should be taken to circulate all appropriate written and oral information regarding diversity issues on a timely basis.

**Phase VIII Monitoring of Diversity Goals**

A review of the company's results in achieving its diversity targets should be undertaken on an annual basis, or more frequently if needed, to evaluate the firm's success in following through on control activities that have been established. The agenda for the following period should include an evaluation of the firm's effectiveness. Outside legal counsel or appropriate in-house counsel may need to be consulted for obtaining updates in light of business and legal developments that may impact the firm's diversity practices.

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## Diversity Trends, Practices, and Challenges in the Financial Services Industry

- (1) <http://www.jpmorgan.com/pages/jpmorgan/about/culture/diversity>.
- (2) See Financial Regulatory Authority's Web site: <http://www.finra.org/AboutFINRA/Careers/p009795>.
- (3) CalPERS corporate governance principles state: "The board should facilitate a process that ensures a thorough understanding of the diverse characteristics necessary to effectively oversee management's execution of a long-term business strategy. Board diversity should be thought of in terms of skill sets, gender, age, nationality, race, and historically under-represented groups. Consideration should go beyond the traditional notion of diversity to include a more broad range of experience, thoughts, perspectives, and competencies to help enable effective board leadership. A robust process for how diversity is considered when assessing board talent and diversity should be adequately disclosed... ." See <http://www.calpers-governance.org/principles/2011-11-14-global-principles-of-accountable-corp-gov.pdf>.
- (4) "Diversity Management: Trends and Practices in the Financial Services Industry and Agencies after the Recent Financial Crisis," General Accountability Office (April 2013): 1; Report number GAO-13-238.
- (5) *Ibid.*
- (6) "Financial Services Industry—Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2004," Government Accountability Office (June 2006); GAO Report number GAO-06-617. "Financial Services Industry—Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2008," Government Accountability Office (May 2010), GAO Report number GAO-10-736T. "Diversity Management: Trends and Practices in the Financial Services Industry and Agencies after the Recent Financial Crisis," General Accountability Office (April 2013); GAO Report number GAO-13-238.
- (7) GAO-13-238, p. 5.
- (8) "Diversity Management—Expert-Identified Leading Practices and Agency Examples," Government Accountability Office (2005): 13; GAO-05-90.
- (9) GAO-13-238, p. 4.
- (10) *Ibid.*
- (11) *Ibid.*, p. 3.
- (12) For the period 1993-2008 see "Financial Services Industry—Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2008," Government Accountability Office (May 2010); GAO Report number GAO-10-736T. For the period 2007-2011, see GAO-13-238.
- (13) GAO-13-238, pp. 3, 65.
- (14) GAO-10-736T, pp. 1, 9-11; GAO-13-238, pp. 18-23, 64.
- (15) In 2004, the EEOC suggested that a future report by the GAO "... might provide a discussion of the means through which agencies can determine how the multitude of similarities and differences that individuals bring to the workplace are important to creating a 'high performance organization' with 'a positive work environment where ... all can reach their potential and maximize their contributions to an organization's strategic goals and objectives. Such a study would be a valuable supplement to this report.'" See GAO-05-90, p. 39.
- (16) GAO-05-90.
- (17) GAO-13-238, p. 18.
- (18) GAO-10-736T.
- (19) During the period 1993-2004, financial industry data were drawn from the Standard Industry Classification System. Beginning in 2005, the EEOC used the North American Industrial Classification System. Regarding the continuity and comparability of the two data sets, the GAO concluded that the data "can generally be compared." GAO-10-736T, p. 2.
- (20) The "Other" category presented in Figure 2 includes American Indians for years 1993-2004. The "Other" category presented in Figure 2 includes American Indians, Hawaiian, and "Two or more races" for years 2005-2008.
- (21) GAO-10-736T, p. 2.
- (22) GAO-10-736T, pp. 6, 7.
- (23) GAO-10-736T, p. 3.
- (24) *Ibid.*
- (25) GAO-10-736T, p. 9.
- (26) GAO-13-238, p. 10.
- (27) GAO-13-238, p. 12.
- (28) GAO-13-238, p. 11.
- (29) GAO-13-238, pp. 10, 11.
- (30) GAO-13-238, p. 13.
- (31) GAO-13-238, p. 14.
- (32) GAO-13-238, p. 16.
- (33) GAO-06-617, p. 18; GAO-10-736T, p. 11; GAO-13-238, p. 20.
- (34) GAO-10-736T, p. 11.
- (35) GAO-10-736T, p. 11.
- (36) GAO-13-238, p. 23.
- (37) GAO-10-736T, p. 12.
- (38) GAO-10-736T, p. 11.
- (39) The GAO's 2013 report provides 13 charts and graphs of detail data regarding women's and minorities' participation in various management and nonmanagement positions within the financial services industry. See GAO-13-238, pp. 21, 72.
- (40) GAO-13-238, p. i.
- (41) GAO-10-736T, p. 12.
- (42) GAO-10-736T, p. 13.
- (43) GAO-13-238, p. 23.
- (44) GAO-13-238, p. 23.
- (45) Committee of Sponsoring Organizations of the Treadway Commission (COSO), Enterprise Risk Management System—Integrated Framework. Accessed at [www.coso.org/erm-integratedframework.htm](http://www.coso.org/erm-integratedframework.htm).
- (46) *Ibid.*
- (47) Sarbanes-Oxley Act of 2002, Pub. L. No. 107-204, § 404, 116 Stat. 745, 789 (codified at 15 U.S.C. § 7262(2006) [hereinafter Sarbanes-Oxley Act]).

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