A new challenge for financial services: Making diversity and inclusion a priority

D&I is more than who you hire, it is how you work
Pressure from customers, employees, and investors for financial services firms to improve their diversity and inclusion (D&I) programs has been building in recent years. Now it’s coming from political sources as well, most notably from House Financial Services Committee (HFSC) Chairwoman Maxine Waters (D-CA) who, upon taking the gavel in January, launched a subcommittee to study the issue. As CEOs of the largest US banks prepare to testify before the full HFSC on April 10, they can expect to be grilled on how their cultures have changed since the financial crisis – and it’s likely that no small part of the inquiry will focus on D&I.

While many of these executives will be able to point to initiatives like broadened hiring practices, financial services companies still have a way to go. The goal of improved D&I can be very easily overlooked in an environment where generating revenue is often the priority. With such a strong focus on growth, business line managers – the head of a local market, for example, or a product or a service line – often see short-term revenue targets as far more important than D&I goals. As a result, D&I programs are typically met with a certain cynicism when imposed by company leadership – or a diversity champion outside the key profit-making divisions.

By maintaining this status quo, or not acting fast enough, senior leaders not only limit the impact of their D&I efforts, they also miss significant mid- and long-term revenue opportunities that a more inclusive business model might create. These executives should recognize that there is a business case for building diverse and inclusive teams in the shorter term too. Strong D&I programs have been shown to be correlated with increased revenues, improved risk management, and better growth prospects. It is therefore incumbent on firms to change the rules of the game and require managers to deliver on more than short-term revenues by also requiring them to grow a pool of diverse talent en route to building an inclusive environment that truly delivers on long-term business needs. To do so, senior leaders need to equip their managers with the right tools and resources so they can control enough uncertainties for the fee-earners to create a better “balance of power” and effectively lead with the right behaviors in mind.

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1 WSJ, Goldman Sachs Implement Its Own ‘Rooney Rule’ in Diversity Push
Relative to other industries, the reward structure in financial services is particularly driven by short-term financial metrics – deals closed, fees earned, and return on investment. The reliance on rainmakers to deliver these revenue targets in the short term creates an inverse dependence whereby managers need rainmakers more than the other way around. Managers are therefore more likely to permit their prominent revenue generators – a vast majority of whom are white and male – to operate as they always did. They typically staff teams based on whomever they are more comfortable working with (versus cooperating with a broader set of colleagues, who are visibly or non-visibly diverse) and give development opportunities to people that are similar to them, further perpetuating the lack of diversity. This significantly limits the ability of managers to effectively onboard diverse talent and give development opportunities to people that are similar to them, further perpetuating the lack of diversity. This significantly limits the ability of managers to effectively onboard diverse talent and give that talent the opportunity to grow and thrive in the organization. Managers can always rationalize these behaviors through the lens of business imperative, the need to be effective and responsive to the needs of established rainmakers. They recognize very well that delivering on short-term targets is what will ultimately influence their bonuses and ability to be promoted. And while they can bring in more diverse talent from the outside, the lack of inclusion typically leads to higher attrition and lower engagement.

To combat this and effectively drive sustainable diversity, financial services firms must create a truly inclusive environment. They need to make sure employees feel:

1. Physically and mentally safe, not only in their regular duties but also in the event that they need to call out bad behavior (e.g., free from harassment, bullying, verbal abuse).
2. Their ideas and feedback are listened to and valued.
3. They are supported with mentoring, guidance and advocacy from senior leaders.
4. They have equitable opportunities to develop, grow, and showcase their talent.

These objectives, however, are hard to achieve in organizations that are beholden to the fee-earners to deliver on short-term revenues. Front-line managers, who are supposed to oversee and guide these fee-earners, have limited effective resources at their disposal to influence them, either because the revenue generators are fairly autonomous or because the managers are reluctant to use any of the resources at their disposal for fear of rainmaker reprisal.

What firms should do

Many financial institutions already have embarked on broad D&I initiatives and established several D&I-related policies and processes. These can include broadened hiring practices, the systematic use of diverse slates, reporting D&I metrics, and other approaches to increase diversity. These strategies typically focus on the “visible” traits of diversity (e.g., gender, race, sexual orientation), but while they can help with the intake, and more broadly the “d” of D&I, they are not sustainable on their own. They require a stronger inclusive environment that embraces visible and non-visible diversity (e.g., personal, educational, professional background) and helps diverse candidates grow and develop. We have found that in order to meet these goals, it is necessary for firms to take specific steps to distill the tone from the top in a way that drives behavioral change in all functions and at all levels of management. If firms want to make a real difference in their D&I, they need to:
1. **Understand the current state.** The starting point for any firm that wants to improve its D&I is to undertake a deep and introspective analysis of its own baseline, including existing behaviors and barriers to improvement. The analysis should not only be quantitative (e.g., percentages of women and minorities at each level and division), but qualitative (e.g., what their people do and experience on a day-to-day basis, why, and whether they feel safe, valued, supported, and equitable). This fact base will provide a crisp starting point to assess the gap with the target.

2. **Set the “right” target.** Creating an inclusive organization is a worthy cause in any context. Articulating the specific behaviors that are required, what is expected and what will no longer be tolerated, will depend on the context of each institution and its business strategy. Given the natural focus on financial results, management will always tend to prioritize business outcomes, so understanding how D&I helps the business – and creating a linkage – is critical. The next step is to translate your objectives into clear behaviors that are required going forward and that the firm wants to encourage and enable. But beware: Setting overly ambitious objectives that you'll never meet will typically create cynicism and disappointment.

3. **Ensure the CEO and the entire C-Suite own and drive the efforts from the top.** It is imperative to have the CEO or a President attest to the importance of D&I, and to lead by example. That alone is not enough for systemic change. It is also critical for those with an impact over career trajectory and opportunities to be a part of spreading the message and leading the organization’s D&I actions. The starting point is the same, but it needs to spread from the President or CEO to the business line managers. It is also important for behaviors to not just be encouraged in speeches and emails, but to be modeled from the highest levels.

4. **Make it about more than metrics.** A common mistake is to implement solely metric-based D&I goals. Doing so can lead to business line managers aiming to meet diversity quotas without consideration for inclusion. As a key part of clearly outlined expectations, those managers should be encouraged to demonstrate observable behaviors to promote D&I and show inclusive leadership. If they are asked only about the revenues their teams produce, it stands to reason that revenues will be their primary focus to the detriment of everything else, including D&I. It is also important that manager actions to promote D&I be brought up more regularly than at annual reviews – and in both formal and informal ways. When asking about the progress of a particular deal, for instance, a senior leader might also ask the manager about the teamwork underlying the deal and acknowledge the actions that promoted an inclusive team.

5. **Make supporting changes to D&I infrastructure.** In parallel to the above, the organization needs to strengthen their HR policies, processes, and procedures, starting from a clear vision and goals. It can then translate those into formal and well ingrained policies (including flexibility, support, etc.), hotlines and ombudsmen, inclusion networks, diversity overlays over talent life cycle (recruiting, onboarding, learning & development, performance and compensation management, succession planning, etc.) and other D&I mechanisms such as benchmarking, and employee feedback.

Taken together, these measures can help set a firm on a path to becoming more diverse and inclusive, benefiting from all of the upside of diversity\(^2\) while also creating an environment that enables a more engaged, cooperative workforce. Improvements can help financial institutions better serve an increasingly diverse base of customers, avoid the perils of groupthink, and foster cooperation across functional, geographical, or service line silos. Further, a team that feels safe and supported will be more willing to raise potential issues and risks before they lead to loss of revenue or penalties from regulators.

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\(^2\) See PwC’s [Diversity is the solution, not a problem to solve](https://www.pwc.com/gx/en/insights不对.html) (June 2018)
Conclusion

Delivering on an effective D&I agenda in financial services means embarking on a multi-year effort that can have profound implications on how you run your business and “how your teams work” on a day-to-day basis. The challenge is big, but so is the reward. By doing the right thing, you are not only likely to improve short-term business results but accelerate your journey toward sustainable growth.

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