

DIVERSITY & INCLUSION – A BUSINESS IMPERATIVE

Diversity & Inclusion (also known as D&I; or Inclusion & Diversity) have been buzzwords within corporate circles for years. No longer are these simply catch phrases, but instead are now business imperatives. Put simply, a diverse workforce drives innovation through the natural dynamic friction caused by people looking at the same issue through different lenses. Diversity & Inclusion are always one of the top three objectives of our clients when conducting an executive search. Our clients get it, and they're not alone. But good intentions do not necessarily translate into true improvements for the underrepresented. It's time for this to change. Herein, we attempt to define the issue of D&I within financial institutions and provide a way forward. I recently attended the Diversity Innovation Forum put on by Alliance for SoCal Innovation and sponsored by prodigious fixed income manager, Western Asset Management Company, where the keynote speaker said we need to start getting comfortable talking about things that are uncomfortable. This is our attempt to do just that.

Diversity creates a positive impression of an organization so greater diversity and inclusion are critical parts of meeting new talent demands, which will not only put businesses in a better position to attract and retain top talent, but drive innovation, customer experience and shareholder value. Pioneering firms like BlackRock and Ernst & Young embraced Diversity & Inclusion early on and have been successful at it. In the mid-1980s, E&Y got on board when it implemented a program to attract and retain women. Now more than 50% of E&Y's senior rank are women. However, within financial services there is still an under-representation of minorities, including women, African Americans, Hispanics, Veterans, disabled people and LBGTO.

"D&I is a top priority in the financial services industry, however, most firms have not yet figured out how to realize their goals to develop and grow a diverse workforce," says Janine Cristiano, Chief Human Capital Officer at Houlihan Lokey. "Rather than pay lip service to D&I, firms need to give it substance through leadership sponsorship and engagement," she says. "Building an inclusive and diverse work environment occurs over time through program development driven by employee needs and requirements." She states that diversity can take many forms including recognizing differences in thought and perspective.

According to PricewaterhouseCoopers (PwC) nearly three-quarters of CEOs have a strategy to promote diversity and inclusiveness or plan to adopt one. When PwC surveyed CEOs in 2010, just 40% were taking active steps to attract more women and minorities. But now, 70% of CEOs in financial services see the limited availability of key skills as a threat to their growth and recognize they can no longer rely on a narrow talent pool. Diversity doesn't just broaden the talent pool, it can help attract talent too.

However, much more work is needed to make diversity a reality within many financial firms. Over half of the 600 female millennials (women born between 1980 and 1995) working in financial services who took part in a global survey carried out by PwC in 2015 believed that promotion is biased towards men. More than 70% believed that organizations talk about diversity, but opportunities are not equal for all. If people expect their aspirations won't be met, they will simply choose another organization or industry. Barely 35% felt they could rise to a senior level within their organization, compared with 49% among women across other industries.

At the senior level (VP level and above), the scales tilt and diversity drops precipitously. On more than a handful of occasions, I have had candidates proactively pull themselves from the interview process because they felt our client had not demonstrated a progressive approach to diversifying the workforce. Yet, studies have shown that adopting D&I drives the bottom line. A 2017 report from McKinsey & Co. found that gender diversity correlates to both profitability and value creation in the workplace. Credit Suisse estimates that companies with more gender diversity in the boardroom

see better stock market returns and valuations. Large shareholders may demand that the companies they invest in have diverse boards. If they're not tackling D&I seriously enough, they could withdraw their money.

Until this year, it had been estimated that a quarter of the 445 publicly traded companies in California had no woman on their board of directors. "With women comprising over half the population and making 70% of purchasing decisions, their insight is critical to discussions and decisions that affect corporate culture, actions and profitability," said California state Senator Hannah-Beth Jackson, one of the authors of a new law, California Senate Bill 826. The law was enacted last year to require publicly traded companies with principal executive offices in California to have at least one woman on the board by the end of this year. If they don't comply, they will face financial penalties. By the end of 2021, the minimum is two female directors if the company has five directors, or three women if it has seven.

WHAT PROGRESSIVE COMPANIES ARE DOING TO TACKLE THIS HEAD ON

At McDermott + Bull our clients are increasingly asking us to drive inclusivity in our searches and to conduct a diverse hiring process. While the term Diversity & Inclusion has become more prevalent in financial services over the past decade, it's only in the last five years that institutional finance firms have truly come to embrace it.

The first step, Cristiano of Houlihan Lokey advises, is to start with inclusion: to create a work environment where people can thrive. Employees need to feel that their work environment is giving them a voice and helping them to develop as a professional, and in their personal life. Research has shown that when people feel like they belong, they are more productive, motivated and engaged and more likely to contribute to their full potential. Those who have different experiences bring value to the conversation inviting others to think in broader terms.

Christine Eskilsen, Chief Human Capital Officer and Assistant General Counsel at Piper Jaffray sits on a Financial Services Roundtable and has noticed that peer firms are talking about Inclusion & Diversity (I&D) more to highlight the inclusive aspect. As with most investment banks, she says, "we still need more diversity in the firm since our numbers are lacking." Her broad definition of diversity encompasses gender, race, national origin, sexual orientation, socio-economic status and veteran status and, in general, these categories are under-represented within investment banks.

Piper Jaffray aims to hire more women on the corporate banking and fixed income side. It currently has two women and one African American on its board. Eskilsen feels passionate about the issue as does her CEO, who has four daughters. The first goal, she insists, is to have a CEO on board who cares about the issue. The next is to use Measurement Tracking Mechanisms throughout an employee's career. Lastly, it is imperative to think differently about how to recruit talent. Piper runs a Career Exploration Program where it hosts events for women and minorities who are freshmen and sophomores in college to educate them about opportunities at Piper. Her team continues to stay in touch with them while they're still in school to keep a pipeline of potential talent within reach. They also aim to get involved with diverse groups on campus. She believes millennials and junior level staff are those champions of change who will increase awareness of the issue. "We all question who we want to work with on an unconscious level and so we need to become aware of this and operate with more inclusivity," Eskilsen says. Piper has instituted a policy akin to NFL's "Rooney Rule" that requires every team with a head coaching vacancy to interview at least one or more diverse candidates. Piper specifies that the company cannot hire at the VP level or above if it does not include diverse candidates in the applicant pool.

It seems too many firms begin their D&I journey at the HR level. The HR team may spearhead Employee Resource Groups which can be effective, but without the right sponsorship and direction, can become social events without truly benefitting those employees who belong to the group. For example, affinity groups for those who are Hispanic, African American, Asian or Women, have become popular in the workplace but sometimes can become too exclusive.

Other changes companies may consider making relate to their benefits policies. Most employees want a balanced work/life experience and appreciate family-friendly policies that allow them to support their family's needs. Some progressive firms offer help with day care, a last-minute nanny service or more flexible working arrangements. Piper offers "Milk Stork" which enables nursing mothers to ship breast milk home when they're on a business trip. In addition to formal benefits programs, an informal mentorship and sponsorship which advocates for the development of someone on a team can be incredibly impactful. "We need to be deliberate about developing relationships whether it's in a mentorship or a sponsorship way," Esckilsen says.

Our client, Silicon Valley Bank, has taken a lead in addressing D&I. In 2014, the bank launched an internal survey to understand their employees' experiences, interests and priorities. The results of this survey allowed the bank to identify areas of opportunity where they could raise awareness and build a framework around their D&I strategy. The following year, the bank launched a series of workshops called "Unconscious Bias" to understand how to dismiss bias in the decision-making process. The bank has gone on to build a foundational program that's being deployed across its global footprint. The goal of the program is to provide managers with actionable tips to mitigate unintentional bias through the language they use when talking about talent and leadership. They also provide training and resources to enable employees to become inclusive leaders and active advocates in leveraging their diverse experiences for the benefit of clients.

Another client of ours, Guggenheim Partners, has taken D&I public. Meaning, they have made it front and center; part of their ethos. On the landing page of their website they have three pages dedicated to their inclusive workforce and environment. We are currently conducting a global human capital role for them and the reception from the candidates regarding the firm's public display of D&I has been nothing short of impressive. The candidate market loves that a global asset management firm is getting into the weeds about D&I.

In conclusion, we believe firms should re-envision their approach to diversity.

- It starts at the top. The executive team must truly buy into an inclusive workplace and promote it unequivocally.
- While seeking diverse talent from the outside can drive diversity in limited instances, firms should focus internally first on their diverse team members. The already in-seat diverse team members will have greater power to drive further diversity than a single external hire.
- Of course, external hires and the approach to hiring must be overhauled to drive diversity. Making D&I front and center in a public way will set a financial services firm apart from the competition as very few do it.

About the Firm and the Author

McDermott & Bull is a full-service executive search firm serving clients through its offices in North America and Europe. The Firm's Financial Services Practice Group is a partner to an array of financial services firms including investment banks, commercial banks, private banks, credit unions, investment managers, institutional investors and fintech companies. The firm's clients include the likes of Guggenheim Partners, Houlihan Lokey, Silicon Valley Bank, First Republic Bank, BNY Mellon, Moelis & Company and Envestnet.



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