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An Affirmity White Paper

10 keys to Achieving Pay Equity, Diversity, and Inclusion in the Financial Services Industry

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1 Introduction

In recent years, cultural shifts like the #MeToo movement have drawn widespread attention to the importance of diversity. The #MeToo movement in particular has raised awareness regarding the fair and respectful treatment of women in the workplace.

Because of that heightened awareness, customer-centric businesses of all types are embracing the importance of fostering diversity among their ranks.

The business case for D&I in the financial services industry is particularly strong. Industry news sources like MarketWatch and InvestmentNews have highlighted the lack of diversity among financial advisors, for example, and outlined the business benefits of diversity in leadership and financial advisor roles.

2 Business Benefits for Organizations with a Culture of Diversity

At the same time, industry analysts such as Deloitte are reporting that a diverse workforce drives bottom-line results. For example,

- Outperforming national industry medians – Because diverse companies have a wider variety of voices, they're more likely to generate creative solutions to challenges as well as create and seize market opportunities. According to McKinsey, companies with gender diversity are 15 percent more likely to outperform national industry medians, while ethnically diverse companies are 35 percent more likely to outperform national industry trends.
- Improved brand perception – With the financial services industry taking significant hits in the past decade, public opinion has fallen. D&I programs offer an avenue to improving the widespread perception of the industry as a whole. Companies with successful D&I programs are often well regarded both within the industry and among the public. And some firms have increased their brand awareness by embracing diversity—for example, through campaigns depicting a diverse customer base.

"We've seen a lot of new allies stepping into the conversation, especially men for women. There has really been a big consciousness awakening."

Jennifer Brown, author of Inclusion: Diversity, The New Workplace & the Will to Change

- Improved employee engagement – Because people want to work for a brand with a positive reputation, diversity initiatives that boost reputation also help attract top recruits and retain high-performing employees. Diverse companies typically see a higher level of employee engagement. This correlates with higher quality work, as well as increased employee referrals for qualified candidates who are often a good cultural fit. Conversely, employees typically won't offer referrals when they're unhappy or demotivated.
- Enhanced customer experience – Delivering a consistent, high-quality, and personalized customer experience is critical to success. By meeting the needs and expectations of their customers, banks and other finance-sector organizations can differentiate from their competitors and grow their customer base.

The Need for Sustained Diversity Efforts in Financial Services

While many financial services organization have a Diversity & Inclusion (D&I) program or at least a diversity mission statement, the financial services industry as a whole has significant room for improvement.

The problem isn't recognizing the need. According to PriceWaterhouseCoopers (PwC) 2017 Global Diversity & Inclusion Benchmarking Survey, 88 percent of financial service organizations listed D&I as a stated value or priority area. Still, organizations struggle with developing and sustaining D&I programs that boost the diversity of their workforce.

According to the PwC survey, areas of concern vary. For example,

44% 44 percent of respondents still feel diversity is a barrier for employee progression.

26% 26 percent of financial service enterprises provide training on embedding inclusive behaviors in job responsibilities.

21% Only 21 percent of firms track discrepancies in compensation between demographic groups.

"Comerica cannot run without our people. We must ensure an inclusive and diverse environment so that our employees remain engaged, highly motivated, and we retain the talent necessary for the organization. To do this, we must provide guidance and insight for products and services to the multicultural market. We must have the perspective of all individuals and colleagues that represent those particular markets to achieve those goals."

Nathan Bennett, Chief Diversity Officer and Head of Talent Acquisition, Comerica Bank

Customer Demand and Employee Engagement: Two Drivers of Diversity in Financial Services Organizations

While diversity efforts have solid business benefits for all industries, it's especially true in financial services. Banks, investment firms, financial planning firms, and the like rely on customer satisfaction and a differentiated customer experience to drive growth. When choosing a financial services provider, customers often look to organizations with employee demographics that match their community.

Gender diversity should also be a top priority. Wealth has shifted, and continues to shift, to be more balanced between men and women. Many women want to interact with other women—or at least see women in the firm—when conducting financial business. By meeting the expectations of female customers, financial services firms can gain their trust and business.

3 Risks for Financial Organizations Not Proactively Addressing Diversity

Companies that fail to address a lack of diversity may see an impact to their bottom line. This is also true for organizations that have ineffective programs or make only half-hearted diversity attempts.

As companies that do invest in strong D&I programs reap the business benefits, slow adopters risk a range of negative impacts, including:

- Loss of customers – Brown often receives calls from companies on the verge of losing a major client because the client perceives their commitment to D&I to be poor: "Their customer says to them 'You are not matching our values and we can't do business with you. At the very least, you need to be on a journey towards diversity.'"
- Damage to reputation through lawsuits and other negative publicity – As the conversation about diversity garners increased public attention, the potential for negative publicity regarding a lack of diversity, and for litigation, also increases.

"It comes down to being able to differentiate yourself. If you are looking to fulfill financial products and services for an increasingly savvy customer base, you need to have the best team put together. But without a diverse and inclusive environment, you aren't going to be able to attract the talent that you need, and your company will underperform."

Julia Streets, CEO, Streets Consulting

- Under-recruitment of valuable candidates and under-utilization of available talent – Companies that do not actively recruit diverse candidates and create an environment where these candidates want to work will miss out on talented employees.
- Exodus of female and minority workers – When skilled minority and female employees aren't given opportunities to grow and advance, they're likely to leave—often taking their talents to the competition.

4 Moving Beyond the Mission Statement

A Roadmap to Accountability for Diversity

To create a culture where leadership is held accountable for diversity, organizations must start by answering key questions:

- Reporting and Metrics – How will the organization and executive leadership measure and manage D&I success? Who will prepare and deliver reports, to whom, and how often?
- Accountability – How will leaders be held accountable for D&I objectives? Are D&I objectives tied to performance reviews and bonuses? What checks and balances will ensure a quota system does not emerge?
- Benchmarking – What diversity benchmarks would create applicable and contextual demographic targets to inform the development and measurement of realistic and business-focused plans?
- Alignment – Do D&I initiatives align with organizational strategies, objectives, and culture?

Almost every financial services company recognizes diversity— through a section on the company website, a page in the employee handbook, or a short session during new employee orientation. But simply having a D&I mission statement is not enough.

The key to creating a diverse workforce is measurement. Every experienced financial services leader knows that what gets measured gets done. To build a robust D&I program, firms need to have quantitative objectives, defined reporting, benchmarked targets, and business impact analyses.

5 10 Keys to Achieving Pay Equity, Diversity, and Inclusion

1. Measure Before You Manage
2. Create Accountability for Diversity Initiatives
3. Review Your Talent Acquisition Process
4. Conduct Pay Equity Studies
5. Use Multiple, Objective Merit Criteria to Reduce the Risk of Bias.
6. Empower Managers and Workforce with Diversity Education and Training
7. Create Teams to Focus on Working with Specific Multicultural Customer Groups
8. Automate Alerts and Reports to Identify Potential Inequities
9. Consider Organizational Structure that Supports and Sustains Change
10. Support Employees and the Management Team Throughout the Process

Creating a diverse workforce, sustaining a culture of inclusion, and ensuring equitable pay takes commitment, hard work, and time. And many financial services organizations struggle to implement the leadership, practices, and technology necessary to enable these changes.

Financial services organizations seeking to drive business results can start by reviewing and addressing these critical elements of their talent strategy and processes:

1. Measure Before You Manage

In the early phases of defining a D&I program, organizations are often inclined to immediately launch new initiatives. The inherent risk of this type of reactive approach is that the organization may inadvertently focus efforts on the wrong areas. Equally important, firms that rush into a program will be unable to measure its impact—because they don't know where they started.

To establish a baseline, begin D&I efforts with an objective review of your talent analytics. But don't limit yourself to hard data. Brown says that firms need the story behind the numbers. "In addition to the quantitative data, it's important to use qualitative data through focus groups, one-on-one interviews and surveys."

When reviewing your organization's diversity and pay equity across job categories, don't benchmark strictly against another organization. Instead, benchmark your organization against the availability of candidates by demographic in your job markets. By analyzing workforce demographics, external benchmarks, and your qualitative data, you can better understand the origin of current issues and identify opportunities for improvement. Use this information to determine which areas offer the most opportunity for both culture change and business impact.

2. Create Accountability for Diversity Initiatives

When D&I efforts fail to drive lasting organizational change, the most common reason is that accountability was not built into the program. For D&I programs to be strategic and viewed as such by leadership teams, there must be incentives for achievement of goals.

By tying results to executive and manager performance and bonuses, organizations can hold leaders accountable for creating a diverse workforce.

At the same time, organizations must ensure their managers don't overcorrect. Make sure incentives don't encourage managers to hire candidates who aren't qualified or a good fit. "You don't want managers to promote diverse candidates because of incentives, and then have the employees fail because they are not ready skill-wise for the job," says Brown.

Accountability should be an ongoing metric. Comerica uses a diversity scorecard to hold all executives accountable for hiring, developing, and promoting diverse candidates. The organization then compares equally performing groups with other groups to make sure that all groups are hired and promoted at a similar rate.

"We also use this as directional insight for us to go back and look at the talent life cycle to see where our opportunities are," says Bennett.

3. Review Your Talent Acquisition Process

You can't have a diverse organization if you're not actively recruiting and hiring diverse candidates. Take a careful look at all the steps in your hiring process to uncover any roadblocks that might deter or prevent diverse applicants from joining your organization.

Start by analyzing the racial and gender composition of all new hires and determine whether the ratio is statistically different than the diversity of people applying for jobs. Because employment tests are a common issue for diversity, evaluate all tests for hiring and promotion to make sure the tests are not eliminating candidates based on diversity characteristics.

4. Conduct Pay Equity Studies

It's not enough to "think" your organization pays equally for equal work. Organizations must use statistical analyses and formal pay equity studies to uncover pay differences between employees based on gender or race. The first step is a compensation analysis, which analyzes differences in current pay rates. This information

> "You have to think about how to set the targets, how to measure, how do you praise, and how do you reward. When people have shown that their hiring practices and leadership drive changes, then that should be recognized, applauded, and held up as good practice by the organization."
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> Julia Streets, CEO, Streets Consulting

helps defend against claims filed under the Equal Pay Act or, for federal contractors, in anticipation of an Office of Federal Contract Compliance Programs (OFCCP) audit. Next, conduct a comprehensive pay equity study to identify potential patterns of pay disparity.

5. Use Multiple, Objective Merit Criteria to Reduce the Risk of Bias.

Performance metrics are often subjective, which allows room for unconscious bias. The result: Lower salaries and fewer promotions among females, minorities, and other protected classes.

Start by determining where your organization currently has roadblocks and opportunities in the evaluation process. Conduct a performance study to determine whether a protected group receives a disproportionate number of lower ratings and a promotion study to reveal differences in promotion rates. Organizations should also analyze differences in termination rates for employees in protected groups.

The next step is to revise the criteria used to evaluate employee performance. A structured evaluation process reduces unconscious bias by using objective and quantifiable criteria. By adding objective criteria such as promotability, potential, and loss impact, financial service organizations can mitigate the impact of manager subjectivity. Also, when establishing or refining merit criteria, avoid factors for which diverse employees may not have equitable opportunities.

6. Empower Managers and Workforce with Diversity Education and Training

Most organizations provide employee training. But it is often simply "check the box" training that only touches the surface of the issues and doesn't drive lasting change.

The most effective training delves deep into topics that are often glossed over. Design a class addressing topics such as unconscious bias, respect in the workplace, and microaggression. To build a culture that embraces diversity in both demographics and thinking, training must be interactive. Focus on teaching both managers and employees how to have better conversations—especially about compensation—to reinforce and build trust.

Training should empower employees to make changes in the organization, and to help them think about their role differently.

"Without changing how they think, people will continue to hire and lead people the way that they have always done it, which is likely the same way that they were taught," says Streets.

All employees—including executives—should be included in training, but Brown says to focus on middle managers—especially on the topic of unconscious bias:

"When it comes to driving performance and getting results, much of the heat and expectation is on middle managers. They are the ones that have to deliver, so to make changes for D&I they need to gain the strategies to do so."

"Training often increases awareness around a certain topic. But that's not how adults learn. They need to feel it, learn it, practice it, get feedback on it."

Jennifer Brown, author of Inclusion: Diversity, The New Workplace & the Will to Change

7. Create Teams to Focus on Working with Specific Multicultural Customer Groups

For financial service organizations, D&I programs shouldn't only focus internally, but also on how to best serve diverse customers.

Comerica created market segmentation teams, which are teams of employees who volunteer to focus on a specific multicultural market. While the focus of the teams is to bring in new business, they also work to improve the lives of their customers and their communities through efforts such as working with local chambers of commerce.

Members of the volunteer-based teams are primarily revenue-generating employees, but any employee can join. Each group receives a budget to identify and attract both individual and business customers. Comerica then tracks deposits, loans, mortgages, and other ROI metrics.

"While the teams are bringing in $330+ million, they are also helping multicultural businesses and individuals build wealth. The teams also have an ancillary impact on the organization's reputation. Because we have a reputation as an organization for fighting for multicultural businesses, it really helps us when we are working with customers and prospects," says Bennett.

"We all know that when we truly reflect the demographics of our markets, we will better serve our customers, grow our business and build an even stronger organization. It makes good business sense."

Ralph W. Babb Jr., CEO, Comerica

8. Automate Alerts and Reports to Identify Potential Inequities

When humans review data and reports, unconscious bias can impair their ability to recognize problems, let alone anticipate them. Your compensation planning and other talent management software should include roles, workflows, and processes that help avoid inequitable practices and address potential problems before they create risks. With automated alerts, your team can review the issue, add the human perspective, and determine the next step.

"Consider technology that reviews documentation, such as reports, performance reviews, job ads, and other documents, to flag words that will keep diverse candidates from applying or getting promoted. It also removes words that can promote or convey unconscious bias," says Brown.

9. Consider Organizational Structure that Supports and Sustains Change

Many financial services organizations assign Human Resources with responsibility for D&I programs. At Comerica, Bennett is both Chief Diversity Officer and Head of Talent Acquisition: "This means I have a lot of influence on the front side of talent acquisition and diversity goals as well as retaining and developing employees."

Because diversity initiatives often involve multiple departments and complicated issues, organizations may choose to establish a governing body. At Comerica, the Executive Diversity Council includes the CEO and his direct reports and the Chief Diversity Officer. Employees, customers, and key members of the community are highly influential in decisions made by this council

Accountability, however, should reside with business leaders. "The responsibility for performance, delivery, customer service, innovation, and product development are all tied to diversity, and these issues all sit with the business leaders," says Streets.

10. Support Employees and the Management Team Throughout the Process

Creating an inclusive environment takes time and sustained effort.

When a leader fails to achieve diversity goals, it's important not to simply impose a penalty. The organization must examine the underlying issues and engage the manager in finding solutions. The problem may be larger than the leader's area of control—resulting from company- or even industry-wide challenges.

For example, Comerica's Asian-Pacific market team worked with leadership to identify products and credit programs tailored to customers who have large cash savings but little credit, a common scenario for immigrants from Asia.

"We provide support to our senior leaders for D&I by giving them the directional strategy around the segments of our population in terms of how to drive business and what products and services need to be in play," says Bennett.

6 The Key to Change: Leadership Commitment and Well-Defined Metrics for Accountability

Attracting and retaining diverse talent is key to success for financial services firms. However, the problem can't be solved by simply writing a mission statement and starting an initiative.

To make lasting change, however, diversity initiatives require leadership commitment and well-defined metrics that span all HR functions. In addition to holding leaders accountable for diversity, financial service organizations must provide both training and support to leaders working to change the culture—and to employees navigating that change.

For financial services organizations that invest in effective D&I initiatives, the potential returns are significant to their bottom line, brand perception, and customer experience.

Organizations that successfully change their culture to create a diverse workforce see exponential benefits—spanning recruiting, retention, sales, customer satisfaction, and revenue—that derive from having a diverse, engaged, and productive workforce.

6 About Affirmity

Affirmity, a former division of PeopleFluent, provides expert analysis, consulting, training, and software to optimize affirmative action and diversity and inclusion programs.

Our team of experts delivers diversity metrics and data-driven insights to manage and mitigate risk. Drawing on more than 40 years of experience, we guide HR and compliance teams through diversity goal setting. Affirmity empowers leaders with tools and dashboards to measure progress, and we help clients capture and communicate the positive business impacts of diversity initiatives.

A part of Learning Technologies Group plc (LTG), Affirmity serves more than 1,100 organizations—including global corporations, mid-sized organizations, and small businesses.

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