

**WRITTEN STATEMENT OF
MARILYN F. BOOKER
MANAGING DIRECTOR, GLOBAL HEAD OF DIVERSITY
MORGAN STANLEY**

**BEFORE THE
HOUSE FINANCIAL SERVICES COMMITTEE
SUBCOMMITTEE ON OVERSIGHT & INVESTIGATIONS**

“DIVERSITY IN THE FINANCIAL SERVICES SECTOR”

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Mr. Chairman and members of the Subcommittee:

I am Marilyn F. Booker and I am the Global Head of Diversity for Morgan Stanley. I sincerely appreciate the opportunity to testify before you on Diversity in the Financial Services Sector.

What I would like to accomplish during my testimony here today is the following:

1. Address the key findings of the June 2006 GAO Report, *Financial Services Industry, Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2004*, (the “Report”)
2. As a Financial Services firm, address some of Morgan’s Stanley efforts, challenges and successes in improving diversity at, and special challenges facing, investment banks
3. Discuss how Morgan Stanley measures its business case for diversity

THE GAO REPORT FINDINGS

In June 2006, the GAO issued its report on overall trends in management-level diversity and diversity initiatives in the financial services industry. The key statistical finding of the Report was that, from 1993 – 2004, overall diversity at the management-level in the financial services industry did not change substantially. The population of employees that was reviewed was the

“Officials and Managers” category of the EEO-1. Specifically the report found the following with respect to this group of people:

- Representation by minority women and men overall increased from 11.1% to 15.5%
- African-Americans increased their representation from 5.6 to 6.6%
- Asians increased their representation from 5.6% - 6.6%
- Hispanics increased their representation from 2.8% to 4.0%
- American Indians increased their representation from 0.2% to 0.3%
- Representation by white women remained constant at around 31%
- Representation of white men declined from 52.2% to 47.2%
- Overall white representation declined from 88.9% to 84.5%.

The Report also concluded that within financial services, some sectors have more diverse management-level workforces than others (e.g., commercial banks and insurance companies have a higher degree of representation by minorities and white women at the management-level than securities firms, etc.).

My analysis of the outcome of the statistical findings is consistent with the rationale stated in the Report. In particular, it is my observation that:

- The financial services industry is facing challenges in recruiting minority and women candidates
- Recruiting a diverse talent pool takes time and effort
- Although there are women and minorities in senior level positions, relative to men and non-minorities, the critical mass is not as evident and many junior women and minorities feel challenged in finding role models who can encourage them to enter the industry
- Engaging the management structure in diversity efforts (middle management included) and implementing meaningful programs and initiatives that also allow employees at-large to feel engaged is critical to success.

1) The financial services industry is facing challenges in recruiting minority and women candidates

Today's reality is that the financial services industry as it was once understood is no longer the only game in town. In addition to the limited pools of potential candidates, the competition now includes private equity firms, hedge funds, technology companies and consulting firms,

foundation and nonprofit organizations, among others. All of these industries, like the more diversified financial services industry, typically require a high degree of specialization; therefore, minority and women candidates with the best credentials and requisite skill sets are highly sought after and often receive multiple job offers. This plays out at both the campus/entry level and at the lateral/experienced level.

Second, the number of women and minorities who are seeking these specialized skill sets via advanced degrees has remained stagnant over the last 5+ years. The percentage of minorities and women attending accredited business schools in the country is 23% and 35%, respectively. With respect to minorities, that 23% is made up of 11% Asian, 6% African American, 5% Hispanic and 1% American Indian. Knowing that all of these students do not come to financial services and are spread across many industries, the percentage of minorities and women in the financial services industry is fairly consistent with those who have the training to apply for these jobs.

Third, with respect to experienced hires, we in the securities industry often hear about the government's data on the available labor pool and how the number of minorities and women in those pools is higher than their representation in securities firms. It is my view that these statistics are somewhat misleading relative to securities firms because it lumps securities firms into the category of "financial services" which in turn includes a broad range of companies like credit unions, savings and loans associations, insurance companies and commercial banks, to name a few. Investment banks or securities firms with both institutional and retail businesses tend to be more specialized and typically seek more defined skill sets. Combine this with the minorities and women who do have the skill set but opt for other careers and the number of experienced people in this group decreases even more. I do believe this is why there are fewer experienced minorities and women in the labor pool than at the entry level which is why many firms put so much emphasis on campus/entry level programs.

2) Recruiting a diverse talent pool takes time and effort

Recruiting diverse candidates is a process that cannot be successfully managed in the same manner as general recruiting. Diversity recruiting is about relationships and trust and it takes time to build those relationships and develop that trust. In spite of the progress that has been made on the diversity front and the presence of more women and minorities in financial services firms, these groups still have skepticism about whether firms will care about them and their

careers. As a result of this skepticism, the following often occurs with respect to these candidates:

- They do their homework
- You must have several people speaking to them about the firm's commitment to a meritocracy
- To get them to accept your offer vs. another firm's offer, they need to know about support systems, mentoring and the firm's commitment to diversity.

This phenomenon takes place because unlike men and non-minorities, they tend to be very cautious about the employment decisions they make as they may not feel they can move with the same ease as those who are not like them. Therefore, the time investment is huge and firms that do not have the infrastructure to support this relationship building will not be as successful as those that do.

3) Although there are women and minorities in senior level positions, relative to men and non-minorities, the critical mass is not as evident and many junior women and minorities feel challenged in finding role models who can encourage them to enter the industry

There is unquestionably a pyramid effect. The Report demonstrates that the number of minorities and women tends to be larger at the lower levels of the organization and as you move up into the more senior levels, the relative representation decreases. Certainly, this isn't unusual for financial services companies alone. Indeed, there was a recent *Fortune* article that addressed the challenge that companies have in trying to maintain diverse workforces. It mentioned that statistical disparities can often be the result of "a complex stew of social, historical and cultural legacies that no company can or should be expected to correct." I do agree that the reasons why organizations are not more diverse, particularly at the senior levels, are quite complex. In addition to the reasons mentioned by *Fortune*, there is also the fact that there are many minorities and women who, for personal reasons, just opt out of what is the unquestionable high-intensity atmosphere that in many ways defines our industry.

That being said, I do not agree that companies should not try to be more diverse despite the social, historical and cultural forces that might be working against them. The reality is that most if not all companies do have senior minorities and women – the representation just tends to be smaller at the senior levels. This creates a two-fold responsibility for organizations:

- It is incumbent upon companies to make the senior minorities and women visible support systems for those coming up the pipeline and ensure that they have the resources to mentor those junior people like them
- In an effort to ensure inclusion in formal and informal networks, it is also incumbent upon companies to also make available to junior minorities and women mentors who do not look like them, i.e., non-minorities and men.

Understanding the need for role models and multiple mentoring relationships can make the difference between a successful career and a failed career. Different people have different lines of access to information. To have people mentor people who only look like them or share a particular characteristic limits those lines of access and eliminates input from different perspectives. Companies need to provide the roadmap for making this happen. They need to ensure that junior minorities and women make the personal connections needed to plug them into the informal networks that are often necessary to navigate that company's culture and advance their careers. The assumption is that this happens with men and non-minorities, so there has to be a systemic way to ensure that this happens as well with minorities and women. If this is done often enough with minorities and women, even more progress will be made.

4) Engaging the management structure in diversity efforts(middle management included) and implementing meaningful programs and initiatives that also allow employees at-large to feel engaged is critical to success

We have all heard the expression “people don’t leave a company, they leave their manager.” Diversity is no different. An organization can have all the top leadership commitment there is, however, if this “commitment” is not communicated on a regular basis to the people who are responsible for the day-to-day, and if those folks do not have an opportunity to be engaged in meaningful diversity programs and initiatives, the broader efforts to have a more diverse workforce will be seriously challenged. I have found it to be critical that there is top to bottom buy-in and engagement on diversity initiatives and that firms can go a long way in this regard by being visible in their initiatives, communicating them broadly and demonstrating that each employee, particularly managers, have a stake in the diversity mandate.

MORGAN STANLEY'S EFFORTS

Challenges and Successes in Improving Diversity at, and Special Challenges Facing, Investment Banks

As the workforce has become more diverse and companies have sought to ensure that they were getting the best and the brightest from the new and diverse entrants into the workforce, more formal diversity programs have come into existence. They are designed to meet the ongoing challenges of recruiting and retaining the best and the brightest, regardless of the independent and often personal decisions that may be individually made about career options. A few of the programs that we run at Morgan Stanley are as follows:

- We host conferences for our minority and women employees. The goal of these conferences are to focus on leadership development, skill development, networking and enhanced relationships with senior management
- We have very mature campus recruiting programs in all of our business units that specially target women and minorities. These programs, both at the graduate and undergraduate level, have been very helpful in pipelining outstanding talent into our entry level programs
- Our employee networks have been a great way of not just building informal, networking relationships, but we have also had offerings of internal and external speakers that have focused on career and professional development and advancement.

The next area that I believe is important to our diversity success is talent management. About a year and a half ago, our CEO, John Mack, appointed a Chief Talent Officer for the firm. Each of our major Business Units in turn has a designated Talent Officer. One of their major talent initiatives is around leadership. Leadership, good leadership, is just as important to diversity as accountability. It is my belief that if you have good leaders in place, diversity will follow. Great leaders know talent when they see it and create the conditions under which people, all people, live up to their potential. Weaker leaders, by contrast, may gravitate to people who are like them – which can have an impact on diversity in all areas – from recruiting to career development to promotions. It is not that poor managers are ill-intended, they just don't know how to manage people in general and these poor management skills can appear to have a more significant impact on people who are different. Poor management skills often lead to less attractive records on diversity.

Our challenge is that we are in an industry where rewards/promotions are often bestowed upon people because of their incredible production/bottom-line skills. Although good people skills and management skills are considered, they are not typically the first quality considered.

Through our talent management team our firm is very focused on leadership training for our managers. Another area of focus is on career development and leadership for our diverse employees. One example of this targeted leadership is that we are working closely with the Simmons Leadership Institute, and its leadership program for women. This program in particular, takes our women offsite for 2 days, focuses on performance review feedback, discusses leadership styles and provides guidance on how our women can enhance their career progression and be valued added assets to the firm. We have had several of our women in the firm attend this leadership program.

What we also feel is important is that our minorities and women have access to senior management. Our CEO and other members of top management has numerous events each year where this is possible. These events range from breakfasts, lunches and dinners to several open forums each year and even a firm county fair where there is heavy senior management presence. This is helpful in making sure that our diverse employees have the opportunity to stay on the radar screens of the decision-makers in the firm.

Another area that is important is employee involvement and engagement, and that typically manifests itself via employee networks. Employee networks are great to have because they help to build morale, assist employees in networking and finding mentors and because of the networking, there is a greater sense of belonging. The networks, including broad efforts to visibly publicize to the employee population at large what's actually going on with the networks, also further demonstrates institutional support for issues that matter to diverse employees. We have six active employee networks at Morgan Stanley – Black, Hispanic, Asian, Women, Parents and Pride, which focuses on our gay, lesbian, bisexual and transgender employees. Our networks are very active and had over 35 activities in 2007.

Related to this, we make great efforts to make sure our diversity efforts, and their importance, are well-communicated throughout the organization. Whether through intranet postings,

brochures, recruiting materials, policy documents, or other messaging, we believe it is important to weave these fundamental business principles in many of the things we do and see day-to-day.

Similar to many other firms, we have also done a great deal of diversity training. Training is important because firms need to ensure that people are sensitive on how to treat people who are not like them. That being said, although diversity training is important, it cannot be seen as the be-all and end-all. Diversity training as a stand alone is not effective – it needs to be a part of a more comprehensive program. This is why in addition to diversity training, at Morgan Stanley we are just as focused on management training, leadership development and talent management/career development.

Finally, in addressing the question on special diversity challenges facing the investment banking industry, I do believe there are a few that are quite prevalent. As mentioned earlier, the external challenges revolve around the specialized pool of talent that we often seek in the securities industry and the fact that we are no longer the only game in town and are competing with many other industries for a limited talent pool. The internal challenge of having producers as managers who may not have the best leadership skills is something that we can clearly impact. I know that many firms in our industry are very focused on addressing this challenge and recognize that this can be done through a focus on talent management, training and accountability.

MORGAN STANLEY'S MEASUREMENT OF THE BUSINESS CASE

It is a bit more challenging to measure the business case when your firm is not a consumer products company where you can show market penetration into diverse communities. That being said, Morgan Stanley recognizes that we are operating in a global market place. We have over 600 offices in 33 countries. Because we want to be a firm of choice, we need to understand the markets in which we operate – which means that we need to have people who know those markets. Our clients, both internationally and domestically, are far more diverse than in years past. Internationally, we have a noteworthy presence in places like Africa, Latin America and China. Domestically, there are minorities and women in positions of leadership with our corporate clients and our pension fund clients, to name a few. Not only do we know that enhancing our diversity is critical, our clients are demanding it. Therefore, some of the things we look to in measuring success are 1) our revenues and whether we have significant market

share in certain international markets and 2) whether we are winning as clients, those who are demanding that their service providers be diverse. At the end of the day, we know that we could not achieve these landmarks without people in our organization who are diverse and understand those markets and clients. This is how we have to measure the success of our ongoing mission to continue to enhance diversity in our firm.

CONCLUSION

Once again, I would like to thank you, Mr. Chairman and your Subcommittee for the opportunity to testify here today. Having spent time with my colleagues in the securities industry, I can comfortably say that we are all committed to enhancing the representation of minorities and women on Wall Street. Although we have made progress in a number of areas and diversity programs are more robust than ever, we do know that we can always improve upon what is a solid foundation. I welcome your support and hope that I can be helpful as we continue to work on something that is very important to all of us – diversity.