



Testimony

Before the Subcommittee on Oversight
and Investigations, Committee on
Financial Services, House of
Representatives

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FINANCIAL SERVICES INDUSTRY

Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2006

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Highlights of [GAO-08-445T](#), a testimony before the Subcommittee on Oversight and Investigations, Committee on Financial Services, House of Representatives

Why GAO Did This Study

As the U.S. workforce has become increasingly diverse, many private and public sector organizations have recognized the importance of recruiting and retaining minority and women candidates for key positions. However, previous congressional hearings have raised concerns about a lack of diversity at the management level in the financial services industry, which provides services that are essential to the continued growth and economic prosperity of the country.

This testimony discusses findings from a June 2006 GAO report and more recent work on diversity in the financial services industry. Specifically, GAO assesses (1) what the available data show about diversity at the management level from 1993 through 2006 and (2) steps that the industry has taken to promote workforce diversity and the challenges involved.

To address the testimony's objectives, GAO analyzed data from the Equal Employment Opportunity Commission (EEOC); reviewed select studies; and interviewed officials from financial services firms, trade organizations, and organizations that represent minority and women professionals.

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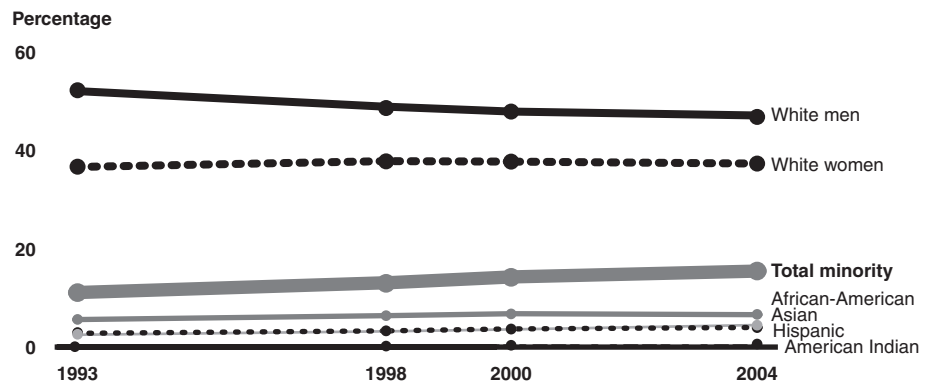
Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2006

What GAO Found

GAO's June 2006 report found that, from 1993 through 2004, overall diversity at the management level in the financial services industry did not change substantially, but some racial/ethnic minority groups experienced more change in representation than others. EEOC data show that management-level representation by minority women and men increased overall from 11.1 percent to 15.5 percent during the period (see fig. below). Specifically, African-Americans increased their representation from 5.6 percent to 6.6 percent, Asians from 2.5 percent to 4.5 percent, Hispanics from 2.8 percent to 4.0 percent, and American Indians from 0.2 percent to 0.3 percent. In preparation for this testimony, GAO collected EEOC data for 2006, which shows that diversity at the management level in the financial services industry remained about the same as it had in previous years.

Financial services firms and trade groups have initiated programs to increase workforce diversity, but these initiatives face challenges. The programs include developing scholarships and internships, partnering with groups that represent minority professionals, and linking managers' compensation with their performance in promoting a diverse workforce. Some firms have developed indicators to measure progress in achieving workforce diversity. Industry officials said that among the challenges these initiatives face are recruiting and retaining minority candidates, as well as gaining the "buy-in" of key employees, such as the middle managers who are often responsible for implementing such programs. Without a sustained commitment to overcoming these challenges, diversity at the management level may continue to remain generally unchanged over time.

Workforce Representation in the Financial Services Industry at the Management Level by Racial/Ethnic Group and Gender (1993, 1998, 2000, and 2004)



Source: GAO analysis of EEOC data.

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

To view the full product, including the scope and methodology, click on [GAO-08-445T](#). For more information, contact Orice M. Williams at (202) 512-8678 or williamso@gao.gov.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the results of our June 2006 study on diversity in the management level in the financial services industry, as well as more recent information that we have gathered on this important topic.¹ As you know, the U.S. workforce has become increasingly diverse over the last several decades. As the composition of the workforce has changed, many private and public sector organizations have recognized the importance of recruiting and retaining minority and women candidates for key positions. In a 2005 report on diversity management, we stated that workforce diversity can benefit organizations in a variety of ways, such as by allowing them to better meet the needs of a diverse customer base, reducing the costs associated with employee turnover, and increasing staff morale.² However, this subcommittee and others have raised concerns about workforce diversity in the financial services industry, which provides key services necessary to help ensure the continued growth and economic prosperity of the country. In hearings held by this subcommittee in 2004 and 2006, some witnesses stated that financial services firms—banks and securities firms, for example—have not made sufficient progress in recruiting and retaining minorities and women at the management level.³

In my testimony, I will summarize the key findings from our work, which has sought to collect, analyze, and report data and information that provide insights into diversity in the financial services industry. Specifically, I will discuss (1) what the available data show about diversity at the management level in the financial services industry from 1993 through 2006 and (2) the types of initiatives that the financial services

¹GAO, *Financial Services Industry: Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2004*, [GAO-06-617](#) (Washington, D.C.: June 1, 2006). For purposes of this testimony, we focused the diversity discussion on changes in management-level representation over time by gender and racial/ethnic minority groups, including African-Americans, Asians, Hispanics, and American Indians.

²GAO, *Diversity Management: Expert-Identified Leading Practices and Agency Examples*, [GAO-05-90](#) (Washington, D.C.: Jan. 14, 2005).

³House Committee on Financial Services, Subcommittee on Oversight and Investigations, *Diversity: The GAO Perspective*, 109th Cong., 2nd session, 2006, 109-107; and House Committee on Financial Services, Subcommittee On Oversight and Investigations, *Diversity in the Financial Services Industry and Access to Capital for Minority Owned Businesses: Challenges and Opportunities*, 108th Cong., 2nd Session, 2004, 108-101.

industry and related organizations have taken to promote workforce diversity and the challenges involved.

To prepare our June 2006 report, we used the Equal Employment Opportunity Commission's (EEOC) Employer Information Report (EEO-1) data on financial services firms with 100 or more employees for the period from 1993 through 2004.⁴ The EEO-1 data provide information on racial/gender representation for various occupations, including "officials and managers," for a broad range of industries, including financial services. In updating our work in preparation for this testimony, we collected and analyzed EEO-1 data for financial services firms with 100 or more employees for 2006. We cannot conduct a direct and continuous trend analysis of changes in the representation of minorities and women at the management level in the financial services industry between 2004 and 2006 because the 2006 data is based on an updated system for classifying industries.⁵ However, the 2006 EEO-1 representation data for the financial services industry can generally be compared with the EEO-1 data for 2004 and prior years. Our work has also involved reviewing reports on the state of workforce diversity and initiatives to increase the representation of minority and women in financial services firms. We have also interviewed academics and officials from a variety of financial services firms and trade and professional groups.

We performed this performance audit in Washington, D.C., in January 2008, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁴We used the EEO-1 "officials and managers" job category as the basis for our discussion of management-level diversity within the financial services industry. EEOC defines the job category of "officials and managers" as occupations requiring administrative and managerial personnel who set broad policies, exercise overall responsibility for execution of these policies, and direct individual departments or special phases of a firm's operation.

⁵Our June 2006 report describes our approach to reporting the 1993 through 2004 EEO-1 data, which used the Standard Industry Classification System (SIC). In preparing for this testimony, EEOC said that the previous approach would not be reliable for the 2006 EEO-1 data because the SIC has become increasingly unreliable over time and has been replaced by the North American Industrial Classification System.

In brief:

From 1993 through 2006, overall workforce diversity at the management level in the financial services industry did not change substantially, but some racial/ethnic minority groups experienced more change in representation than others. As described in our June 2006 report, EEO-1 data show that overall management-level representation by minority women and men increased from 11.1 percent to 15.5 percent from 1993 through 2004. Specifically, African-Americans increased their representation from 5.6 percent to 6.6 percent, Asians from 2.5 percent to 4.5 percent, Hispanics from 2.8 percent to 4.0 percent, and American Indians from 0.2 percent to 0.3 percent. Representation by white women remained constant at slightly more than one-third during this period, while representation by white men declined from 52.2 percent to 47.2 percent. EEO-1 data also show that representation by minorities and women at the management level was about the same in 2006 as it had been in previous years.⁶ For example, African-Americans and Asians represented about 6.4 percent and 5.0 percent, respectively, of all financial services managers in 2006. Moreover, the EEO-1 data show that depository institutions, such as commercial banks and insurance companies, have generally been more diverse at the management level over the years than securities firms.

Although financial services firms and trade groups have initiated programs to increase workforce diversity, these initiatives face challenges that may help explain why overall diversity at the management level has not changed substantially. Officials at financial services firms said that diversity was an important goal and that top leadership was committed to recruiting and retaining minority and women candidates. Some financial services firms have established scholarship and internship programs or partnered with groups that represent minority professionals. Officials from a few firms told us that they had begun linking managers' compensation and performance in promoting workforce diversity, and some firms had developed indicators (e.g., representation by minorities and women in key positions) to measure progress in achieving workforce diversity. Industry officials said that, among the challenges these initiatives faced were recruiting and retaining minority candidates, as well as gaining the "buy-in" of key employees, such as the middle managers who were often

⁶As mentioned previously, it is not possible to directly conduct a trend analysis due to changes in collecting and reporting EEO-1 data from the 2004 to 2006 period. However, the 2006 EEO-1 data can generally be compared with the EEO-1 data from 2004 and earlier years.

responsible for implementing such programs. Without a sustained commitment to overcoming these challenges, diversity at the management level in the financial services industry may continue to remain generally unchanged over time.

Background

We defined the financial services industry to include the following sectors:

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

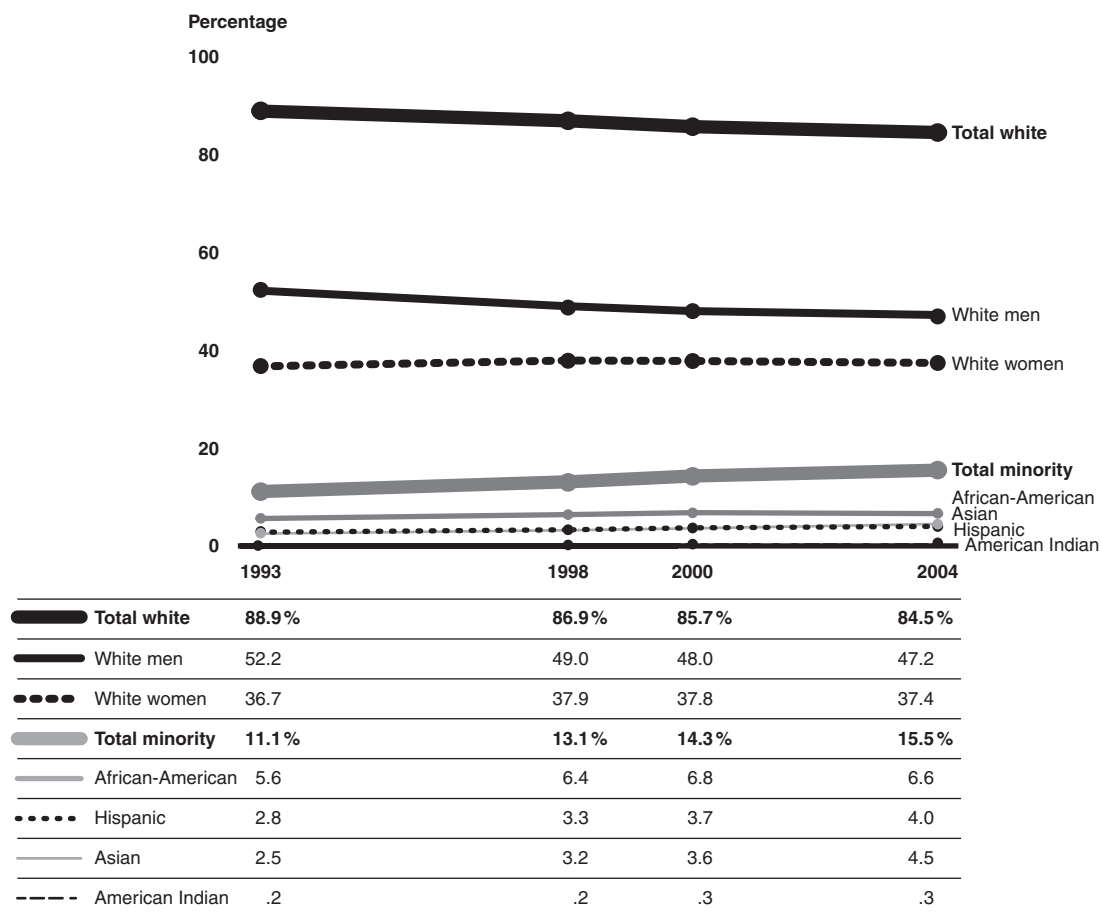
The financial services industry is a major source of employment in the United States. EEO-1 data showed that the financial services firms we reviewed for this work, which have 100 or more staff, employed nearly 3 million people in 2004. Moreover, according to the U.S. Bureau of Labor Statistics, employment in the financial services industry was expected to grow at a rate of 1.4 percent annually from 2006 through 2016.

Diversity in the Financial Services Industry at the Management Level Did Not Change Substantially

EEO-1 data for 1993 through 2006 generally do not show substantial changes in representation by minorities and women at the management level in the financial services industry, but some racial/ethnic minority groups experienced more change in representation than others. Figure 1, which is based on information that we obtained in preparation for our June 2006 report, shows that overall management-level representation by minorities increased from 11.1 percent to 15.5 percent from 1993 through 2004.⁷ Specifically, African-Americans increased their representation from 5.6 percent to 6.6 percent, Asians from 2.5 percent to 4.5 percent, Hispanics from 2.8 percent to 4.0 percent, and American Indians from 0.2 to 0.3 percent. Management-level representation by white women was largely unchanged at slightly more than one-third during the period, while representation by white men declined from 52.2 percent to 47.2 percent.

⁷[GAO-06-617](#).

Figure 1: EEO-1 Data on Trends in Workforce Diversity in the Financial Services Industry at the Management Level, by Racial/Ethnic Group and Gender (1993, 1998, 2000, and 2004)

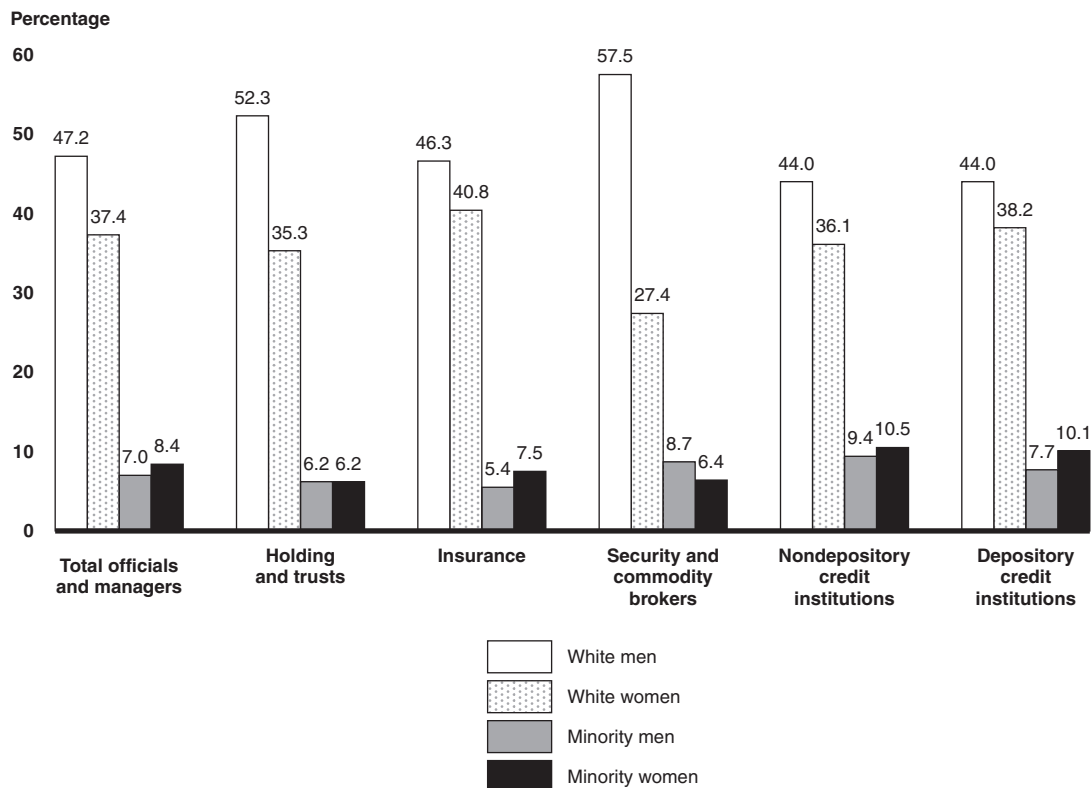


Source: GAO analysis of EEOC data.

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

As shown in figure 2, EEO-1 data also show that the depository and nondepository credit sectors, as well as the insurance sector, were somewhat more diverse at the management level than the securities and holdings and trust sectors. In 2004, minorities held 19.9 percent of management-level positions in nondepository credit institutions, such as mortgage banks and brokerages, but 12.4 percent in holdings and trusts, such as investment companies.

Figure 2: EEO-1 Data on Workforce Diversity in the Financial Services Industry at the Management Level by Sector (2004)



Source: GAO analysis of EEOC data

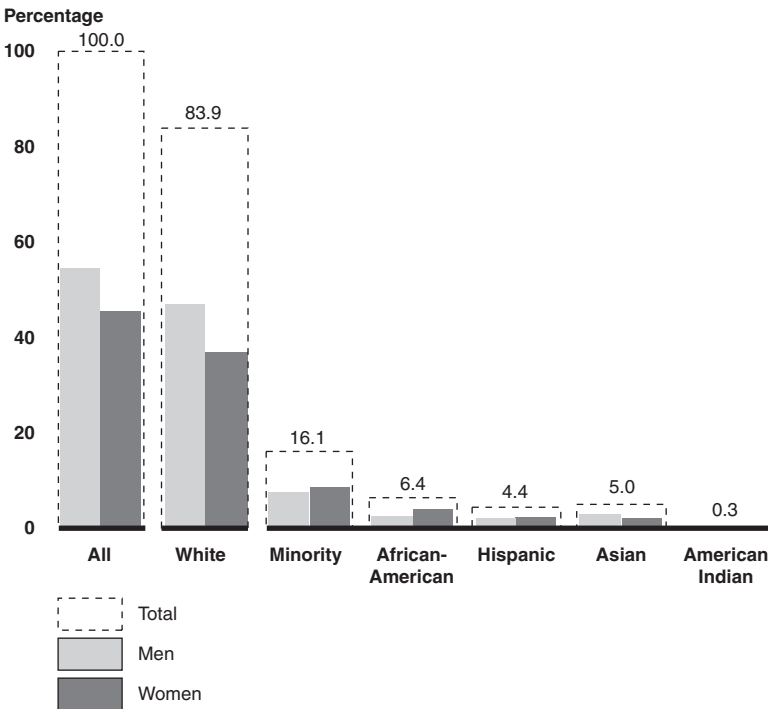
Note: Percentages may not always add to 100 due to rounding.

In preparation for this testimony, we contacted EEOC to obtain and analyze EEO-1 for 2006 and found that diversity remained about the same at the management level in the financial services industry (see fig. 3) as it had in previous years.⁸ For example, the 2006 EEO-1 data show that African-Americans and Asians represented about 6.4 percent and 5.0 percent, respectively, of all financial services managers in 2006. In addition, the 2006 EEO-1 data show that commercial banks and insurance

⁸As mentioned previously, it is not possible to directly conduct a trend analysis due to changes in collecting and reporting EEO-1 data from the 2004 to 2006 period. However, the 2006 data can generally be compared with the financial services industry as a whole from 2004 and previous years.

companies continued to have higher representation by minorities and women at the management level than securities firms.

Figure 3: EEO-1 Data in Workforce Diversity in the Financial Services Industry at the Management Level by Racial/Ethnic Group and Gender (2006)



Source: GAO analysis of EEOC data.

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

However, it is important to keep in mind that EEO-1 data may actually overstate representation levels for minorities and white women in the most senior-level positions, such as Chief Executive Officers of large investment firms or commercial banks, because the category that captures these positions—“officials and managers”—covers all management positions. Thus, this category includes lower-level positions (e.g., Assistant Manager of a small bank branch) that may have a higher representation of minorities and women. Recognizing this limitation, starting in 2007, EEOC revised its data collection form for employers to divide the “officials and managers” category into two subcategories: “executive/senior-level officers and managers” and “first/midlevel officials.” We hope that the increased level of detail will provide a more accurate picture of diversity among senior managers in the financial services industry over time.

However, it is too soon to assess the impact of this change on diversity measures at the senior management level.

Initiatives to Promote Workforce Diversity in the Financial Services Industry Face Challenges

Officials from the firms that we contacted said that their top leadership was committed to implementing workforce diversity initiatives, but they noted that making such initiatives work was challenging. In particular, the officials cited ongoing difficulties in recruiting and retaining minority candidates and in gaining employees' "buy-in" for diversity initiatives, especially at the middle management level.

Financial Services Firms Have Implemented a Variety of Diversity Initiatives

Minorities' rapid growth as a percentage of the overall U.S. population, as well as increased global competition, have convinced some financial services firms that workforce diversity is a critical business strategy. Since the mid-1990s, some financial services firms have implemented a variety of initiatives designed to recruit and retain minority and women candidates to fill key positions. Officials from several banks said that they had developed scholarship and internship programs to encourage minority students to consider careers in banking. Some firms and trade organizations have also developed partnerships with groups that represent minority professionals and with local communities to recruit candidates through events such as conferences and career fairs. To help retain minorities and women, firms have established employee networks, mentoring programs, diversity training, and leadership and career development programs.

Industry studies have noted, and officials from some financial services firms we contacted confirmed, that senior managers were involved in diversity initiatives. Some of these officials also said that this level of involvement was critical to success of a program. For example, according to an official from an investment bank, the head of the firm meets with all minority and female senior executives to discuss their career development. Officials from a few commercial banks said that the banks had established diversity "councils" of senior leaders to set the vision, strategy, and direction of diversity initiatives. A 2005 industry trade group study and some officials also noted that some companies were linking

managers' compensation with their progress in hiring, promoting, and retaining minority and women employees.⁹

A few firms have also developed performance indicators to measure progress in achieving diversity goals. These indicators include workforce representation, turnover, promotion of minority and women employees, and employee satisfaction survey responses. Officials from several financial services firms stated that measuring the results of diversity efforts over time was critical to the credibility of the initiatives and to justifying the investment in the resources such initiatives demanded.

Several Challenges May Have Affected the Success of Workforce Diversity Initiatives in the Financial Services Industry

While financial services firms and trade groups we contacted had launched diversity initiatives, officials from these organizations, as well as other information, suggest that several challenges may have limited the success of their efforts. These challenges include the following:

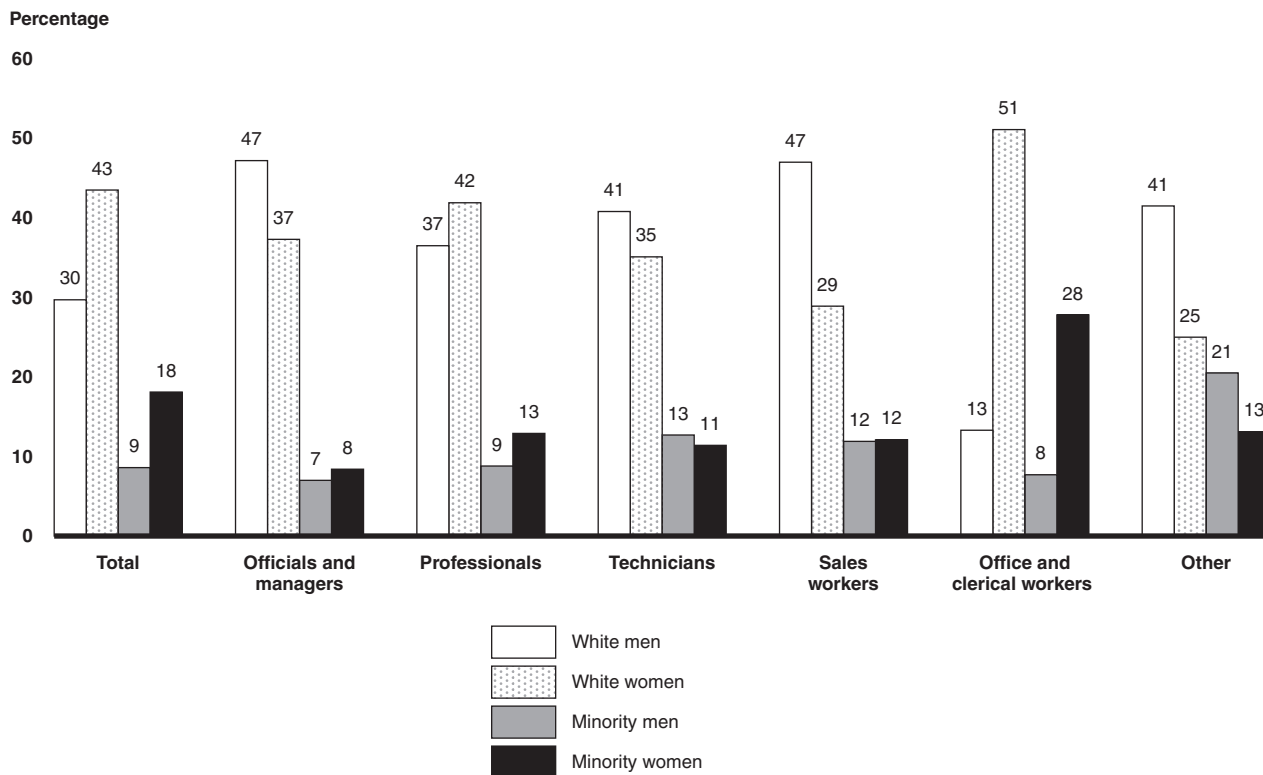
- *Recruiting minority and women candidates for management development programs.* Available data on minority students enrolled in Master of Business Administration (MBA) programs suggest that the pool of minorities, a source that may feed the "pipeline" for management-level positions within the financial services industry and other industries, is relatively small.¹⁰ In 2000, minorities accounted for 19 percent of all students enrolled in MBA programs in accredited U.S. schools; in 2006, that student population had risen to 25 percent. Financial services firms compete for this relatively small pool not only with one another but also with firms from other industries.
- *Fully leveraging the "internal" pipeline of minority and women employees for management-level positions.* As shown in figure 4, there are job categories within the financial services industry that generally have more overall workforce diversity than the "official and managers" category, particularly among minorities. For example, minorities held 22 percent of "professional" positions in the industry in 2004 as compared

⁹See Securities Industry Association (currently renamed Securities Industry and Financial Markets Association), *2005 Report on Diversity Strategy, Development and Demographics: Executive Summary* (November 2005).

¹⁰Association to Advance Collegiate Schools of Business, the world's largest accreditation association for business schools, conducts an annual survey called "Business School Questionnaire" of all its accredited schools. Participation in this survey is voluntary. For the year 2006, the most recent year, 94.3 percent of the accredited schools responded to the survey.

with 15 percent of “officials and managers” positions. According to a 2006 EEOC report, the professional category represented a possible pipeline of available management-level candidates.¹¹ The EEOC report states that the chances of minorities and women (white and minority combined) advancing from the professional category into management-level positions is lower when compared with white males.

Figure 4: EEO-1 Data (Percentage) on Workforce Diversity in the Financial Services Industry by Position, Gender, and Racial/Ethnic Group (2004)



Source: GAO analysis of EEOC data.

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

- *Retaining minority and women candidates that are hired for key management positions.* Many industry officials said that financial services firms lack a critical mass of minority men and women, particularly in

¹¹Equal Employment Opportunity Commission, *Diversity in the Finance Industry* (April 2006).

senior-level positions, to serve as role models. Without a critical mass, the officials said that minority or women employees may lack the personal connections and access to informal networks that are often necessary to navigate an organization's culture and advance their careers. For example, an official from a commercial bank we contacted said he learned from staff interviews that African-Americans believed that they were not considered for promotion as often as others partly because they were excluded from informal employee networks needed for promotion or to promote advancement.

- *Achieving the “buy-in” of key employees, such as middle managers.* Middle managers are particularly important to the success of diversity initiatives because they are often responsible for implementing key aspects of such initiatives and for explaining them to other employees. However, some financial services industry officials said that middle managers may be focused on other aspects of their responsibilities, such as meeting financial performance targets, rather than the importance of implementing the organization's diversity initiatives. Additionally, the officials said that implementing diversity initiatives represents a considerable cultural and organizational change for many middle managers and employees at all levels. An official from an investment bank told us that the bank has been reaching out to middle managers who oversaw minority and women employees by, for example, instituting an “inclusive manager program.”

In closing, despite the implementation of a variety of diversity initiatives over the past 15 years, diversity at the management level in the financial services industry has not changed substantially. Further, diversity at the most senior management positions within the financial services industry may be lower than the overall industry management diversity statistics I have discussed today. While EEOC has taken steps to revise the EEO-1 data to better assess diversity within senior positions, this data may not be available for some period of time. Initiatives to promote management diversity at all levels within financial services firms appear to face several key challenges, such as recruiting and retaining candidates and achieving the “buy-in” of middle managers. Without a sustained commitment to overcome these challenges, management diversity in the financial services industry may continue to remain generally unchanged over time.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions you or other Members of the Subcommittee may have.

GAO Contact and Staff Acknowledgments

For further information about this testimony, please contact Orice M. Williams on (202) 512-8678 or at williamso@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this testimony include Wesley M. Phillips, Assistant Director; Emily Chalmers; William Chatlos; Kimberly Cutright; Simin Ho; Marc Molino; and Robert Pollard.

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