

ARTICLE | MAR 2021

## Diversity, Equity, and Inclusion in Banking: Determining the Levers That Can Turn Proclamations and Policy into Action



**Kathy Acierno Baron**

VICE PRESIDENT



**Karen C. Butcher**

MANAGING DIRECTOR

We conducted our Diversity, Equity, and Inclusion (DE&I) survey in the summer of 2020—amidst a global pandemic and political and racial unrest in the United States. As expected, each of the crises had an impact on the banking industry. Our survey participation may reflect the reality of this time, as responses were down 10% from our 2019 survey even with an increased focus on diversity, equity, and inclusion in organizations.

With this as a backdrop, we found trends that indicate a continued and/or increased focus on DE&I priorities, practices, and programs. Many banks are beginning the process of creating meaningful and impactful goals that will guide actions to increase DE&I in their organizations.

The following are some key findings and trends specific to the financial institutions in our survey:

- **Priorities:** Survey respondents have indicated that diversity and inclusion and gender and minority pay equity are either “important priorities” or “among our highest priorities” in over 75% of participating organizations. This is significantly up from 55% in our 2019 survey.
  - **Representation:** Increased prioritization of DE&I has not necessarily led to increases in female representation in executive and senior-level leadership roles, remaining at around 32% while the overall female workforce representation remains around 68% on average. In the 2020 survey we went beyond gender and also measured the representation of minorities in the executive ranks. We found that only 4% of executive and senior-level positions are held by minorities, while representation in the broader workforce is 14%. These percentages show the very large representation gaps for both female and minority leaders. It tells the story of an industry that has employed a large percentage of females, entry level to mid-management, who appear to get “stuck” on the career ladder prior to reaching executive and senior-level roles. Because there is evidence that coming into the organization at the entry level can be a path to the top in this industry, it’s possible the disproportionate rate of advancement can be attributed to a lack of policies and programs to grow talent internally. For people of color, the gap does not look as wide; however, this may be due to chronic underrepresentation in the banking industry.
  - **Disconnect:** The 2020 survey results show a continuing disconnect in prioritizing diversity, equity, and inclusion and a lack of results from programs and actions that could begin to close the gender and minority pay gaps.
-

- **Closing the Gap:** Approximately 49% of survey participants indicated that closing pay gaps is among the top priorities or an important priority, which is significantly lower than prioritization on issues of D&I and pay equity. This large difference in prioritization may be due to a lack of understanding about the pay gap and its relationship to DE&I initiatives, or may be due to the recognition that issues of diversity, inclusion, and pay equity are far easier to address than any pay gap.
- **Measuring D&I Outcomes:** Around 45% of banks and credit unions in our survey measure D&I outcomes and of those, the most widely used measure is number of diverse hires (80%), which is a lagging indicator. Measuring outcomes in the talent pipeline, including number and percentage of diverse applicants and promotions of diverse staff, can be better leading indicators of D&I outcomes.
- **Holding Leaders Accountable:** There appears to be a greater percentage of banks and credit unions that measure outcomes (45%) than those that also have D&I among the highest priorities (27%). Measurement is an important step; however, it will be more powerful when combined with prioritizing and holding leaders accountable for progress. This accountability may come in the form of a regularly reviewed dashboard or as a component of the larger strategic plan. A small percentage of firms (7%) include specific diversity and inclusion measures in their incentive plans, and most are measured in short-term incentive plans through qualitative or discretionary measures. For those organizations that don't have a D&I metric in their incentive plans, only 24% are considering adding such measures.
- **Focused Programs/Actions:** Just 10% have a process in place to increase female and minority representation in management and/or executive positions. Around 44% have taken action to increase diversity when recruiting and promoting employees with the most prevalent methods involving outreach to diversity organizations and/or recruiting at colleges and universities with diverse populations. One lever that isn't reported as often as might be expected is a requirement of diverse candidates in the preliminary and final slates of candidates—just 15% of survey respondents use this lever when externally recruiting and internally filling roles.

## What Actions Can be Taken?

It's time to turn talk into action and focus on the pipeline, promotion, and retention. In January of 2021, LinkedIn conducted a survey of 2,000 Black professionals and the findings support this premise. From the LinkedIn data: "While 78% of Black professionals surveyed believe their senior leaders value DEI, some 40% say this support is 'more talk than action,' and think their companies have not made any material changes to policies or culture." The LinkedIn survey also found that, "over half of Black professionals (51%) believe that leadership transparency on decisions that impact careers (e.g., promotion, pay, performance management) would make their current workplace feel more inclusive and equitable and 40% of Black professionals believe mentorship/career coaching opportunities will help lead to a more equitable workplace culture."

It's worth noting how difficult culture change can be and that it often takes years, not months; however, actions speak louder than words. Now is the time to find levers within your organization to pull that can begin to improve your individual situation.

Diversification of your talent pipeline is key to improving the diversity of your organization overall. Seed the pipeline with diverse applicants and move diverse employees through the

pipeline at an equal rate to white males—at each level within the organization. Organizations can make strides by focusing on the diversity of candidate pools at each stage of the recruiting and hiring process and when recruiting externally for each of the segments of the talent pipeline—from entry- to senior-level—and then by ensuring that there is equal opportunity to be considered for promotions.

Be aware of barriers or “glass ceilings.” In our survey, women and people of color reach the managerial ranks in banking nearly proportionately to their representation in the overall industry’s workforce yet there is a barrier to further advancement into positions of senior leadership. Our data show that less than half (44%) of responding firms are using approaches to increase diversity when promoting employees from within, similar to the percentage of firms using approaches to increase diversity when recruiting.

Retaining diverse talent by focusing on inclusion can help you maintain momentum. We asked if organizations had programs, policies, and/or practices in place that focus on inclusion and just more than half said yes—leaving 43% with potential diverse-talent retention issues. On a positive note, the same percentage of respondents said they conduct engagement surveys that ask questions to measure inclusion and belonging, which are key indicators of retention risk.

In summary, prioritizing DE&I, removing barriers, and creating formal programs to close the representation gap can put you on the road to making your proclamations and policies lead to an increase in female and minority representation in executive and management positions and throughout the leadership pipeline.

There are financial organizations that are using levers appropriate for their circumstances to increase the representation of women and minorities at management and leadership levels. They do so in various ways and are showing it is a priority to close the representation gap and thus narrow the pay gap. These are complex issues; however, starting where you can best utilize the readily available levers for improvement can launch your DE&I programs and begin to create a culture of diversity, equity, and inclusion that will connect to your organizational strategies and goals and strengthen employee, vendor, and community engagement.

## About the Authors

Kathy Acierno Baron is a vice president with Pearl Meyer, where she specializes in talent management issues, including executive leadership development, succession management, and coaching. She was previously the director of workforce planning and talent mobility at Harvard University and an executive coach in Harvard’s leadership programs. Kathy was responsible for aligning and leveraging talent acquisition to internal talent mobility and connecting external and internal talent pipelines. She also spent more than 15 years at Avery Dennison Corporation, most recently as the director of leadership and organizational development, where she designed and delivered succession management systems, employee retention strategies, leadership and team development programs, as well as high-potential development programs. She has coached more than 100 executives and senior leaders and is certified to administer and interpret a multitude of assessment instruments for both individual and team development.

Karen Butcher is a managing director with Pearl Meyer. Her areas of expertise include executive and board compensation, broad-based compensation design and administration for employees at all levels, short- and long-term incentive compensation design, performance management, leadership development, and coaching.

## About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.