

WHY DIVERSITY MATTERS

HOW WORKFORCE
DIVERSITY AND INCLUSION
ACCELERATE BUSINESS
SUCCESS IN FINANCIAL
SERVICES

**LITERATURE
REVIEW:
NOVEMBER
2019**

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The Center is also grateful to Fondulas Strategic Research for conducting the literature research and The Raben Group for providing a narrative context for the research in this report.

INTRODUCTION

A Letter from CFP Board's CEO and the CFP Board Center for Financial Planning's Executive Director



Kevin R. Keller, CAE
CEO, CFP Board



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People of color will collectively become the majority of the U.S. population in 2045, based on census projections. Currently, the percentage of Blacks and Latinos across the U.S. population stands at 13.3 percent and 17.8 percent, respectively. However, these groups are significantly underrepresented within the financial planning profession as only 3.7 percent of the 85,000 CERTIFIED FINANCIAL PLANNER™ professionals in the U.S. are Black or Latino. Women are also underrepresented in profession, holding stagnant at 23 percent of CFP® professionals for over ten years in comparison to their growth to 52 percent of the population.

With the profession facing an impending exodus of employees as its workforce continues to age and retire, we have a significant opportunity to work with and

empower women and communities of color who are the demographic engine of the nation's progress. Racial, ethnic and gender diversity is crucial to the sustainability of the financial planning profession.

To address the lack of racial diversity in the financial planning profession and its root causes, the Center assembled the Diversity Advisory Group (DAG), composed of thought leaders and experts from across the financial services sector, to bring collective and innovative thinking to this systemic problem. We commissioned comprehensive original research conducted by Fondulas Strategic Research and published a Thought Leadership Paper, authored by The Raben Group with input from the Diversity Advisory Group. This paper identifies the barriers to racial and ethnic diversity in the financial planning profession and outlines research-based recommendations for increasing the number of Black and Latino CFP® professionals. We presented our findings and recommendations for action during our inaugural Diversity Summit in October 2018, which convened over 300 firm executives, educators, CFP® professionals, experts, influencer organizations, and students to work collectively toward change.

This publication, *Why Diversity Matters: How Workforce Diversity and Inclusion Accelerate Business Success in Financial Services*, builds upon the thought leadership role of the Center by focusing on the WHY—why diversity, including race, ethnicity, gender and sexual preference, is so crucial to the sustainability of the financial planning profession. It is a compilation of research studies, most conducted as recently as the past five years, assembled by Fondulas Strategic Research with input from the Raben Group and the Center's Diversity Advisory Group, that demonstrates that greater diversity leads to stronger sales revenue,

customer growth, greater market share, and higher profit levels. The literature review goes deeper and identifies four data-supported explanations for how diversity leads to stronger overall financial performance.

With evidence of the benefits of diversity mounting, the question becomes—why haven't more businesses, including financial services firms, acted on the conclusions and recommendations from these studies? This publication serves two purposes: It is a compelling compilation of data and evidence for those who still need to be convinced that diversity matters to business success; and it provides a tool for diversity and inclusion advocates to use with business leaders and others who have the authority to act on the conclusions and recommendations from these studies.

This literature review underscores the need to transition from talk to action. With our 2019 Diversity Summit we are shifting from issuing a collective call to action to holding ourselves as well as our firms, academic institutions, influencer organizations and individuals accountable for taking action to increase the racial diversity of the profession. We will continue to build upon our research and our convenings to engage and hold stakeholders accountable for advancing diversity, equity, and inclusion, by showcasing case studies and best practices for hiring, developing and retaining diverse CFP® professionals.

The Center is committed to continuing its leadership role in advancing diversity and inclusion. We are enabled to do so through the support of our Lead Founding Sponsor, TD Ameritrade Institutional, and our Founding Sponsors, Northwestern Mutual and the Charles Schwab Foundation in partnership with Schwab Advisor Services; as well as through the support of our Signature Sponsors of the Center's 2019 Diversity

Summit, Merrill Lynch and JP Morgan Chase and our Major Sponsors, Fiserv and Prudential.

We invite all those invested in the future of financial planning — including our CFP® professionals, our education partners, firms that employ CFP® professionals, and other organizations and associations — to join us in our continuing effort to attract and retain more Black and Latino CFP® professionals to the profession.

Kevin R. Keller, CAE

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**2 MIN.
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EXECUTIVE SUMMARY

There's no shortage of evidence pointing to the business benefits of a more diverse workforce.

Numerous studies, most conducted as recently as within the past five years, have demonstrated that greater diversity leads to stronger sales revenue, customer growth, greater market share, and higher profit levels. The abundance of evidence, combined with relative lack of progress in some industries, suggests that business leaders are either unaware of the relationship between diversity and business success, refuse to believe that evidence, or have not yet acted on it.

One key barrier to greater diversity is that many business leaders assume that diversity initiatives will negatively disrupt the existing work environment. However, the literature suggests that diversity "tension" is not a detriment, but actually a key advantage that can be used as a creative force for change and quality decision making.

There are four reasons why greater diversity makes businesses more successful:

- Diverse organizations better serve diverse customers.¹
- Diverse organizations can recruit better talent because the talent pipeline is larger and because diverse organizations, particularly those that are transparent

about their initiatives, are more attractive to potential employees.²

- Diverse organizations are better at retaining talent: employees in diverse companies are more satisfied and employee turnover is lower.³
- Diverse organizations are more creative and innovative because a diverse environment (1) causes people to reconsider their preconceived notions, and (2) creates a positive "tension" that requires people to work harder to achieve solutions. In fact, diverse groups of less experienced workers tend to perform better than homogenous groups of more experienced workers.⁴

That being said, numerical diversity is necessary but not sufficient alone. For workforce diversity to benefit an organization, employees also need to feel included—that they work in a "speak-up" culture where their differences are seen as an asset. When leadership lacks diversity and/or fails to foster such a culture, fewer ideas with market potential make it to market.⁵

Improving diversity and inclusion in workplaces benefits the majority group in an industry, not just the underrepresented group. Stronger business performance means greater job stability and greater income potential for everyone. A more diverse workforce makes everyone a smarter, more valuable member of an organization.

1: See "The Competitive Advantage of Racial Equity" and "When Women Thrive, Businesses Thrive."

2: See "Decoding Diversity."

3: See "Decoding Diversity," "Diversity Matters," and "The Costly Business of Discrimination."

4: See "Innovation, Diversity, and Market Growth."

5: See "Diversity Doesn't Stick Without Inclusion."



STATUS QUO

Data from the Center for Financial Planning continues to demonstrate that its various initiatives have had a positive impact on its goal of increasing diversity in the profession. However, especially in industry sectors with a legacy of dominance by white males and exclusion of women and people of color, in both executive and staff positions, progress has been slow.

Broadly speaking, the percent of women and people of color in management roles in U.S. businesses lags the percent of males and whites. For example:

- Although women make up approximately 46% of the U.S. labor force, they make up just 39% of managers, across industries.^{6,7}
- Blacks and Latinos also lag behind whites when it comes to their representation in management positions, as shown in the chart.⁸



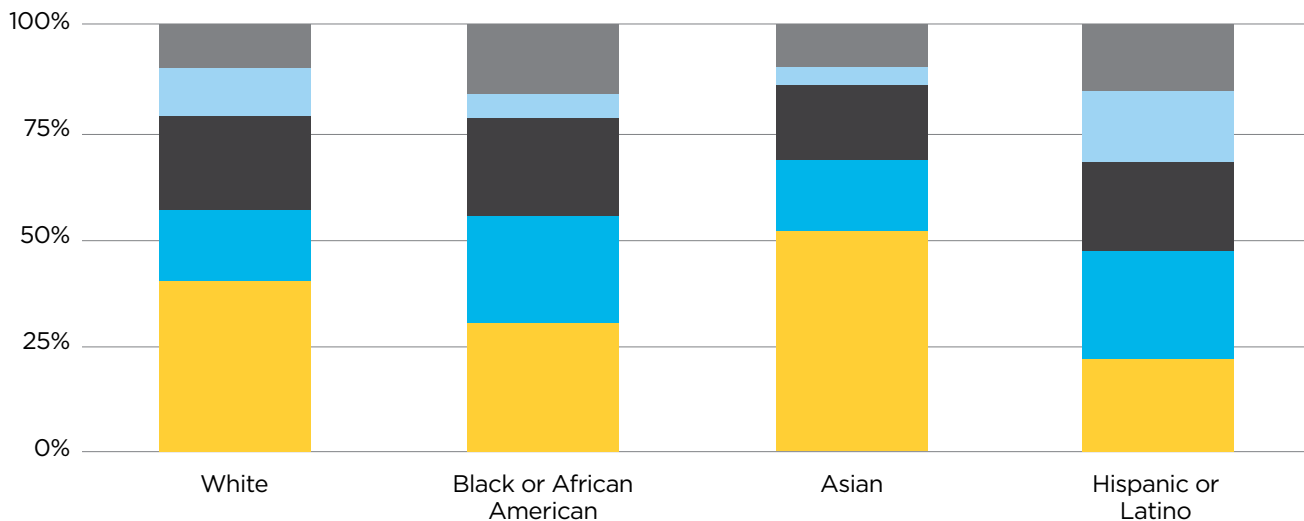
6. <https://www.dol.gov/wb/stats/NEWSTATS/latest/demographics.htm#LF-SecRaceEthnicity>

7. <https://www.bls.gov/opub/ted/2016/39-percent-of-managers-in-2015-were-women.htm>

8. <https://www.bls.gov/opub/reports/race-and-ethnicity/2017/home.htm#chart3>

EMPLOYED PEOPLE BY OCCUPATION, RACE, HISPANIC OR LATINO ETHNICITY, 2017 ANNUAL AVERAGES

■ Management, professional, and related
 ■ Service
 ■ Sales and office
■ Natural resources, construction, and maintenance
 ■ Production, transportation, and material moving



Source: U.S. Bureau of Labor Statistics, (see footnote 8).



Focusing on the financial planner profession specifically, data from CFP Board confirm that women and people of color are severely underrepresented in the profession. The following chart shows how the gender and racial/ethnic distribution of financial advisors—and of CFP® professionals in particular—compares with the distribution of those groups in the U.S. population.

GROUP	EACH GROUP AS PERCENT OF U.S. POPULATION	EACH GROUP AS PERCENT OF ALL FINANCIAL ADVISORS	EACH GROUP AS PERCENT OF ALL CFP® CERTIFICANTS*
WOMEN	52%	33%	23.2%
AFRICAN AMERICANS	13%	8%	1.51%
HISPANICS/LATINOS	16%	7%	1.99%

Sources: U.S. Census Bureau 2016, U.S. Bureau of Labor Statistics, CFP Board
 *Based on 2018 Year-End Data Self-Reported to CFP Board

NO SHORTAGE OF EVIDENCE SUPPORTING THE BENEFITS OF DIVERSITY

The Center’s research efforts have identified a variety of factors that contribute to the underrepresentation of women and people of color in the financial planning population. But lack of evidence of the effectiveness of greater diversity is clearly not one of those factors.

On the contrary, the literature is filled with results from numerous rigorously conducted studies demonstrating that businesses that are more diverse (including businesses in financial services-related industries) are more successful than less diverse firms across a wide range of business performance metrics—customer acquisition, employee recruitment, employee retention, productivity, and financial performance.

Indeed, one of the profound ironies for those who are seeking a rationale for diversity and inclusion initiatives is just how easy it is to find examples like these in the published literature:

“Our research showed that opportunities to create shared value by promoting racial equity occur at every point along a company’s value chain—from hiring, training, and advancing employees, to procurement, product design, and marketing, even including the company’s ownership and governance structure and its lobbying and philanthropy.”⁹

“This article ...supports [the fact that] racial diversity is associated with increased sales revenue, more customers, greater market share, and greater relative profits. Gender diversity is associated with increased sales revenue, more customers, and greater relative profits.”¹⁰



Given the abundance of evidence, it is fair to add yet another consideration to the list of barriers to greater diversity and inclusion in the financial planner profession: corporate leaders are unaware of, refuse to accept, or have failed to act on rigorous evidence that a more inclusive environment results in tangible, measurable business benefits.

“You are very dependent on leaders’ behavior; you have leaders who pay attention to inclusion and leaders who don’t;” a top HR executive who participated in the survey said in a follow-up interview. While approximately two-thirds of all companies say that visible commitment on the part of senior leaders is most effective in promoting gender at a management level, only half say such commitment is evident at their companies.”¹¹

9: “The Competitive Advantage of Racial Equality,” retrieved at https://www.policylink.org/sites/default/files/The%20Competitive%20Advantage%20of%20Racial%20Equity-final_0.pdf

10: “Does Diversity Pay?,” retrieved at <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.933.6329&rep=rep1&type=pdf>

11: “The Mix That Matters,” retrieved at <https://www.bcg.com/publications/2017/people-organization-leadership-talent-innovation-through-diversity-mix-that-matters.aspx>



...success calls for leaders who are comfortable with diversity tension. Diversity tension is the stress and strain that accompanies mixtures of differences and similarities.

- LEARN TO EMBRACE THE TENSION OF DIVERSITY



One reason that business leaders have not embraced diversity as strongly as the literature suggests it should is a concern that diversity initiatives will disrupt the work environment status quo. It is true that such initiatives are likely to be disruptive; but that only becomes a barrier when corporate leadership assumes that disruption will be negative—leading to greater interpersonal tension among employees. But numerous studies have shown that sort of tension is far from a problem, but an advantage.

“In the midst of individual contributors with such diverse backgrounds, success calls for leaders who are comfortable with diversity tension. Diversity tension is the stress and strain that accompanies mixtures of differences and similarities. The task of leaders working in the global business arena is not to minimize this tension, but rather to use it as a creative force for change, and, of course, to make quality decisions in the midst of identity differences, similarities, and pressures.”¹²

Another common misconception that the evidence refutes is that diversity only benefits the underrepresented segments who are its primary targets. As this review of the published studies will consistently demonstrate, a more diverse workforce results in improved business and financial performance generally, and stronger business performance means (at least) greater job stability for workers and (at best) greater income potential for individuals. But the benefit to males and whites does not stop there. Research has demonstrated that a more diverse work environment makes everyone a smarter, more valuable member of the organization.

“[Business consultant Michael] Welp is careful to stress that improving diversity and inclusion within our society and workplaces can have many benefits for the majority group. ‘[As White men,] our default thinking about diversity is we’re helping other people with their issues,’ Welp says. ‘When really



[As White men,] our default thinking about diversity is we’re helping other people with their issues, when really there’s as much at stake and as much to gain for us as for anybody else.

- DIVERSITY IS FOR WHITE MEN TOO



12: “Learn to Embrace the Tension of Diversity,” retrieved at <https://hbr.org/2010/06/learn-to-embrace-the-tension-o>

“

***If I've learned to listen
33 percent more in
my life, how does that
impact my relationships
and my partnerships
and my customers?***

**- DIVERSITY IS FOR WHITE
MEN TOO**

”

there's as much at stake and as much to gain for us as for anybody else.'

[He] points to twelve new mindsets and eight critical leadership skills (quiz), such as incorporating multiple perspectives and integrating head and heart, that White men can tap into to better thrive in an increasingly diverse world. For example, at one company where Welp's team ran workshops, a survey four months after the events found that, according to their co-workers, the White men who'd participated listened 33 percent more. 'If I've learned to listen 33 percent more in my life,' asks Welp, 'how does that impact my relationships and my partnerships and my customers?'"¹³

13: "Diversity Is For White Men Too. Here's How — And Why It Matters," retrieved at <https://consciouscompanymedia.com/workplace-culture/diversity-inclusion/diversity-is-for-white-men-too>.



MORE DIVERSITY MEANS STRONGER FINANCIAL PERFORMANCE

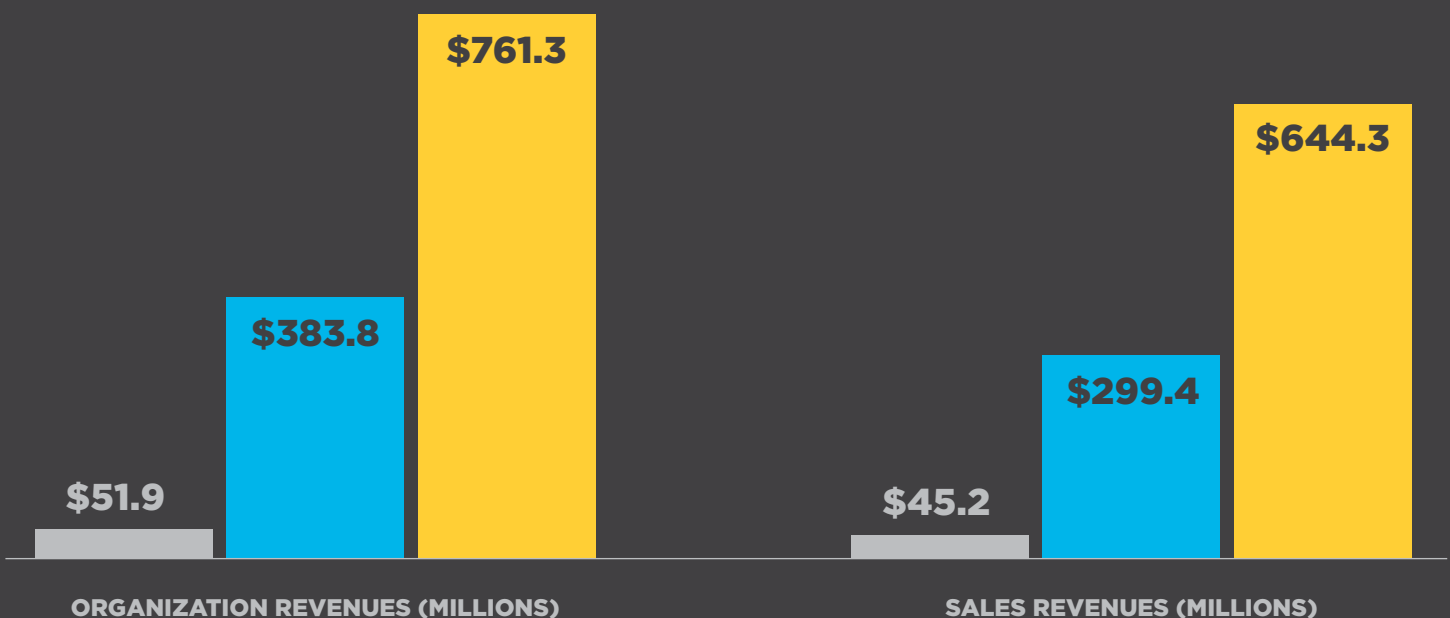
We begin our summary of published literature with examples of studies that have demonstrated, and quantified, the link between greater diversity and stronger financial performance. Following that, we review the research that outlines why that is the case.

A paper appearing in the *American Sociological Review* in 2009 included robust statistical analysis of more than 1,000 for-profit U.S. firms showing that gender and racial/ethnic diversity is correlated with three key measures of business performance: number of customers, market share, and profitability—even when other factors are taken into account.

“The mean revenues of organizations with low levels of racial diversity are roughly \$51.9 million, compared with \$383.8 million for those with medium levels and \$761.3 million for those with high levels of diversity. The same pattern holds true for sales revenue by gender diversity: the mean revenues of organizations with low levels of gender diversity are roughly \$45.2 million, compared with \$299.4 million for those with medium levels and \$644.3 million for those with high levels of diversity.”

RACIAL DIVERSITY LEVEL AND BUSINESS SUCCESS

■ Low Diversity Level In Organization ■ Medium Diversity Level In Organization ■ High Diversity Level In Organization



Source: Does Diversity Pay? (see footnote 14).

Businesses with high levels of racial [diversity] (60 percent) and gender [diversity] (62 percent) are more likely to report higher than average percentages of market share than are those with low (45 percent) or medium levels of racial (59 percent) and gender (58 percent) diversity. A similar pattern emerges for organizations reporting higher than average profitability. Less than half (47 percent) of organizations with low levels of racial diversity report higher than average profitability. In contrast, about two thirds of those with medium and high levels of racial diversity report higher than average profitability. Also, organizations with high levels of gender diversity (62 percent) are more likely to report higher than average profitability than are those with low(45 percent) or medium levels (58 percent) of gender diversity.

Overall, the multivariate analyses strongly support the business case for diversity perspective. The results are consistent with all but one of the hypotheses suggesting that racial and gender diversity are related to business outcomes. The significant relationships between diversity and various dimensions of business performance remain, even controlling for other important factors, such as legal form of organization, company and establishment size, organization age, industrial sector, and region. Indeed, racial diversity is consistently among the most important predictors of business outcomes, and gender diversity is a strong predictor in three of the four indicators.”¹⁴

14: "Does Diversity Pay? Race, Gender, and the Business Case for Diversity," retrieved at <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.933.6329&rep=rep1&type=pdf>



Businesses with high levels of racial and gender diversity are more likely to report higher than average percentages of market share than are those with low or medium levels.

- DOES DIVERSITY PAY?



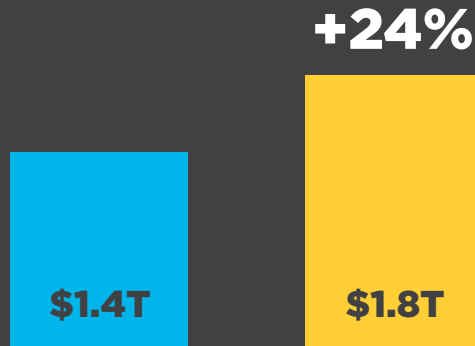
Indeed, racial diversity is consistently among the most important predictors of business outcomes.

- DOES DIVERSITY PAY?



GAINS FROM RACIAL DIVERSITY:

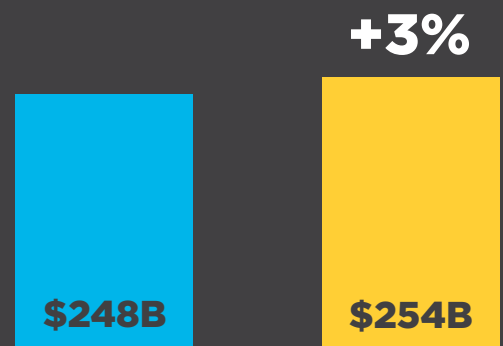
REVENUE PROJECTIONS (TRILLIONS)



TOTAL REVENUE
OF NASDAQ-LISTED
TECH COMPANIES,
2014

REPRESENTATIONAL
DIVERSITY

EARNINGS PROJECTIONS (BILLIONS)



TOTAL EARNINGS
OF NASDAQ-LISTED
TECH COMPANIES,
2014

REPRESENTATIONAL
DIVERSITY

Source: Why Diversity Matters, (see footnote 15).

McKinsey's groundbreaking "Diversity Matters" study (2015) identified numerous statistically reliable links between levels of diversity and revenue/profitability—and showed that racial and ethnic diversity had a particularly strong impact in the U.S.

*"The companies in the top quartile of gender diversity were 15 percent more likely to have financial returns that were above their national industry median. Companies in the top quartile of racial/ethnic diversity were 35 percent more likely to have financial returns above their national industry median. Companies in the bottom quartile for both gender and ethnicity/race were statistically less likely to achieve above-average financial returns than the average companies in the dataset (that is, they were not just not leading, they were lagging)."*¹⁵



15: "Why Diversity Matters," retrieved at <https://assets.mckinsey.com/-/media/857F440109AA4D13A54D9C496D86ED58.ashx>

A 2016 study from Intel and Dalberg Global Development Advisors focused on the revenue impact of greater racial diversity in the technology sector. The study used advanced analyses to calculate the statistical relationship between greater representation of Blacks and Latinos, on the one hand, and revenue and profit margin, on the other.



Put another way: if two companies are identical in every way except for racial/ethnic diversity and female representation in leadership, the more diverse company will, in all likelihood, have higher revenues, be more profitable, and have a higher market value.”¹⁶

“Deeper analysis on the linkages between racial/ethnic diversity and business performance yields several other new insights:

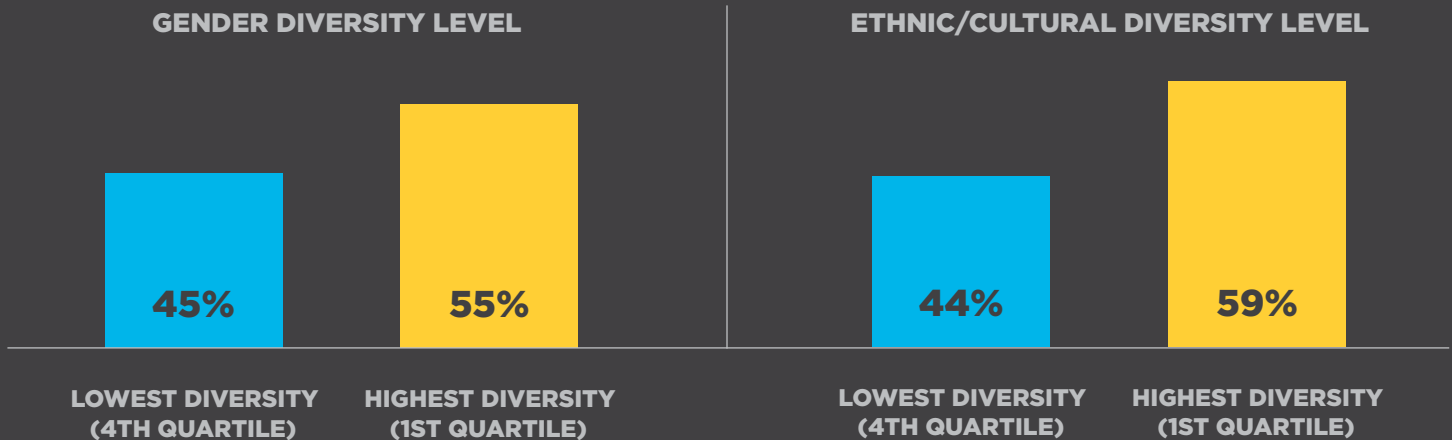
- *Every incremental percentage point in Black and Latino representation is linked with a three-percentage-point increase in revenues at NASDAQ-listed tech companies.*
- *Every one-percentage-point increase in racial/ethnic diversity is linked with a 0.3–0.4-percentage-point increase in operating margins. By extension, levels of racial/ethnic diversity that reflect the talent marketplace would be linked with a \$6–7 billion increase in operating earnings industry-wide.*
- *Technology companies with racial/ethnic diversity above the median are 14–17 percent more likely to generate revenues above industry medians.*

It is important to note that the Intel/Dalberg analysis—like many other studies cited in this paper—statistically controlled for other factors that could also explain stronger revenue performance. Such techniques allowed it to isolate the impact of diversity specifically, separate from the impact of factors such as length of time in business, employee size, etc. Along these lines, the report explicitly notes that other studies demonstrate that “these links between diversity and financial performance are not unique to the tech industry—a range of studies conducted in other industries support them,”¹⁷ including the aforementioned *American Sociological Review* research.

16, 17: “Decoding Diversity: The Financial and Economic Returns to Diversity in Tech,” retrieved at <https://www.intel.com/content/www/us/en/diversity/decoding-diversity-report.html>

FIRMS WITH THE GREATEST LEVEL OF DIVERSITY HAVE STRONGER FINANCIAL PERFORMANCE

Likelihood of above median financial performance based on:



Source: Delivering Through Diversity, (see footnote 18).

McKinsey followed up its “Diversity Matters” study with additional research that expanded the scope internationally, added new measures of business performance, and examined the impact of diversity at different levels of each organization.

That additional analysis, which both supported and enhanced McKinsey’s original conclusion—that greater gender and ethnic/cultural diversity is correlated with above-average financial performance—is demonstrated in the above graphic.

In fact, the study was also able to quantify the downside of low levels of diversity:

“The penalty for not being diverse on both measures persists. Now, as previously, companies in the fourth quartile on both gender and ethnic diversity are more likely to underperform their industry peers



financially. Specifically, they are 29% more likely than the other three quartiles to underperform on profitability.”¹⁸

18: “Delivering Through Diversity,” retrieved at https://www.mckinsey.com/-/media/McKinsey/Business%20Functions/Organization/Our%20Insights/Delivering%20through%20diversity/Delivering-through-diversity_full-report.ashx



Employees of firms with 2-D diversity are 45% likelier to report a growth in market share over the previous year and 70% likelier to report that the firm captured a new market.

- HOW DIVERSITY CAN DRIVE INNOVATION.



Two additional studies directly demonstrate the resulting improvements in financial performance from a slightly different, but critically important, perspective.

“Employees of firms with 2-D diversity¹⁹ are 45% likelier to report a growth in market share over the previous year and 70% likelier to report that the firm captured a new market.”²⁰

“Critics may argue that causality might go the other way: it’s possible that high-performing firms simply attracted a wider range of talent. However, we performed a number of checks that helped rule out reverse causality. In one of these checks, we tracked performance changes after an organization added more women to its workforce. By tracking patterns of hiring and performance across time for the companies we measured, we were better able to

disentangle cause and effect between these two variables. Because performance followed hiring, not the other way around, we supported our results that diversity led to better financial returns.”²¹

2D DIVERSITY IS DEFINED AS LEADERSHIP THAT EXHIBITS AT LEAST THREE KINDS OF BOTH:

1. INHERENT DIVERSITY

(gender, race, age, religious background, socioeconomic background, sexual orientation, disability, nationality)

2. ACQUIRED DIVERSITY

(cultural fluency, generational savvy, gender smarts, social media skills, cross-functional knowledge, global mindset, military experience, language skills)

Source: How Diversity Can Drive Innovation, (see footnote 20).

19: Note that “2D Diversity” is defined by the authors in the call-out box above

20: “How Diversity Can Drive Innovation,” retrieved at <https://hbr.org/2013/12/how-diversity-can-drive-innovation>

21: “When Gender Diversity Makes Firms More Productive,” retrieved at <https://hbr.org/2019/02/research-when-gender-diversity-makes-firms-more-productive>

Most of the studies cited above discuss the benefits of diversity throughout an organization. But other research has shown that greater gender and ethnic representation at the top levels of a firm—at the board or management team level—has an especially strong impact on financial performance. Two McKinsey analyses include statistics demonstrating the benefits of stronger diversity at the board level.

“Companies with 10 percent higher gender and ethnic/racial diversity on management teams and boards in the U.S., for instance, had EBIT [Earnings Before Interest and Taxes] that was 1.1 percent higher; in the UK, companies with the same diversity level [i.e., 10 percent higher] had EBIT that was 5.8 percent higher. Moreover, the unequal performance across companies in the same industry and same country implies that diversity is a competitive differentiator that shifts market share towards more diverse companies.

In fact, in the U.S., ethnic/racial diversity has a stronger impact on financial performance than gender diversity, with earlier pushes to increase women’s representation in the top levels of business having already yielded positive results.”²²

“Top-team ethnic/cultural diversity is correlated with profitability. In our 2017 data set, we looked at ethnic/cultural diversity [based on relative “quartile” rank of a firm when it comes to the diversity of its workforce] in six countries where the definition of ethnic/cultural diversity was consistent and our data were reliable. As in 2014, we found that companies with the most ethnically/culturally diverse executive teams—not only in terms of absolute representation, but also of the variety or mix of ethnicities—are 33% more likely to outperform their peers on profitability. This is comparable to the 35% greater likelihood of outperformance reported in 2014, and both findings are statistically significant. Companies in the top-quartile for gender diversity on their executive teams were 21% more likely to have above-average profitability than companies in the fourth quartile.”²³



We found that companies with the most ethnically/culturally diverse executive teams—not only in terms of absolute representation, but also of the variety or mix of ethnicities—are 33% more likely to outperform their peers on profitability.

- DELIVERING THROUGH DIVERSITY



22: "Diversity Matters," retrieved at <https://assets.mckinsey.com/-/media/857F440109AA4D13A54D9C496D86ED58.ashx>

23: "Delivering Through Diversity," retrieved at https://www.mckinsey.com/-/media/McKinsey/Business%20Functions/Organization/Our%20Insights/Delivering%20through%20diversity/Delivering-through-diversity_full-report.ashx

HOW DIVERSITY LEADS TO STRONGER FINANCIAL PERFORMANCE

With the link between greater diversity and stronger financial performance clearly established, it is also important to understand what it is about a diverse workforce that makes firms more successful. The published research offers four data-supported explanations:

- *Diverse organizations can better serve a diverse customer base*
- *Diverse organizations are more successful at recruiting talented employees*
- *Diverse organizations are more successful at retaining employees*
- *Diverse organizations are more innovative*

We will take a look at the evidence for each of these factors in the sections that follow.



HOW DIVERSITY LEADS TO BUSINESS SUCCESS: SERVING CUSTOMERS

The customer-focused benefits of a more diverse workforce begin with studies that examine the impressive buying power of women and consumers of color. Two separate studies quantify the purchasing habits of Blacks, Latinos, and LGBTQ consumers.

“Emerging global trends are driving the growing economic power of a diverse workforce. In 2045, whites will be the minority in the United States.

Black buying power is \$1.2 trillion [cited as current as the article was written in 2019]. A 2018 Nielsen report [also] showed that Black consumer choices have a ‘cool factor’ that influences the mainstream. Companies that develop products that appeal to this market have reaped profitable rewards.

In 2015, Latino buying power was \$1.3 trillion. Latinos are diverse, and they notice companies that pay attention [to them as a market].

In 2017, the buying power of the LGBTQ market was \$917 billion. How well a company values diversity is important to this group. When job hunting, 90 percent of individuals who identify as LGBTQ consider how a company treats its LGBTQ employees and whether they sponsor LGBTQ events. More than 75 percent of LGBTQ

adults and their friends say they would switch to LGBTQ-friendly brands.”²⁴

“Changing demographics are causing the buying power of people of color to increase much more quickly than that of White Americans. By 2018, the buying power of Black and Latino consumers alone [was] estimated to be \$3 trillion, amounting to 19.4 percent of the U.S. consumer market.”²⁵



24: "Cultural Diversity in the Marketplace," retrieved at <https://www.thebalance.com/cultural-diversity-3306201>

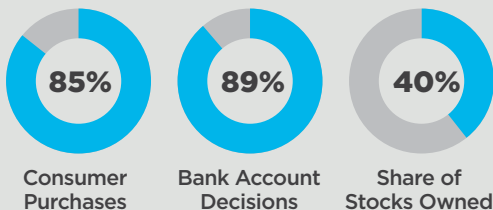
25: "The Competitive Advantage of Racial Equity," retrieved at https://www.policylink.org/sites/default/files/The%20Competitive%20Advantage%20of%20Racial%20Equity-final_0.pdf

In addition, a Mercer study published in 2016 highlights the paradox faced by women, who are heavily involved in decisions related to financial services, but feel largely ignored by financial services firms—firms that one would expect would reach out to consumers with that level of influence.

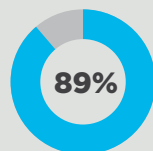
“A diverse workforce can enable organizations to better understand different segments of the population, anticipate their needs and deliver to them. Although women account for 85% of all consumer purchases, determine 89% of decisions on bank accounts and own 40% of stocks, 84% feel misunderstood by investment marketers. Women cite lack of respect, poor advice, contradictory policies and red tape as tiresome obstacles in dealing with financial institutions.”²⁶

WOMEN: FINANCIAL DECISIONS VS. FINANCIAL RESPECT

WHAT WOMEN ARE RESPONSIBLE FOR:



WHAT WOMEN PERCEIVE:



Feeling Misunderstood By Investment Bankers

Source: When Women Thrive, Businesses Thrive, (see footnote 26).

TEAMS WITH ONE OR MORE MEMBERS WHO REPRESENT THE TARGET END USER:



158%

MORE LIKELY TO UNDERSTAND THE END USER

Source: Innovation, Diversity, and Market Growth (see footnote 27).

When organizations are diverse, they are better able to understand the product, service, and relationship needs of consumers who are, more than ever, also diverse.

“[Business] leaders have long recognized that an inherently diverse workforce (inclusive of women, people of color, gay individuals) confers a competitive edge in terms of selling products or services to diverse end users—what’s known as “matching the market.” Our research shows... that an inherently diverse workforce can be a potent source of innovation, as diverse individuals are better attuned to the unmet needs of consumers or clients like themselves. Indeed, their insight is critical to identifying and addressing new market opportunities. We find that when teams have one or more members who represent the gender, ethnicity, culture, generation, or sexual orientation of the team’s target end user, the entire team is far more likely (as much as 158% more likely) to understand that target, increasing their likelihood of innovating effectively for that end user.”²⁷

26: “When Women Thrive, Businesses Thrive,” retrieved at <file:///Users/pf/Downloads/Gender-Diversity-When-women-thrive-businesses-thrive-Mercer.pdf>

27: “Innovation, Diversity, and Market Growth,” retrieved at <https://www.talentinnovation.org/publication.cfm?publication=1400>

HOW DIVERSITY LEADS TO BUSINESS SUCCESS: RECRUITING TALENT

On one level, a commitment to hiring employees from diverse backgrounds offers organizations a simple and obvious advantage: they can take advantage of a larger pool of talented candidates than organizations who focus their hiring—consciously or unconsciously—on a more limited demographic target.



More diverse organizations have broader talent pools from which to source capability to compete in this changing world.

- LEARN TO EMBRACE THE TENSION OF DIVERSITY



“To attract an optimal workforce, employers must ensure they are hiring from the largest possible pool of qualified labor in their industry. Discrimination, however, will unnecessarily limit the pool of potential candidates for employment by excluding some based on job-irrelevant factors such as sexual orientation and gender identity. When this happens businesses unnecessarily preclude themselves from finding the best and brightest employees.”²⁸



“Strengthening human capital for their organizations remains one of the top challenges for CEOs globally, and it continues to be seen as a key source of competitive advantage. A diverse and inclusive workplace is central to a company’s ability to attract, develop, and retain the talent it needs to compete. The effects of major trends—globalization, technology, and demographics—create new growth opportunities for companies, while disrupting traditional business models and organizational structures. More diverse organizations have broader talent pools from which to source capability to compete in this changing world.”²⁹

28: “The Costly Business of Discrimination,” retrieved at https://www.americanprogress.org/wp-content/uploads/issues/2012/03/pdf/lgbt_biz_discrimination.pdf

29: “Delivering Through Diversity,” retrieved at https://www.mckinsey.com/-/media/McKinsey/Business%20Functions/Organization/Our%20Insights/Delivering%20through%20diversity/Delivering-through-diversity_full-report.ashx

In addition to simply broadening the recruiting pool, organizations that commit to hiring diverse workers enjoy two additional advantages: their commitment to diversity aligns with the values of younger candidates, and current employees are more likely to recommend the firm to others interested in working for firms that make diversity, and social responsibility more broadly, a priority.

“A 2014 Glassdoor survey found that 66 percent of those polled [job seekers who use the Glassdoor site] indicated that workplace diversity was a key factor when choosing among job offers. 57 percent of the respondents in the same survey expressed dissatisfaction with what their company was doing to increase diversity in its workforce.”³⁰

“Discrimination can also adversely impact recruitment practices when companies discriminate against their existing employees. Understandably victims of employment discrimination will discourage others from seeking employment with the offending employer. The Level Playing Institute found that one in four individuals who experienced unfairness on the job say their experience strongly discourages them from recommending their employer to other potential employees.”³¹

30: “Decoding Diversity: The Financial and Economic Returns to Diversity in Tech,” retrieved at <https://www.intel.com/content/www/us/en/diversity/decoding-diversity-report.html>

31: “The Costly Business of Discrimination,” retrieved at https://www.americanprogress.org/wp-content/uploads/issues/2012/03/pdf/lgbt_biz_discrimination.pdf



66%

**OF JOB SEEKERS
INDICATED THAT
WORKPLACE
DIVERSITY WAS A
KEY FACTOR WHEN
CHOOSING AMONG
JOB OFFERS.**

Source: Decoding Diversity, (see footnote 30).

HOW DIVERSITY LEADS TO BUSINESS SUCCESS: RETAINING TALENT



Diverse organizations not only have an advantage when it comes to recruiting employees, but a range of evidence from the literature demonstrates that employees at diverse firms are more satisfied than employees at non-diverse firms. In turn, that greater level of satisfaction results in a virtuous cycle: diverse firms have stronger levels of employee retention, spend less on recruitment, see improvements to the bottom line, and enjoy greater profitability as a result.



*“A positive climate on racial/ethnic diversity may also help companies retain talent. This, at least, was the conclusion of researchers who demonstrated robust statistical links between a positive perception of a firm’s ‘diversity climate’ and decreased turnover intentions. The effect extended to all employees, regardless of race/ ethnicity or gender. A second study found that Black employees, in particular, were least likely to express turnover intentions at a place of work they perceived to be pro-diversity.”*³²

*“Diversity increases employee satisfaction and fosters positive attitudes and behaviours in the workplace. Workplace diversity increases job and life satisfaction for women and members of minority groups provided the workforce is diverse enough. For minority workers, for example, the boost in satisfaction kicks in when representation exceeds 15 percent of the workforce. Where diversity recruitment is a token effort, psychological outcomes are poorer.”*³³



[There are] robust statistical links between a positive perception of a firm’s ‘diversity climate’ and decreased turnover intentions.

– DECODING DIVERSITY



32: “Decoding Diversity: The Financial and Economic Returns to Diversity in Tech,” retrieved at <https://www.intel.com/content/www/us/en/diversity/decoding-diversity-report.html>

33: “Diversity Matters,” retrieved at <https://assets.mckinsey.com/-/media/857F440109AA4D13A54D9C496D86ED58.ashx>



Overly narrow criteria for advancement, outdated leadership models, inflexible working practices and bias in talent management all contribute to a lack of diversity...

**- WHEN WOMEN THRIVE,
BUSINESSES THRIVE**



It's important to keep in mind that there's a flip side to the positive impact of diversity on employee retention: a lack of diversity can lead to greater employee turnover, thereby adversely affecting a business's bottom line. For example, one study discusses the impact of a male-dominated work culture, and work mindset, on women employees:

*"The predominance of men in senior positions in financial services is a symptom of broader problems within the industry. Overly narrow criteria for advancement, outdated leadership models, inflexible working practices and bias in talent management all contribute to a lack of diversity, highlighting a recognized need for improved values and behaviors. Tackling these issues is not just a social imperative and "the right thing to do"; it will yield important benefits for the organization, its employees (both male and female), and its customers and investors."*³⁴

Another study looked at the bottom-line impact of discrimination based on sexual preference:

*"Retaining employees is equally important to a company's financial strength. Discrimination, however, forces otherwise qualified gay and transgender employees out of a job and into the ranks of the unemployed. This introduces numerous turnover-related costs since employers must then find, hire, and retrain employees to replace those who have left due to workplace discrimination. This takes significant amounts of time, money, and resources that could have instead been spent on primary business operations. According to a recent study, to replace a departing employee costs somewhere between \$5,000 and \$10,000 for an hourly worker, and between \$75,000 and \$211,000 for an executive making \$100,000 a year."*³⁵



**COST TO REPLACE A
DEPARTING EMPLOYEE:**

**\$5,000 TO \$10,000
FOR AN HOURLY
WORKER**

**\$75,000 TO \$211,000
FOR AN EXECUTIVE
MAKING \$100,000
A YEAR**

Source: The Costly Business of Discrimination, (see footnote 35).

34: "When Women Thrive, Businesses Thrive," retrieved at file:///Users/pf/Downloads/Gender-Diversity-When-women-thrive-businesses-thrive-Mercer.pdf

35: "The Costly Business of Discrimination," retrieved at https://www.americanprogress.org/wp-content/uploads/issues/2012/03/pdf/lgbt_biz_discrimination.pdf



Yet another explored the impact on turnover among employees of color:

*“Employee turnover represents a substantial cost to large employers, especially in retail, food service, and hospitality, where annual turnover rates can reach 100 percent or more. Yet much of this turnover is caused by conventional hiring, training, and HR policies that fail to take into account the challenges in transportation, child care, and financial stability that are prevalent among their entry-level employees, who are often disproportionately people of color. When employment practices are reconsidered to address these obstacles, the rate of turnover drops dramatically.”*³⁶

Even for employees who stay, a non-inclusive business environment has been shown to lead to lower levels of productivity.

*“Employment discrimination is economically unwise even if it never results in the loss of a skilled worker. Employees who work for discriminatory employers are unable to fully focus their energy on performing their core responsibilities on the job. Employees who do not feel valued or fear discrimination in the workplace experience a host of negative job attributes that adversely impact their job performance. Employees who fear discrimination exhibit higher rates of absenteeism, are less committed to their current employer, receive fewer promotions, and report more physical and mental health problems than those who were less fearful of discrimination.”*³⁷

Finally, firms that discourage diversity run the risk of litigation from employees or groups who claim discrimination, with extremely costly settlements. For example, in Fiscal Year 2018, the U.S. Equal Employment Opportunity Commission reported that the monetary benefits paid out from resolved employment discrimination lawsuits was greater than \$53 million.³⁸

36: “The Competitive Advantage of Racial Equality,” retrieved at https://www.policylink.org/sites/default/files/The%20Competitive%20Advantage%20of%20Racial%20Equity-final_0.pdf

37: “The Costly Business of Discrimination,” retrieved at https://www.americanprogress.org/wp-content/uploads/issues/2012/03/pdf/lgbt_biz_discrimination.pdf

38: <https://www.eeoc.gov/eeoc/statistics/enforcement/litigation.cfm>

HOW DIVERSITY LEADS TO BUSINESS SUCCESS: GREATER INNOVATION



Diverse and inclusive teams tend to be more creative and innovative than homogenous groups.

- DELIVERING THROUGH DIVERSITY



Some of the strongest, most compelling, and most often replicated research on diversity and financial performance focuses on the impact of diversity on innovation, generally, and creative decisionmaking, in particular.

“Significant research has shown that diverse teams can develop more innovative ideas. When people from different contexts work together, their unique perspectives often lead to greater creativity.

Research by Hewlett, Marshall, and Sherbin, for example, showed that leaders with diverse backgrounds and experience helped companies innovate more. Diverse

leaders were more likely to create an environment where new, creative ideas were considered. And diverse teams, they found, were more likely to have some common experiences with their end user. With this advantage, teams created better products.”³⁹

“Diverse and inclusive teams tend to be more creative and innovative than homogenous groups. Diverse teams bring different experiences, perspectives, and approaches to bear on solving complex, non-routine problems.”⁴⁰

“The fact is that if you want to build teams or organizations capable of innovating, you need diversity. Diversity enhances creativity. It encourages the search for novel information and perspectives, leading to better decision making and problem solving. Diversity can improve the bottom line of companies and lead to unfettered discoveries and breakthrough innovations. Even simply being exposed to diversity can change the way you think. This is not just wishful thinking: it is the conclusion I draw from decades of research from organizational scientists, psychologists, sociologists, economists and demographers.”⁴¹

39: “When Gender Diversity Makes Firms More Productive,” retrieved at <https://hbr.org/2019/02/research-when-gender-diversity-makes-firms-more-productive>

40: “Delivering Through Diversity,” retrieved at https://www.mckinsey.com/-/media/McKinsey/Business%20Functions/Organization/Our%20Insights/Delivering%20through%20diversity/Delivering-through-diversity_full-report.ashx

41: Sylvia Ann Hewlett in “How Diversity Makes Us Smarter,” retrieved at <https://www.scientificamerican.com/article/how-diversity-makes-us-smarter/>

Importantly, the published literature does more than simply demonstrate the link between diversity and greater innovation; it also offers evidence to explain why that link exists. One simple and obvious explanation: Diverse individuals tend to bring different perspectives to a problem or need, and those different perspectives allow the group to explore solutions that they may not have otherwise considered.

“Results show a positive relationship between the racial and gender diversity of establishments and their business functioning. It is likely that diversity produces positive outcomes over homogeneity because growth and innovation depend on people from various backgrounds working together and capitalizing on their differences.”⁴²



It is likely that diversity produces positive outcomes over homogeneity because growth and innovation depend on people from various backgrounds working together and capitalizing on their differences.

- DOES DIVERSITY PAY?



Still other studies have delved into how working among a diverse group of individuals can, as cited above, “change the way you think.” Specifically, studies have shown that homogenous teams tend to fall back on facile, accepted solutions, while diverse teams find themselves having to challenge conventional wisdom as they process the different perspectives of others.

“Diverse teams are more likely to constantly reexamine facts and remain objective. They may also encourage greater scrutiny of each member’s actions, keeping their joint cognitive resources sharp and vigilant. By breaking up workplace homogeneity, you can allow your employees to become more aware of their own potential biases — entrenched ways of thinking that can otherwise blind them to key information and even lead them to make errors in decision-making processes.”⁴³

“Members of a homogenous group rest somewhat assured that they will agree with one another; that they will understand one another’s perspectives and beliefs; that they will be able to easily come to a consensus. But when members of a group notice that they are socially different from one another, they change their expectations. They anticipate differences of opinion and perspective. They assume they will need to work harder to come to a consensus. This logic helps to explain both the upside and the downside of social diversity: People work harder in diverse environments both cognitively and socially. They might not like it, but the hard work can lead to better outcomes.”⁴⁴

42: “Does Diversity Pay? Race, Gender, and the Business Case for Diversity,” retrieved at <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.933.6329&rep=rep1&type=pdf>

43: “Why Diverse Teams Are Smarter,” retrieved at <https://hbr.org/2016/11/why-diverse-teams-are-smarter>

44: “How Diversity Makes Us Smarter,” retrieved at <https://www.scientificamerican.com/article/how-diversity-makes-us-smarter/>

“People tend to be more trusting of the perspectives, actions, and intentions of ethnically similar others. As intergroup contact theory and social identity theory establish, shared ethnic identity is a broad basis for establishing trust among strangers. Moreover, empirical evidence shows specifically that people surrounded by ethnic peers tend to process information more superficially. Such superficial thinking fits with the notion of greater confidence in others’ decisions: If one assumes that others’ decisions are reasonable, one may exert less effort in scrutinizing them.

Therefore, we propose that, when an offer is made to buy or to sell an asset, traders in homogenous markets are more likely to accept it than those in diverse markets. If traders in homogenous markets place greater confidence in the decisions of [those in their same ethnic group], so they are more likely to accept offers that are further from true value. This is not an individual idiosyncrasy, but a collective phenomenon: Pricing errors of traders in homogenous markets are more likely to be correlated than those of traders in diverse markets.”⁴⁵

45: “Ethnic Diversity Deflates Price Bubbles,” retrieved at <https://www.pnas.org/content/111/52/18524>



“

Essentially, the conclusion was ‘diversity trumps ability.’

- GROUPS OF DIVERSE PROBLEM SOLVERS CAN OUTPERFORM GROUPS OF HIGH-ABILITY PROBLEM SOLVERS.

”

But the literature goes even further. Diverse teams not only think more creatively, but research has shown that diverse groups of less experienced employees tend to outperform homogenous groups of individuals considered to be experts in their respective areas. Essentially, the conclusion was “diversity trumps ability.”

“Definitive research on the Value in Diversity Hypothesis has been done about the ability of diverse teams to outperform homogenous teams. This work and the mathematical calculations behind these theorems are part of the impetus in recent years in academic and scientific research on the use of multidisciplinary teams.

The work most noted was done by Dr. Scott Page, a professor of complex systems research and a professor of economics then at the University of Michigan. Professor Page originally set out to create a computer simulation that would demonstrate to the students in his complex systems analysis class that, as the ‘best and the brightest,’ they could expect to outperform the competition routinely as long as they applied themselves and worked effectively together as teams. He created a computer

simulation in which his team of ‘very able’ students was competing against ‘able and more diverse’ problem solvers. Because his ‘very able’ problem solvers had, by definition, the better problem solving skills, it was his expectation that as a team they would outperform the team of ‘able and more diverse’ problem solvers.

When he ran the program the first time, he was surprised when the more diverse team of problem solvers out-performed the team of ‘very able’ problem solvers. He scoured the program for his programming error, convinced that there must be an errant bit of code somewhere. When he could find no error, he decided to completely re-write the program in another programming language in order to avoid making the same mistake again.

The second program yielded the same result. The ‘able and more diverse’ team of problem solvers out-performed the ‘very able’ problem solvers again.”⁴⁶



46: "Groups of Diverse Problem Solvers Can Outperform Groups of High-Ability Problem Solvers" <https://www.pnas.org/content/101/46/16385>

“

You're better off entrusting a diverse group with major decisions than a panel of experts.

- INNOVATION, DIVERSITY, AND MARKET GROWTH

”

“Creative intelligence resides in the collective diversity of the workforce: in the problem-solving power that different backgrounds, generations, nationalities, ethnicities, genders, and even sexual orientations bring to the table. Diverse groups of amateurs are smarter...than the smartest person in them, and they process information faster and more reliably than panels of expert deliberators. You're better off entrusting a diverse group with major decisions than a panel of experts. 'Suggesting that the organization with the smartest people may not be the best organization is heretical,' he states, but 'heretical or not, it's the truth: the value of expertise is, in many contexts, overrated.' Ultimately, diversity contributes not just by adding different perspectives to the group but also by making it easier for individuals to say what they think. Homogenous groups, particularly small ones, are often victims of groupthink.”⁴⁷

47: "Innovation, Diversity, and Market Growth," retrieved at <https://www.talentinnovation.org/publication.cfm?publication=1400>



NUMERICAL REPRESENTATION IS NOT ENOUGH: INCLUSION & EQUITY



Diversity is being invited to the party. Inclusion is being asked to dance.

- DIVERSITY DOESN'T STICK WITHOUT INCLUSION

One final point related to diversity is reiterated in study after study: In order to reap the benefits of a more diverse group of employees, increasing the percentage of women and people of color in firms is necessary but not sufficient. Rather, these employees need to feel included in the organization's decision and policy-making processes.

"Part of the problem is that 'diversity' and 'inclusion' are so often lumped together that they're assumed to be the same thing. But that's just not the case. In the context of the workplace, diversity equals representation. Without inclusion, however,

*the crucial connections that attract diverse talent, encourage their participation, foster innovation, and lead to business growth won't happen. As noted diversity advocate Vern Myers puts it [in the book, *Moving Diversity Forward*], 'Diversity is being invited to the party. Inclusion is being asked to dance.'*

[Inclusive leadership] is a conglomeration of six behaviors: ensuring that team members speak up and are heard; making it safe to propose novel ideas; empowering team members to make decisions; taking advice and implementing feedback; giving actionable feedback; and sharing credit for team success. Of employees who report that their team leader has at least three of these traits, 87% say they feel welcome and included in their team, 87% say they feel free to express their views and opinions, and 74% say they feel that their ideas are heard and recognized. For respondents who reported that their team leader has none of these traits, those percentages dropped to 51%, 46%, and 37%, respectively."⁴⁸

On one level, an atmosphere of inclusion is one where diverse employees believe that their ideas and contributions will at least be considered, and not rejected out of hand.

"Respondents working for companies with 2D diversity are 95 percent more likely than respondents working for companies without 2D diversity to say, 'We're not afraid to fail.' They are 90 percent more likely to say, 'We take risks.' They are 72 percent more likely to say, 'Nobody's afraid to challenge the status quo.' And they are 68 percent more likely to say, 'We embrace the input of members whose background or expertise differs from our own.'

48: "Diversity Doesn't Stick Without Inclusion," retrieved at <https://hbr.org/2017/02/diversity-doesnt-stick-without-inclusion>

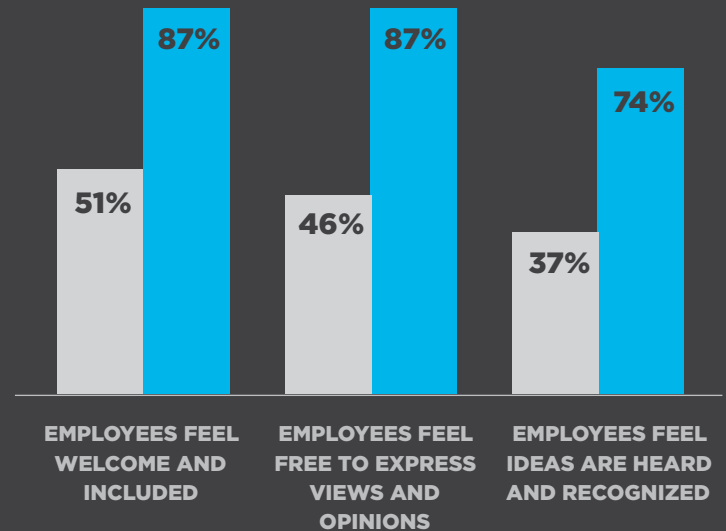
INCLUSIVITY TRAITS INCLUDE:

- **ENSURING** that team members speak up and are heard
- **MAKING** it safe to propose novel ideas
- **EMPOWERING** team members to make decisions
- **TAKING** advice and implementing feedback
- **GIVING** actionable feedback
- **SHARING** credit for team success

Source: Diversity Doesn't Stick Without Inclusion, (see footnote 48).

IMPACT OF INCLUSIVE LEADERSHIP

■ Team leader has no inclusivity traits ■ Team leader has 3+ traits



Source: Diversity Doesn't Stick Without Inclusion, (see footnote 48).

EMPLOYEES AT COMPANIES WITH 2D DIVERSITY ARE:

2D DIVERSITY: Defined as leadership that exhibits at least three kinds of both **inherent diversity** (gender, race, age, religious background, socioeconomic background, sexual orientation, disability, nationality) and **acquired diversity** (cultural fluency, generational savvy, gender smarts, social media skills, cross-functional knowledge, global mindset, military experience, language skills)

95%

MORE LIKELY TO SAY "WE'RE NOT AFRAID TO FAIL."

90%

MORE LIKELY TO SAY "WE TAKE RISKS."

72%

MORE LIKELY TO SAY "NOBODY'S AFRAID TO CHALLENGE THE STATUS QUO."

68%

MORE LIKELY TO SAY "WE EMBRACE THE INPUT OF MEMBERS WHOSE BACKGROUND OR EXPERTISE DIFFERS FROM OUR OWN."

Source: Innovation, Diversity, and Market Growth, (see footnote 49).



56% of leaders don't value ideas they don't personally see a need for—a veritable chokehold when an organization's leaders are predominantly Caucasian, male, and heterosexual, and come from similar educational and socioeconomic backgrounds.

- INNOVATION, DIVERSITY, AND MARKET GROWTH



Indeed, our research shows that when leadership lacks innate or acquired diversity, or fails to foster a speak-up culture, fewer ideas with market potential make it to market. Ideas from women, people of color, LGBTs, and Gen-Ys are less likely to win the endorsement they need to go forward because 56% of leaders don't value ideas they don't personally see a need for—a veritable chokehold when an organization's leaders are predominantly Caucasian, male, and heterosexual, and come from similar educational and socioeconomic backgrounds. In short, the data strongly suggest that homogeneity stifles innovation. Fully 78% of our survey sample work for such a company.”⁴⁹

“It's not surprising that everyone expends energy by repressing parts of their persona in the workplace in some way. But according to our research, 37% of African-Americans

and Latinos and 45% of Asians say they 'need to compromise their authenticity' to conform to their company's standards of demeanor or style. Our research on women in the science, engineering, and technology industries shows that, regardless of gender, acting 'like a man' can provide an advantage in becoming a leader in these fields. What a waste of employees' energy, let alone their employers' diversity dollars.

Diversity without inclusion is a story of missed opportunities, of employees so used to being overlooked that they no longer share ideas and insights. But diversity with inclusion provides a potent mix of talent retention and engagement.”⁵⁰

Inclusion also needs to be equitable from a financial perspective; women and people of color will not feel fully and fairly included unless their salaries are equal to those of men and whites. The data on income inequality are legion, including research from Boston Consulting Group that quantified the effects of prestige and pay gaps suffered by women in U.S. corporations.

“Women want good pay, and, like men, they expect pay to be correlated with performance. Junior women are as confident as their male peers—or slightly more so—that their compensation accurately reflects performance. But this confidence rises less quickly for women as their seniority increases than it does for men. Even more concerning, men's scores on the topic of 'teams that perform well are recognized for it' rise three times as fast with seniority as women's do.”⁵¹

49: "Innovation, Diversity, and Market Growth," retrieved at <https://www.talentinnovation.org/publication.cfm?publication=1400>

50: "Diversity Doesn't Stick Without Inclusion," retrieved at <https://hbr.org/2017/02/diversity-doesnt-stick-without-inclusion>

51: "The Rewards of an Engaged Female Workforce," retrieved at http://image-src.bcg.com/Images/BCG-The-Rewards-of-an-Engaged-Female-Workforce-Oct-2016_tcm9-123363.pdf

“

Diversity without inclusion is a story of missed opportunities, of employees so used to being overlooked that they no longer share ideas and insights.

- DIVERSITY DOESN'T STICK WITHOUT INCLUSION

”

At the same time, analyses of the positive impact of income equality are relatively easy to find.

“One of those benefits is that it seems closing the gender pay gap benefits both employees and employers in helping to recruit and retain the best talent. It also creates a positive work environment, garners the confidence and trust of employees, makes the best use of human resources, increases productivity and competitiveness and creates a more positive public image for the company.”⁵²

52: “The Benefits of Closing the Gender Pay Gap,” retrieved at <https://coreaxis.com/benefits-closing-gender-wage-gap/>

“

But diversity with inclusion provides a potent mix of talent retention and engagement.

- DIVERSITY DOESN'T STICK WITHOUT INCLUSION

”





CONCLUSION

Much of the evidence cited in this paper is not new: Many studies demonstrating, and quantifying, the benefits of greater diversity have been around for 10 years or more. The question then becomes why haven't more businesses—across industries but especially in financial services and financial planning—more aggressively committed to hiring and retaining more women and more people of color in prominent positions in their firms?

The Center has explored the various factors inhibiting diversity as part of its initiatives and in its research efforts. But when it comes to acting on the evidence presented in this literature review—clear, unequivocal evidence that hiring a more diverse workforce and ensuring they have a “place at the table,”—that commitment needs to come from the very top of the organization.

The literature is filled with case studies describing how specific businesses have made vast improvements to their bottom

line after initiating aggressive diversity hiring and inclusion initiatives. But for true progress to be made, the type of evidence outlined here needs to be more widely distributed to business leaders who have the authority to act on the conclusions and recommendations from these studies. And more importantly, they need to accept the fact that their preconceived workforce notions (for example, the mistaken notion that a homogenous group of “experts” will outperform a diverse group of knowledgeable non-experts) may simply be wrong.

One final recommendation arising from the literature is for firms to be more transparent about the efforts they have made to make their workplaces more diverse—and to publicize the successes they have experienced as a result. As younger generations make up a greater portion of the financial services client base, touting one's diversity initiatives can only make these businesses more attractive to its target customers.

ABOUT THE CENTER

The mission of CFP Board's Center For Financial Planning is to create a more diverse and sustainable financial planning profession. As part of its pursuit of this goal, the Center has developed a wide range of diversity-related initiatives, including:

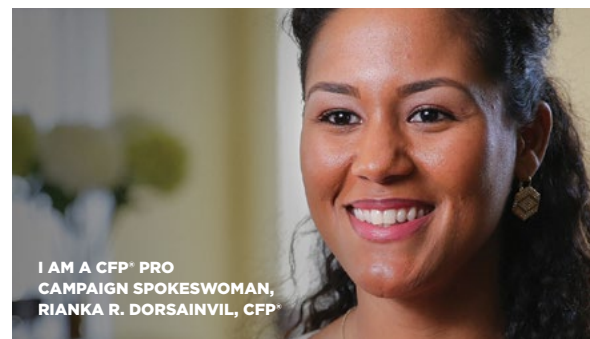
- **Publishing *Racial Diversity in Financial Planning: Where We Are and Where We Must Go***, a thought leadership paper that outlines research-based, actionable solutions for key stakeholders to create a more diverse and inclusive profession.



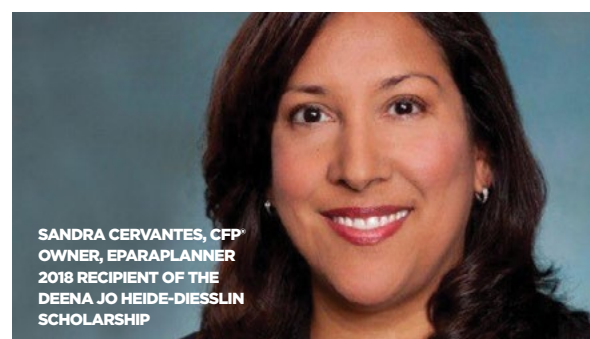
- **Hosting Diversity Summits** to engage and hold stakeholders accountable for advancing diversity, equity and inclusion, by showcasing case studies and best practices for hiring, developing and retaining diverse CFP® professionals.



- **Launching the "I am a CFP® Pro" campaign** to attract young, diverse talent into the profession by highlighting the many benefits of a career in financial planning and dispelling common misperceptions through "day-in-the-life" videos and stories shared on social media.

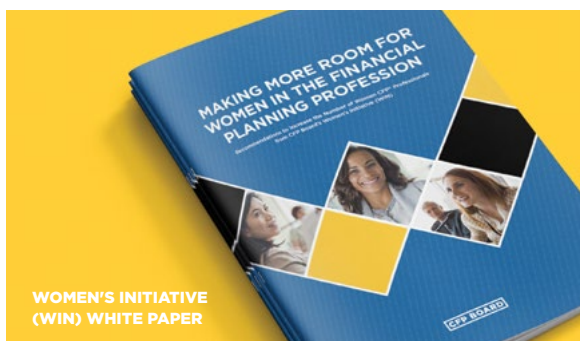


- **Providing Scholarships to Underrepresented Populations** in financial planning to complete education requirements for CFP® certification. The Center currently manages four scholarship funds: The Deena Jo Heide-Diesslin Foundation Challenge Match Scholarship, the Milton Stern Scholars Fund, the Envestnet Scholarship Fund and the Richard B. (Dick) Wagner Memorial Scholarship Fund, a joint effort with FPA.



"I am very grateful to the donors of The Deena Jo Heide-Diesslin Scholarship and to the Center for Financial Planning for awarding me this scholarship. Financial planning will be a very rewarding career because I will be making a tangible impact on peoples' lives by helping them achieve their life goals."

- **Expanding the Women’s Initiative (WIN),** based on the recommendations from the Center’s *Making More Room For Women in the Financial Planning Profession* white paper, to include the WIN Advocate Program in addition to developing new programs to increase the number of women financial planners. WIN Advocates educate women and girls about financial planning careers.



- **Launching the CFP Board Mentor Program** to connect aspiring CFP® professionals with experienced CFP® professional mentors to help guide them through the certification process. The program offers a variety of mentor-mentee matching options, including gender, race and ethnicity.

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APPENDIX

MAKING ROOM FOR BLACKS AND LATINOS IN THE FINANCIAL PLANNING PROFESSION: THE CALL TO ACTION

After learning more about the key barriers to entry into the profession, the Center set out to identify what support might be provided along the path to Black and Latino prospects, and CFP® candidates. Attracting more Black and Latino prospects to the financial planning profession will require joint effort from CFP Board and the Center, as well as firms, registered programs, influencer organizations, and CFP® professionals. Some of the recommendations to attract more Black and Latino prospects to the financial planning profession are outlined below.

WHAT CFP BOARD AND THE CENTER FOR FINANCIAL PLANNING WILL DO

CFP Board and the Center recognize that simply making recommendations for increasing the number of Black and Latino CFP® professionals will not get the job done. Accordingly, CFP Board and the Center seek to be thought leaders and conveners in the area of diversity and inclusion and are engaged in and has committed to a number of initiatives based on the Diversity Advisory Group's recommendations, including:

MAINTAIN a Diversity Advisory Group, consisting of CFP® professionals, educators in CFP Board Registered Programs, academics and financial planning firm executives, to advise on progress toward diversifying the profession.

CONTINUE to convene Diversity Summits that bring together senior executives from financial services firms, organizations committed to diversity and inclusion, subject matter experts, and financial

planner professionals to advance diversity in the financial planning profession for the benefit of the American public.

EXPAND the “I am a CFP® Pro” education campaign, which showcases diverse young CFP® professionals, the reasons they chose financial planning and CFP® certification, and the opportunities and challenges they’ve encountered.

CONNECT candidates for CFP® certification with a network of experienced CFP® professionals volunteering to provide guidance and support along the way through a CFP Board Mentorship Program.

PROVIDE Black and Latino leaders in the profession opportunities to be more visible to broad audiences through speaking engagements, public appearances, media presentations and social media.

EDUCATE guidance counselors and placement officers in high schools and colleges on financial planning as a distinct specialty within financial services, and on the requirements and benefits of CFP® certification.

ESTABLISH (through sponsorship donations) and administer scholarship programs for underrepresented individuals in the financial planning profession to support the education and/or exam needed for CFP® certification.

DEVELOP a toolkit of initiatives and support mechanisms designed to assist Black and Latino candidates in the CFP® certification pipeline including:

- Increase outreach to and create a toolkit for Hispanic Serving Institutions (HSIs), Historically Black Colleges and Universities (HBCUs), and schools with racially and ethnically diverse populations.
- Build a database of scholarships available to Black and Latino prospects.
- Provide exam support and additional support for exam review and prep materials for candidates who fail the exam.
- Create an exam study community that encourages engagement.

CONDUCT an internal CFP Board review of all department functions and processes to determine alignment with the overall goal of increasing the number of Black and Latino CFP® professionals.

SHOWCASE firm initiatives, including diversity hiring programs, to support and develop Black and Latino financial planning professionals.

SUPPORT entrepreneurship and existing firms founded by people of color.

COLLABORATE with diversity efforts led by Financial Planning Association (FPA), National Association of Personal Financial Advisors (NAPFA) and other financial planning groups.

WHAT FIRMS CAN DO

Financial services firms' hiring and onboarding practices are rooted in history and culture, and firms need to understand, assess and shift culture to make workplaces inclusive and equitable for all planners. Firms can begin to take actions today that can build a foundational commitment to diversity, equity and inclusion in their firm and serve as catalysts for the field as a whole. Integrating these recommendations into growth strategies will ultimately allow firms to weave diversity intentionally and seamlessly into the fabric of their culture. Firms have the opportunity and resources to be leaders in the quest to diversify the industry and profession and to ensure that their policies and practices provide equal opportunity for employment, retention and advancement regardless of one's race and ethnicity. These proposed actions include:

EMBED diversity, equity and inclusion into the firm's growth strategy to address everything from workforce and clients to compensation models.

EDUCATE firm owners, senior leaders, and managers about the value of a diverse workforce beyond working with clients of color.⁵³

RECOGNIZE that Black and Latino prospects pursuing CFP® certification may be deterred by the costs of preparatory education and by the difficulty of the CFP® exam. Firms can support these

employees by covering or subsidizing these costs, allowing sufficient study time away from work, and making their employees aware of these benefits.

DEVELOP and utilize objective hiring criteria based on skills, rather than subjective hiring criteria, when evaluating all candidates. Eliminate bias with consistent questions and rubrics.⁵⁴

ENCOURAGE top management and owners of financial firms to make transparent commitments to racial diversity by specifying measurable diversity, equity and inclusion goals for the firm and monitoring progress toward those goals.

- Define metrics and set up accountability mechanisms for all aspects of the business (e.g., applicant pools, hiring, retention, vendors, clients) and be transparent about progress and challenges.⁵⁵
- Conduct cultural assessments and demographic surveys to measure changes and progress on diversity, equity and inclusion.
- Assess managers on diversity, equity and inclusion on performance reviews. Consider providing managers additional incentives for hiring and retaining diverse talent.

EVALUATE the impact of the firm's compensation structure on hiring and onboarding people of color. Develop models to allow employees to learn the ropes without the pressure to produce immediately. Ensure that any compensation structure is fair and equitable.

IDENTIFY and cultivate long-term relationships with organizations, professional societies, colleges and universities that can provide access to more racially diverse financial planners.

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54: "How to Alter Your Hiring Practices to Increase Diversity." Retrieved at <https://www.forbes.com/sites/maynardwebb/2017/10/29/how-to-alter-your-hiring-practices-to-increase-diversity/#711676bc2029>.

55: "What Diversity Metrics are Best Used to Track and Improve Employee Diversity." Retrieved at <https://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1063&context=student>.

RECRUIT diverse candidates — and highlight aspects of the profession that speak most directly to the career elements that are most satisfying to current financial planners, including the ability to help others and build wealth in communities of color.

PARTNER with minority business associations on internship programs.

BUILD and sponsor networks of Black and Latino financial planning professionals, as well as in-firm and association mentoring programs.

DEVELOP and support mentorship programs, internally and externally. This allows CFP® professionals to share their passion with new candidates, expands a pipeline that will increase diversity within the sector, and has been proven to increase racial representation in management.⁵⁶

FACILITATE conversations to develop a shared understanding of race, diversity, equity and inclusion.

INCREASE the involvement of Black and Latino financial planners in recruiting diverse talent, while being careful not to tokenize current employees.

VALUE and actively support pro bono efforts by employees to support communities of color.

DEVELOP leaders of color by providing funding for leadership training created intentionally for leaders of color.

SUPPORT professional affinity groups that allow professionals of color to build support systems within their workplace (i.e., Association of African American Financial Advisors and Association of Latino Professionals for America).

TEST and evaluate pilot programs to determine which diversity initiatives work best for professionals of color and allies.

WHAT CFP BOARD REGISTERED PROGRAMS⁵⁷ CAN DO

PARTNER with CFP Board and the Center on joint initiatives designed to encourage diverse students at your college or university to consider a career in financial planning.

PROMOTE CFP Board and the Center's existing programs within your network to raise awareness of financial planning careers and to offer support to those on their way into the profession:

- The "I am a CFP® Pro" education campaign promotes financial planning to young people of color by showcasing videos and promotional materials of diverse young CFP® professionals and the reasons they chose the profession.
- The scholarship programs assist qualified candidates to complete the education requirement for CFP® certification.
- The CFP Board Mentorship Program connects candidates for CFP® certification with a network of experienced CFP® professionals volunteering to provide guidance and support along the way.
- The CFP Board Career Center provides job and internship listings in financial planning and career management guidance, as well as hosts online career fairs that allow job seekers to connect with employers in real time.

IDENTIFY speaking and exhibiting opportunities for the Center at your events and conferences to raise awareness of the financial planning career, leveraging the Center's network of CFP® professional speakers around the country.

56: Dobbin, Frank and Alexandra Kalev. "Why Diversity Programs Fail." Harvard Business Review. July-August 2016. Retrieved at: <https://hbr.org/2016/07/why-diversity-programs-fail>

57: CFP Board-Registered Programs are financial planning education programs at the college or university level that meet specific criteria for educating individuals who wish to fulfill the education component for obtaining CFP® certification.

WHAT INFLUENCER ORGANIZATIONS CAN DO

PARTNER with the Center on joint initiatives designed to encourage your constituents to consider a career in financial planning.

PROMOTE CFP Board and the Center's existing programs within your network to raise awareness of financial planning careers and to offer support to those on their way into the profession:

- The "I am a CFP® Pro" education campaign promotes financial planning to young people of color by showcasing videos and promotional materials of diverse young CFP® professionals and the reasons they chose the profession.
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- The CFP Board Career Center provides job and internship listings in financial planning and career management guidance, as well as hosts online career fairs that allow job seekers to connect with employers in real time.

IDENTIFY speaking and exhibiting opportunities for the Center at your events and conferences to raise awareness of the financial planning career, leveraging the Center's network of CFP® professional speakers around the country.

COMMUNICATE the importance of and encourage financial institutions to be transparent around their metrics for diversity, equity and inclusion.

WORK with financial planners and financial institutions to build financial literacy programs in communities of color.

SUPPORT entrepreneurship and existing firms founded by people of color.

WORK with firms to help them uncover and teach entry points of working with diverse communities.

WHAT YOU CAN DO

Whether you work at an organization, a firm, or for yourself, you can have a tremendous impact on the diversity of the profession. As stakeholders within this ecosystem, all of us have a role to play in ushering in a more diverse and inclusive workforce in the financial planning sector. In an effort to increase diversity, individuals can:

BECOME a mentor and/or a reverse mentor (meaning that you mentor someone who is in a higher position of authority in comparison to yourself). Mentorship will allow both parties to offer each other support, guidance and advice as they navigate conversations around diversity.

LEARN actively and continuously about allyship and practice it in meetings, throughout hiring and/or promotion processes, and in daily interactions.

EVALUATE your behaviors and biases and be willing to be uncomfortable.

BE professionally courageous by sharing your story, and invite the stories of others.

DO pro bono work for communities of color, thereby making the profession and financial planning career opportunities more visible.

ADVOCATE for and recommend people of color within your firm or with others for advancement and opportunities.

GIVE the gift of education by contributing to Center scholarship programs for underrepresented populations who are seeking to complete requirements for CFP® certification.

ABOUT CFP BOARD Certified Financial Planner Board of Standards, Inc. is a professional body for personal financial planners in the U.S. CFP Board sets standards for financial planning and administers the prestigious CFP® certification—one of the most respected certifications in financial services—so that the public has access to and benefits from competent and ethical financial planning. CFP Board, along with its Center for Financial Planning, is committed to increasing the public’s awareness of CFP® certification and access to a diverse, ethical and competent financial planning workforce. Widely recognized by firms as the standard for financial planning, CFP® certification is held by over 85,000 people in the U.S. Learn more at **[CFP.net](https://www.cfp.net)**

ABOUT THE CFP BOARD CENTER FOR FINANCIAL PLANNING The CFP Board Center for Financial Planning seeks to create a more diverse and sustainable financial planning profession so that every American has access to competent and ethical financial planning advice. The Center brings together CFP® professionals, firms, educators, researchers and experts to advance diversity and inclusion in the profession, to cultivate a quality workforce to fill the talent pipeline, and to elevate the discipline of financial planning and provide practitioners with cutting-edge knowledge to better serve their clients. More about the Center and its initiatives can be found at **[CenterforFinancialPlanning.org](https://www.CenterforFinancialPlanning.org)**

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