

Presented at the Conference on “Improving Diversity in the Financial Services Industry: A Holistic View,” Rutgers University, Newark Campus, Newark, New Jersey

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## **Diversity and Inclusion without Excuses**

Thank you, and good morning. It’s a special honor to be here and speak at this important and timely conference marking the launch of the Center for Research on Diversity in the Financial Services Industry at the Rutgers Business School. It’s also a unique pleasure not to talk about the economy and when we’re going to raise interest rates. Instead, I have the chance to discuss something that in many ways is more important than interest rates: How do we create more diverse and inclusive cultures and organizations in the financial services industry, including the Federal Reserve? Before I go any further, I should inject the usual Fed disclaimer that everything I say today reflects my own views and not necessarily those of anyone else in the Federal Reserve System.

The title of this conference speaks truth. The first part, “*Improving Diversity in the Financial Services Industry*,” makes clear that we aren’t here to declare victory or celebrate a job well done. We’re together today because we have a shared problem: The financial services industry and the Federal Reserve are *not* as diverse as they should or need to be.<sup>1</sup> Our organizations affect all Americans, yet in large part we don’t share the same cultural and gender diversity of the public we serve. This point is made abundantly clear when I listen to activists and other representatives from minority communities. Their impassioned plea is to see diverse representation and perspectives in

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<sup>1</sup> See U.S. GAO (2013) and the Equal Employment Opportunity Commission website, <https://www.eeoc.gov/eeoc/statistics/employment/jobpat-eeo1/index.cfm>.

the C-suite, but also to ensure that we effectively serve the interests of underrepresented Americans who struggle with a lack of jobs, opportunity, and yes, financial services. That we see and act based on the whole picture, not just our reflection in the mirror. And they're right: It's imperative that we are all engaged in the rich tapestry of culture and experience that our country has to offer.

The second part of the conference title—“*A Holistic View*”—is just as telling. We don't have all the answers we need to solve this problem, and we recognize that. We need to experiment, share stories, and learn from each other if we hope to succeed. And, quite honestly, we need to learn the lessons from others who have found ways to create and sustain more diverse and inclusive cultures than our own. I'm reminded of a conversation I had a while back with Congresswoman Maxine Waters. I was proudly listing all the things we're doing at the Fed to increase the diversity of our outside suppliers. She responded that, while that was all well and good, all of these ideas have been around for decades, and why were we so late to the game?

That observation itself was a testament to our lack of diversity. Just because we're smart and our hearts are in the right place doesn't make us wise or effective. In a more diverse culture, we wouldn't be trying to reinvent the wheel ourselves, but would most likely have learned from those who have blazed the trail ahead on these issues. And we undoubtedly would have been more successful at achieving our diversity goals.

Until we advance our diversity and inclusion efforts, we are all missing enormous opportunities to expand our horizons, our vision, our labor pool, and ultimately, our success, both for our organizations and our society. There's a business case as well as a moral one, and they're both equally persuasive. Starting with the business case, in today's highly diverse and changing society, we can't compete for the best talent if we don't welcome and encourage diversity and

inclusion.<sup>2</sup> And if we don't attract and retain diverse employees, we are missing out on a huge and growing part of the labor force. Moreover, diverse perspectives often lead to better thinking and better outcomes.<sup>3</sup>

Furthermore, abstracting from dollars and cents, the very success of our nation depends on all segments of society participating fully in all aspects of our economy. Our national story is that of a melting pot, combining multitudes of cultures and experiences. There's no place for bastions of privilege in the financial sector, the government, the tech sector, or any other important segment of our economy and society. If we don't recognize this, the outside world certainly does. Today's society, with instantaneous social media campaigns and political demands for change, is not satisfied with the status quo or promises that eventually things will get better. And I agree. In fact, I'll be the first to admit that the demands for us to be more diverse and inclusive originating outside our walls have provided a healthy, and perhaps needed, kick in the pants to move faster and be more accountable regarding our progress on diversity and inclusion.

The Federal Reserve in particular is in the spotlight for a lack of diversity in our senior ranks and on our Boards of Directors, and rightly so. Our record is not what it should be, and change has been too slow at best, or, sadly, in some instances, nonexistent. Let's be clear—this is not for a lack of talented people out there. Take my organization, the San Francisco Fed, as an example. We are situated in a remarkably diverse region, with a population that has a higher share of members of minority groups than elsewhere in the country.<sup>4</sup> Our colleges are turning out large

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<sup>2</sup> For example, the National Center for Education Statistics (2016) projects an outsize increase in minority shares of college attendees in coming decades.

<sup>3</sup> Recent research finds a direct relationship between greater workforce diversity and favorable business outcomes (Hunt, Layton, and Prince 2015). See also Ellison and Mullin (2014) and Joshi and Roh (2009).

<sup>4</sup> For example, see 2010 U.S. Census Bureau data for the San Francisco-Oakland-Fremont MSA (<http://factfinder.census.gov/faces/nav/jsf/pages/index.xhtml>).

numbers of bright and eager people of highly diverse backgrounds.<sup>5</sup> So, we should be perfectly positioned to tackle head-on the lack of diversity and inclusion.

It hasn't proven that easy. Although our overall workforce is ethnically diverse and we have seen gains in diversity at the most senior ranks of our Bank, we fall short in the ranks of middle management. Like many other organizations, we have made strides in attracting diverse job candidates through outreach programs and job fairs focused on female and minority job seekers. We have also enhanced our recruiting practices to minimize implicit bias that can distort outcomes. In our intern program, we've partnered with organizations that provide corporate internship and placement opportunities for low-income, first-generation college students and we've teamed up with programs that seek to increase the number of qualified students entering the fields of information security. And, we continue to expand our employee resource groups to empower our diverse employees to engage in dialogue with leadership and drive change. Of course, we are always seeking new ideas, and I look forward to learning about additional strategies during the sessions on developing pipelines and recruiting strategies for financial services firms.

However, despite our efforts, our diversity pipeline drops from a torrent to a trickle once employees reach the cusp of leadership positions. We far too often hear from employees that it takes too long to get promoted or that they didn't see a clear road ahead into a leadership role in our organization. We aren't special in this regard—a 2015 Mercer report highlighted these same issues in the financial sector in Chicago.<sup>6</sup> I'm sure many in this room have the same experience, and I look

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<sup>5</sup> For example, see data on degrees awarded from the University of California (<http://universityofcalifornia.edu/infocenter/degrees-awarded-glance>) and California State University ([http://www.calstate.edu/as/stat\\_reports/2014-2015/degree1415.shtml](http://www.calstate.edu/as/stat_reports/2014-2015/degree1415.shtml)).

<sup>6</sup> Mercer (2015).

forward to the discussion of this topic during the panel on the glass ceiling in financial services this afternoon.

We at the San Francisco Fed are currently taking a number of steps to attack this problem, and I am optimistic about the road we are on. At an enterprise level, we created a Diversity Council chaired by a senior executive and membership composed of Bank leaders who coordinate and promote our diversity and inclusion efforts. Senior leaders regularly discuss our pipeline of future managers and leaders, with a focus on identifying gaps and opportunities for diversity and inclusion in our management ranks. We are setting the expectation that leaders mentor and sponsor diverse candidates into leadership roles. Through our Diversity Council, use of analytics, and senior leadership succession reviews we are actively working towards our goal of minimizing the choke points and keeping our pipeline strong.

But, most importantly, as leaders of organizations, we must hold ourselves accountable to provide an inclusive environment that recruits, retains, and develops diverse talent. You have heard me say the word “accountable” more than once this morning because I believe that leadership accountability is crucial to advancing diversity and inclusion. Despite the efforts that I just described, if we as leaders do not hold ourselves responsible for our own actions—for example, in our hiring and promotion decisions, who we seek out for advice, and who we call on in meetings—these efforts will not have the desired impact. And it is equally important that we are accountable for the actions we are not taking—who are we not hiring or promoting, who is not in our inner circles, and who we are overlooking in meetings.

There is still more to do. I personally read all of our employee engagement survey responses carefully and talk to employees about how they experience life at the Bank. It’s clear from their

comments that, for many employees, the San Francisco Fed can seem a backward-looking, stuffy, slow-moving organization. We are currently undertaking a major cultural change at the Bank with a key goal to enhance our appeal to a diverse applicant and employee pool. This means different things to different people. For some, an atmosphere of more casual attire is welcoming and allows people to come to work as “who they are.” For others, greater flexibility in work hours and telecommuting is what’s needed.<sup>7</sup> For many, especially women and minority candidates, an environment that genuinely embraces diversity at all levels of leadership is what is most vital. Instead of thinking of work as a place where employees need to “fit in,” I want to see our organization become a place that fits our employees and embraces our differences.

By creating a more welcoming and inclusive culture—meaning a culture that holds itself accountable for encouraging and developing all employees and providing a sense of belonging at work—we will be better able to attract, retain, and grow a highly productive and diverse workforce. In this regard, I look forward to learning what else can be done in the “Successful Case Studies” session this afternoon. It’s absolutely essential that we not only stop putting up unintended barriers to diversity, but that we also affirm every day through our words and our deeds that we value and celebrate it. These efforts require organizational and behavioral self-awareness and a commitment, starting at the top, to foster change. Again, both the business case and the fact that it’s the right thing to do should drive our resolve.

I’ve been talking so far about our employees, but as I mentioned earlier, we have more work to do in terms of the diversity of our Boards of Directors and outside Advisory Councils. Although the representation of women and minorities among our Directors has improved in recent years, it

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<sup>7</sup> Recent research by a leading economics scholar emphasizes the importance of flexibility in work hours for advancing qualified female candidates, especially in the financial and legal sectors (Goldin 2014).

still isn't representative of the people we serve.<sup>8</sup> At the San Francisco Fed, we have taken steps similar to those for employee recruiting. Senior leaders of the Bank meet quarterly to review openings on our Boards and advisory groups with a focus on identifying and building a pipeline of outstanding diverse candidates that are representative of the communities we serve.

I should be clear that we do not control the selection of the candidates for our Boards of Directors. Instead, according to the Federal Reserve Act, those decisions are made by the member banks themselves, our San Francisco Board of Directors, or the Board of Governors, depending on the nature of the position. But, we can and do play an important role in introducing potential candidates to the Federal Reserve and by having a strong slate of diverse candidates, we hope to achieve greater diversity on our Boards.

In addition, we have created the new 12th District Community Advisory Council to ensure that we are hearing a wide range of voices and perspectives from throughout our District. We plan to kick off this new Council next year, with semiannual meetings with senior executives of the San Francisco Fed. Membership will include representatives from community groups, community development organizations, and other members of the public. This council supplements the Federal Reserve Board's Community Advisory Council, which has membership from across the country, as well as similar councils set up by other Federal Reserve Banks.

I've gone over some of the key challenges we face regarding diversity and inclusion at my organization and some of the things we are doing to get us where we need to be. But, as I have said many times already, I know we don't have all the answers, and I look forward to learning from the

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<sup>8</sup> According to Federal Reserve System tabulations, minority representation on Boards at Reserve Banks increased from 16 percent in 2010 to 24 percent this year. The proportion of women directors increased from 23 percent to 30 percent over the same period.

other participants at this conference and in the future. I also know that this isn't an issue that can be fixed overnight by flicking a switch. If it were, we wouldn't be having this conference and I wouldn't be speaking here.

Instead, it takes focused leadership from the top of the organization, dedicated to an ongoing, long-term commitment to achieve greater diversity and inclusion. Change like this takes time and perseverance. As leaders of our organizations, we must hold ourselves accountable and not make excuses or look for others to tackle this problem. Admittedly, it's often a process of two steps forward and one step back, and can feel like the Greek myth of Sisyphus, who was forced to roll a boulder up a hill, only to see it roll back and hit him, over and over, for eternity.

But, this doesn't have to be a Greek tragedy. As leaders, we can be staunch advocates, taking responsibility for creating a culture that embraces and engages diversity and inclusion in every way, and making sure that obstacles and hurdles are overcome. I am personally committed, and I hope you will join me in advancing diversity and inclusion in the financial sector with a sense of urgency and, most importantly, without excuses.

Thank you.



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