In collaboration with

Racial equity in financial services

The financial services talent pipeline shows a lack of representation of people of color, most acutely at senior levels. Changes in three key areas can help companies make progress.

This article was a collaborative effort by Arelis Diaz, La June Montgomery Tabron, Carlos Rangel, Joel Wittenberg, Stefon Burns, Aria Florant, Max Magni, and Paula Ramos, representing views from the W.K. Kellogg Foundation and McKinsey's Financial Services Practice.

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Despite efforts by companies across all business sectors to increase equity in the workplace, true parity is still severely lacking. In a show of terrific progress, women's representation, particularly in senior roles, has been in the national conversation. By comparison, considerably less attention has been historically afforded to racial or ethnic equity. Indeed, our data show that racial and ethnic identity—Asian, Black, Latinx,[1] and white—play a major role in the experience an employee will have, particularly in the financial-services sector. Representation in financial services is especially effective for achieving equity, since the sector has control over capital and assets that yield outsize power and influence over markets, the business landscape, and entrepreneurship. Therefore, companies have significant work left to do to ensure people of color will have an equal opportunity to be successful in the workplace.

We know racial equity is correlated with better business outcomes.[2] Having a diverse executive team, board, or both correlates with higher profitability. For every 10 percent more racially or ethnically diverse a company's senior team is, earnings before interest and taxes (EBIT) is nearly 1 percent higher. The demographic makeup of America is changing; an increasing percentage of the talent pool are people of color. The most common age of white people in the United States is 58, whereas it is 27 for people of color.[3] More and more, consumers and employees are pushing companies to become better corporate citizens. Compared with previous generations, members of the millennial and Gen Z cohorts are more likely to say they are willing to spend more to buy from companies that share their values.[4] By 2050, the United States stands to gain trillions in GDP by closing the racial equity gap.[5]

With these forces in mind, the W.K. Kellogg Foundation (WKKF) approached McKinsey to partner in examining racial equity in the financial services sector, across both representation and employee experience. The Kellogg Foundation's interest stems from its enduring commitment to racial equity and the desire to operationalize systemic change on behalf of children. In 2007, the foundation's board of trustees committed the organization to becoming an antiracist organization that promotes racial equity. Since that time, the Kellogg Foundation's policies and practices in operations, programming, and investments have been directed to actively address systemic inequities. The partnership with McKinsey explores how to increase equity in critical systems (see sidebar, "About the research").

About the research

The primary focus of the W.K. Kellogg Foundation is to improve opportunities for vulnerable children. Core to that mission is racial equity, a principle the foundation strives to achieve within its own body and promotes in the organizations with which it works, including those in financial services.

This article draws on data collected for the 2018 edition of McKinsey & Company and LeanIn.Org's annual *Women in the Workplace* study. Since 2015, more than 590 companies employing more than 22 million people, along with a quarter of a million individual employees, have participated in *Women in the Workplace*. To our knowledge, this makes it the largest study on the state of women in corporate America, as well as the largest study on the experiences of women of color at work.[1] The 2018 report examined data from 36 companies with a total of around 500,000 employees in banking, asset management or institutional investment, investors, private equity, and consumer finance.

The article also draws from the W.K. Kellogg Foundation's *Business case for racial equity* and McKinsey's "Diversity wins: How inclusion matters," as well as data from the US Equal Employment Opportunity Commission, the US Census Bureau, and the McKinsey Global Institute.

[1] McKinsey & Company and LeanIn.Org, *Women in the Workplace 2018*, October 2018, womenintheworkplace.com.

[1] A person of Latin American origin or descent (used as a gender-neutral or nonbinary alternative to Latino or Latina).
[2] Sundiatu Dixon-Fyle, Kevin Dolan, Vivian Hunt, and Sara Prince, "Diversity wins: How inclusion matters," May 19, 2020, McKinsey.com.
[3] Katherine Schaeffer, "The most common age among whites in U.S. is 58 – more than double that of racial and ethnic minorities," July 30, 2019, pewresearch.org.
[4] McKinsey Millennials Survey 2016; McKinsey Gen Z/Millennials Survey 2019; McKinsey Gen Z/Millennials Survey 2020.
[5] Ani Turner, Altarum, *Business case for racial equity - July 2018*, W.K. Kellogg Foundation, July 24, 2018, wkkf.org.

This article outlines findings about racial equity issues present in both representation and employee experience in the financial services sector. First, we explore issues of representation across attrition, promotion, and directive versus supportive roles. Second, we examine the experiences of people of color in the workplace, highlighting the impact of relationships with colleagues and bosses, being an only, and enduring microaggressions. Ultimately, we discover that real transformation in this sector requires addressing both representation and experience. We end with a call to action for leaders to use racial equity to drive better business performance and create more equitable opportunity across society.

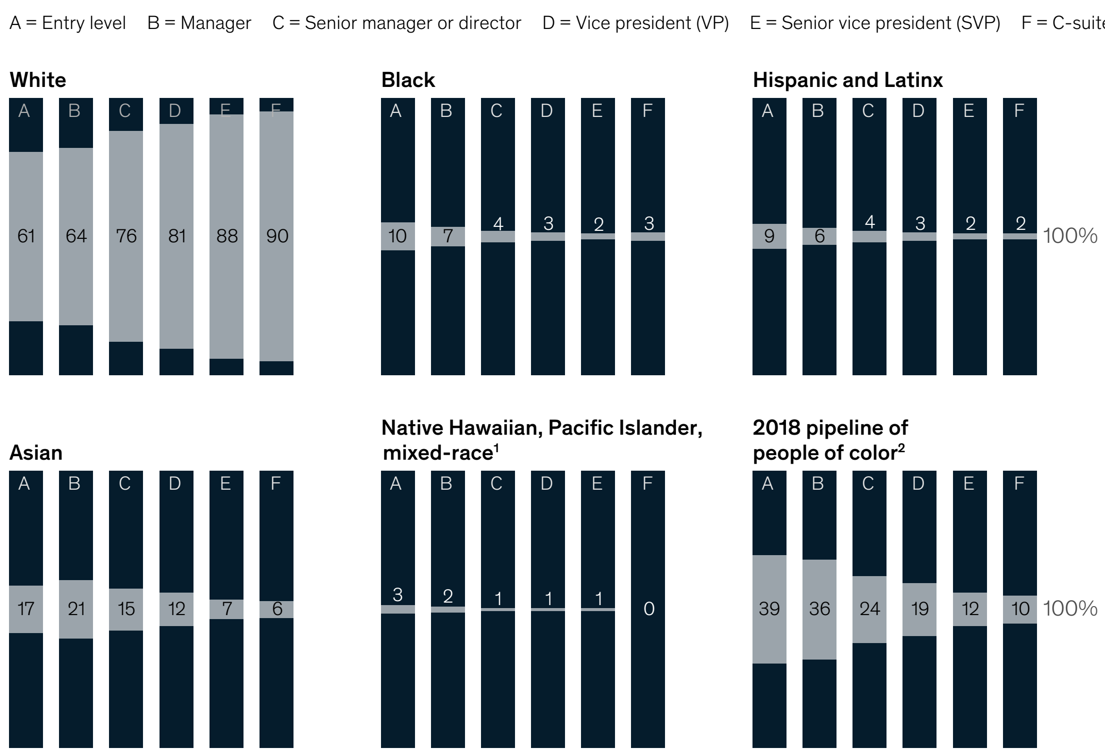
Representation

At the entry level of US financial services firms, the proportion of people of color is in line with their representation in society—around 40 percent. However, this share falls steadily along the corporate pipeline until, by the C-suite, it has dropped by 75 percent. Nine out of ten people at this level are white (Exhibit 1).

Exhibit 1

The proportion of people of color in financial services drops by 75 percent from entry-level positions to the C-suite.

Share of professionals by role category, %



	White	People of color[2]
Overall change, %	148	–74

[1]Native Hawaiians, Pacific Islanders, and mixed-race people are grouped together because of small sample sizes. This does not indicate that their experiences or backgrounds are similar.
[2]In this study, people of color include American Indian or Alaska Native, Asian, Black, Latinx, Native Hawaiian, Pacific Islander, and mixed-race people.
Source: Finance Industry Benchmark, W.K. Kellogg Foundation, n = 36 companies; *Women in the Workplace 2018*, LeanIn.org and McKinsey

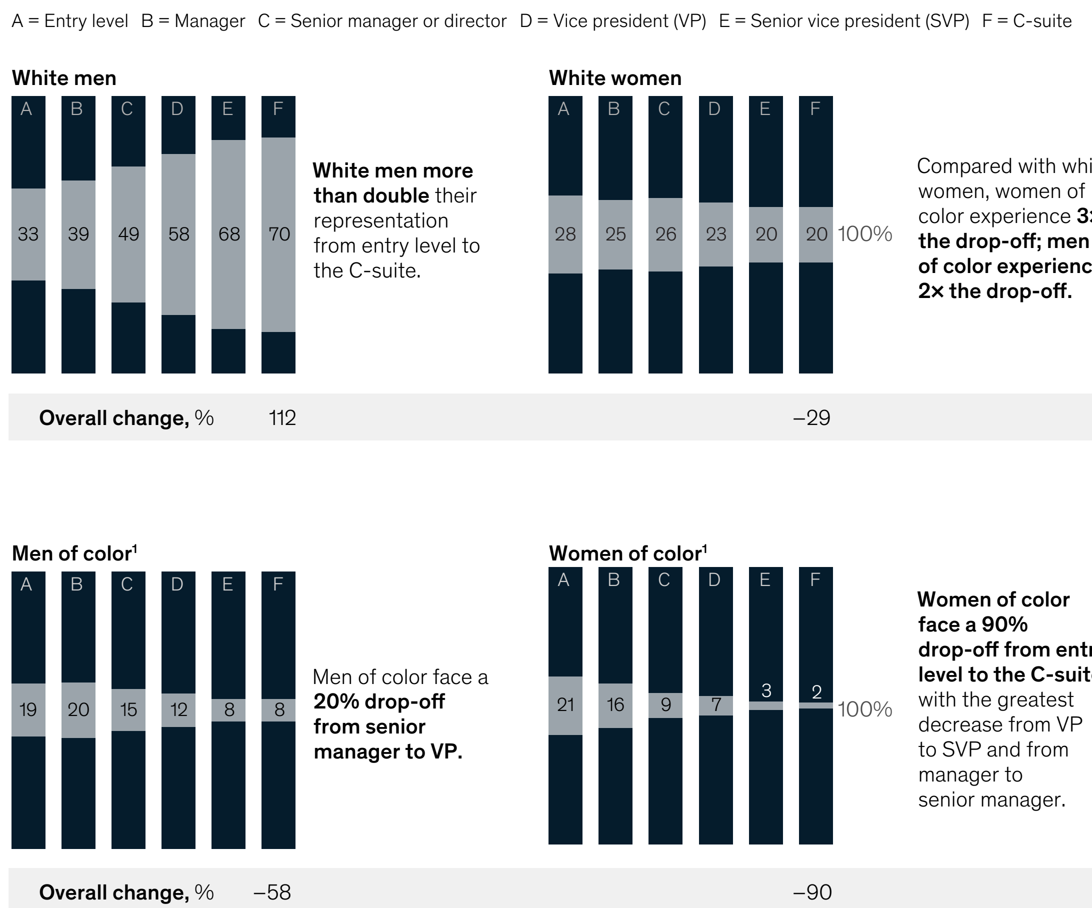
Women of color fare particularly poorly. The proportion of white men in the C-suite is 112 percent higher than at entry level, but this proportion is 30 percent lower for white women, 60 percent lower for men of color, and 90 percent lower for women of color. In particular, the intersectionality of race and gender describes the need to ensure that overall inclusion and diversity efforts not only focus on gender but also address racial equity (Exhibit 2).

Even among women of color, the story looks different for people who identify as Black, Latinx, or Asian. The proportion of Black women falls early in the corporate pipeline, dropping 26 percent from

Exhibit 2

The drop in women of color is a key driver of this decline.

Share of professionals by role category, %



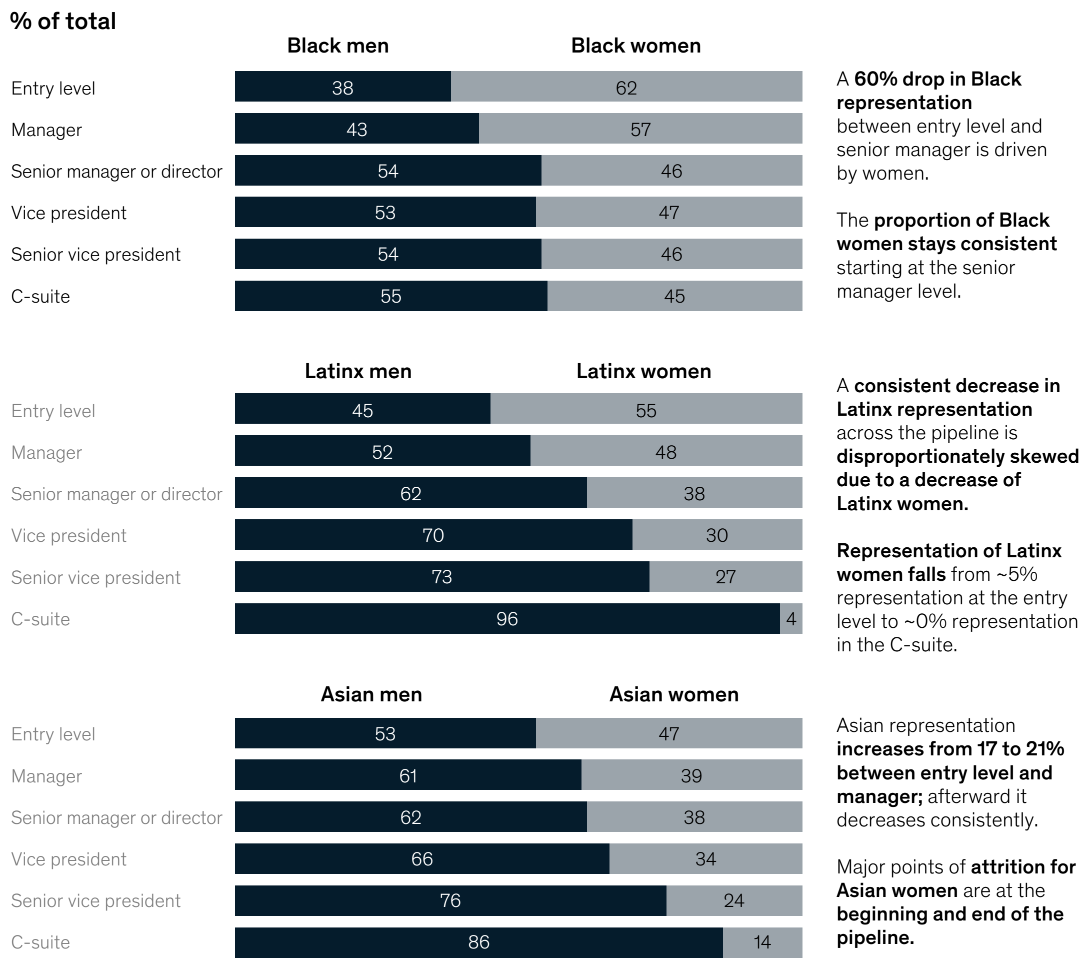
[1]In this study, people of color includes American Indian or Alaska Native, Asian, Black, Latinx, Native Hawaiian, Pacific Islander, and mixed-race people.
Source: Finance Industry Benchmark, W.K. Kellogg Foundation, n = 36 companies; *Women in the Workplace 2018*, LeanIn.org and McKinsey

entry level to senior manager. However, their representation holds steady from senior manager to the C-suite. For women who identify as Latinx or Asian, there is a relatively steady decline through the funnel from entry level to the C-suite. Latinx women are the least likely to reach the top level of an organization (Exhibit 3).

These snapshots paint a bleak picture of the state of racial equity in financial services. While it is difficult to know every driver of declining representation across the funnel, the data indicates areas where further investigation could illuminate mechanisms for making progress on the problem.

Exhibit 3

Drop-off for Latinx and Asian women at senior levels is driving the overall drop off for women of color.



Underrepresentation of women cannot be explained by attrition. Overall, men and women leave the workplace at similar rates and have similar intentions to stay.

Note: Because of small sample sizes, American Indians, Alaska Natives, Native Hawaiians, and Pacific Islanders were not included in this analysis.
Source: Finance Industry Benchmark, W.K. Kellogg Foundation, n = 36 companies; *Women in the Workplace 2018*, LeanIn.org and McKinsey

Attrition and promotion

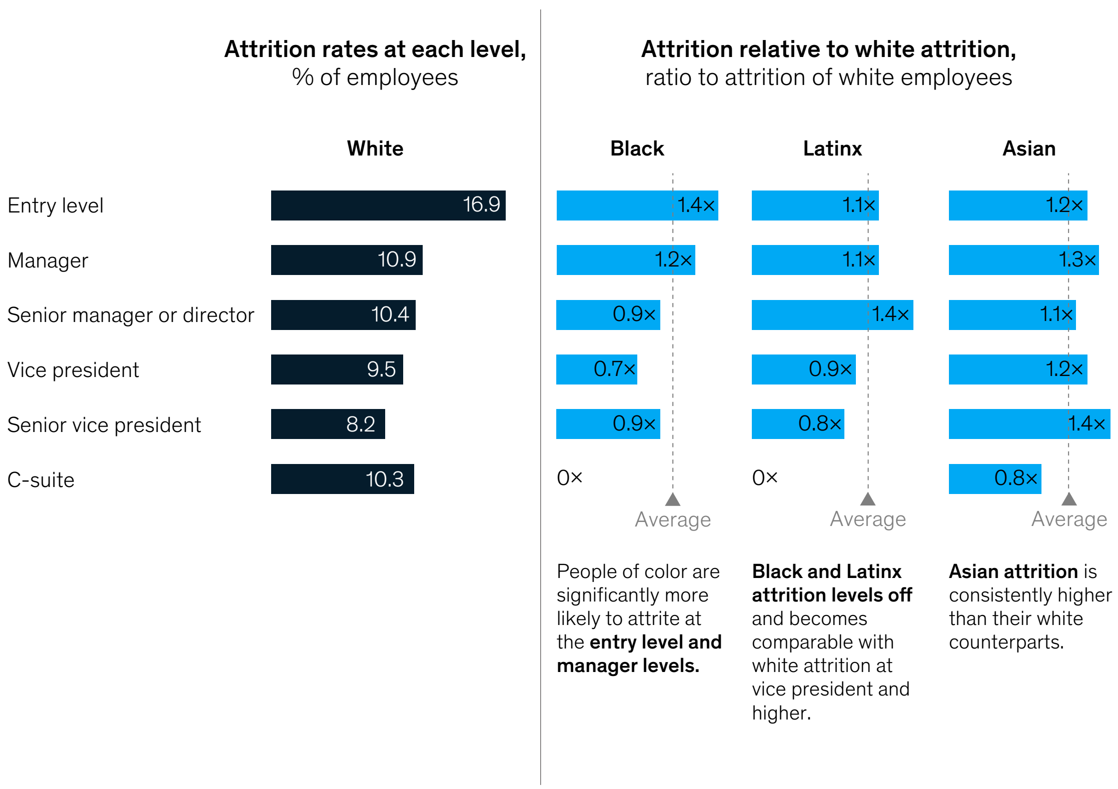
Two factors help explain the diminishing representation of people of color through the pipeline: the rate at which employees leave companies and the rate at which employees get promoted.

Overall, attrition rates are higher for people of color than for white people, with the most pronounced losses occurring early in the pipeline. For example, at entry level, a Black person is 1.4 times more likely than a white person to leave a financial services firm. This has a disproportionate impact on overall representation. A loss of 10 percent among a cohort of 2,000 people of color at entry level makes a much bigger dent in total numbers than does a 10 percent drop among a cohort of 200 senior managers. At the vice president level, attrition rates flatten out and are similar to those of white employees, except among Asian employees, where attrition remains consistently higher (Exhibit 4).

Promotion rates are higher for white employees, with Black people about half as likely to be promoted to manager, senior manager, or senior vice president. Asian people fare better in that they are more likely to

Exhibit 4

Instead, differences in attrition rates signal advancement challenges, which are most pronounced early in the pipeline.



Note: Because of small sample sizes, American Indians, Alaska Natives, Native Hawaiians, and Pacific Islanders were not included in this analysis.
Source: *Women in the Workplace 2018*, LeanIn.org and McKinsey

be promoted to manager than white people, but the likelihood of further promotion drops steeply thereafter. At entry levels, Latinx employees are only slightly less likely to be promoted than their white peers and are more likely to be promoted to senior vice president than white colleagues. However, their promotion rate drops at the C-suite level, where they are 40 percent as likely to be promoted as white employees (Exhibit 5).

Experience

To better understand the reasons why the drop-off of people of color is so stark, we examined the workplace experience. This is the first step to developing an action plan for what can be done to improve it.

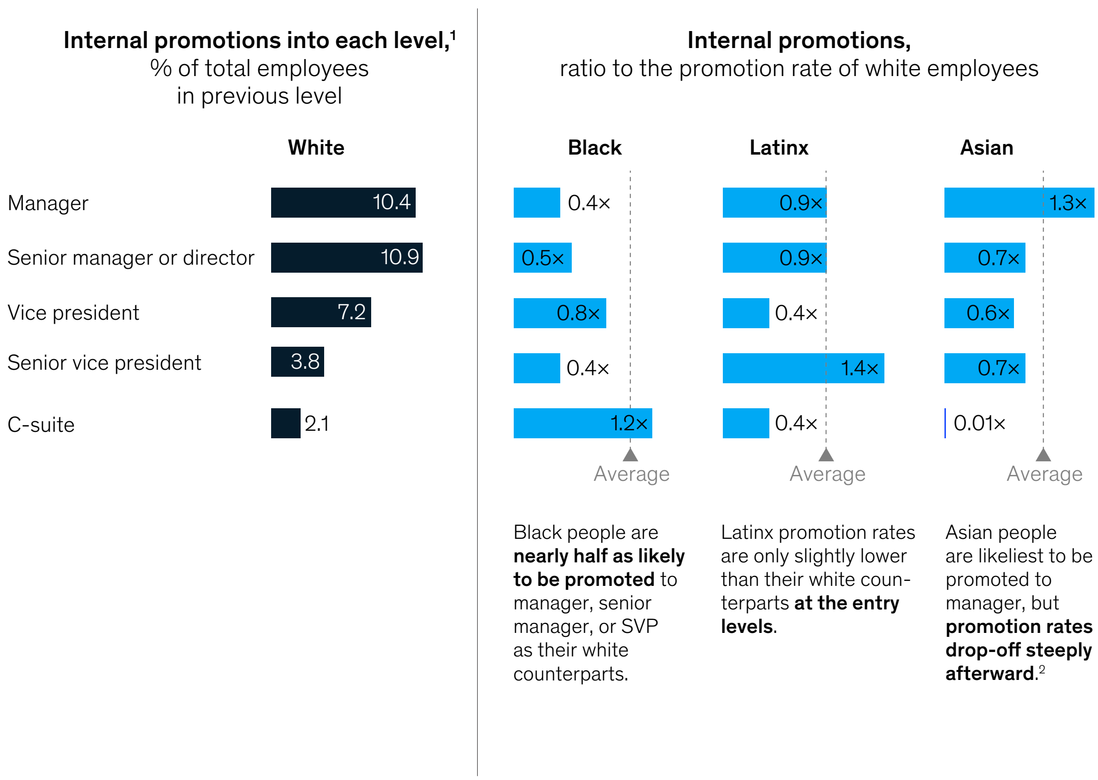
Being an 'only'

In this context, we define being an "only" as someone who often or almost always finds themselves to be the only person of their racial or ethnic group identity in the room. Onlys consistently report higher levels of perceived discrimination than those who are not.

In our research, 75 percent of Black employees above entry level are onlys, compared with 40 percent of Latinx, 31 percent of Asian, and 4 percent of white employees. Being an only affects the overall work

Exhibit 5

Promotion rates for people of color lag behind those of white people at almost every level.



Note: Because of small sample sizes, American Indians, Alaska Natives, Native Hawaiians, and Pacific Islanders were not included in this analysis.
[1]Entry level not included because employees are typically hired externally into this level.
[2]The "0.01x" in C-Suite reflects that there are Asian Americans present in the roles and limited in our data set.
Source: *Women in the Workplace 2018*, LeanIn.org and McKinsey

experience and often exacerbates feelings of career exclusion. Onlys are more likely to believe they have missed an opportunity or will in the future because of their race. In addition, people of color who are onlys are more likely to feel that they are being closely watched and that their personal actions positively or negatively reflect upon the whole of the racial or ethnic group with which they identify (Exhibit 6).

Enduring microaggressions

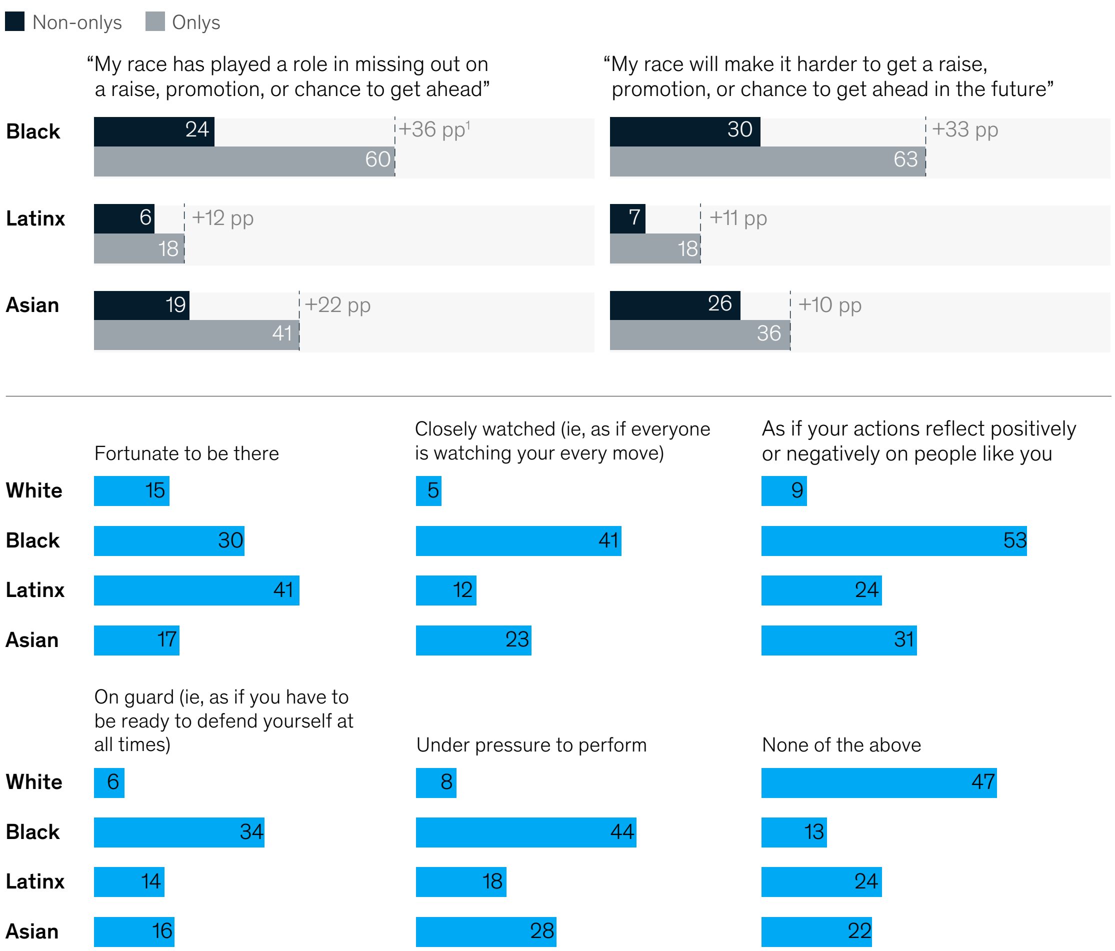
Microaggressions—which we define as small acts of racism that, whether intentional or not, signal disrespect and lack of belonging—also contribute to negative experiences in the workplace. These incidents might include having your judgment questioned unnecessarily, needing to provide more evidence of competence than others, being addressed unprofessionally, being mistaken for someone at a lower level, having contributions ignored, or hearing demeaning remarks about people who look like you. Microaggressions seem to negatively affect Black men most of all (Exhibit 7).

In addition, onlys are much more likely to experience some types of microaggressions. People who identify as Black, Latinx, and Asian onlys are more likely to report needing to provide additional

Exhibit 6

The experience of being an ‘only’ exacerbates feelings of exclusion.

Role of racial- or ethnic- group identity in career advancement for onlys and non-onlys,
% of onlys and non-onlys who report feeling . . .

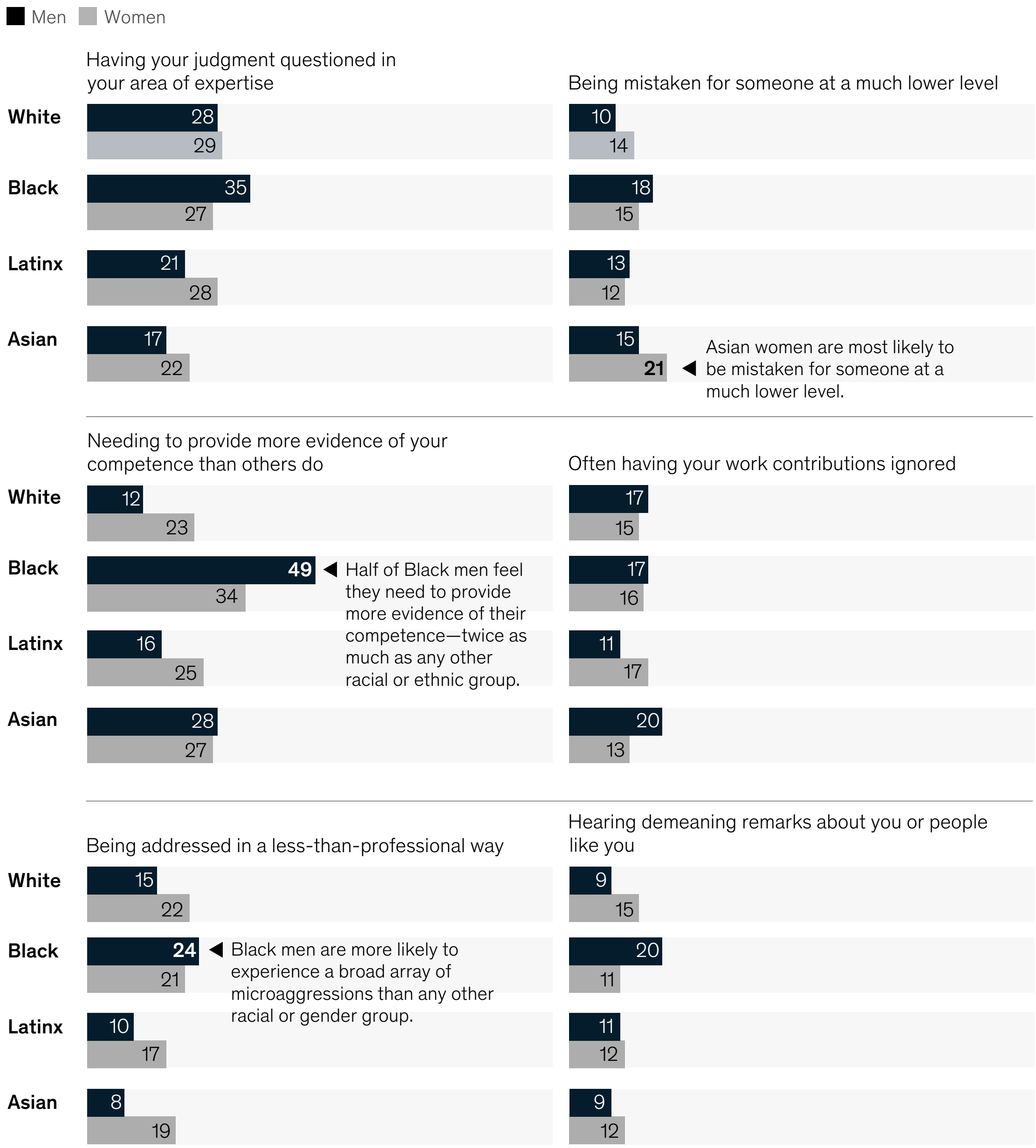


Note: Because of small sample sizes, American Indians, Alaska Natives, Native Hawaiians, and Pacific Islanders were not included in this analysis.
[1]Percentage points.

Exhibit 7

Black and Asian people are more likely to experience microaggressions than people of other racial and ethnic groups.

% of employees who have experienced a microaggression in their time at the company



Note: Because of small sample sizes, American Indians, Alaska Natives, Native Hawaiians, and Pacific Islanders were not included in this analysis.
Source: *Women in the Workplace 2018*, LeanIn.org and McKinsey

We all had the intrinsics to be successful in the role—but only two people were given [the space, sponsorship, and support] they needed to develop and grow.

evidence of competence than their similarly identified peers who are not onlys. This experience is corroborated in literature; for example, Black job applicants with degrees from elite universities experience the same resume response rate as white applicants with degrees from state colleges.[6]

Overall, the inequities in the workplace contribute to feelings of isolation and perceptions about missed opportunities based on race. Approximately 40 percent of Black employees feel their race has made it harder to get a pay increase or a promotion and will make it harder to do so in the future. Approximately 27 percent of Asian employees and 10 percent of Latinx employees feel similarly, compared with 3 percent of white employees. While in most cases verification is difficult, the perception itself can lead to negative effects. If a person believes they will not be treated fairly, they may be less likely to stay.

Call to action

Our analysis begins to highlight the areas where financial services companies that are committed to expanding equity can take action to improve the representation and experience of people of color in their workforces. All assume an explicit commitment to diversity, inclusion, or equity, as so many companies have made. The actions also require active support from the top; leadership commitment is necessary to remove barriers and authorize new actions needed to drive change. Specific practical actions depend on each company's starting point but in general fall into these areas: attract more people of color, make those people feel they belong, and ensure fair promotion.

Below, we describe actions targeting inequity in each of the three areas. Many of these may seem intuitive but are underutilized and easier said than done. Moreover, the example interventions discussed are part of a wider portfolio of actions that companies should consider and apply in a bespoke fashion given their operating and cultural context. These actions are part of a journey that also requires an often uncomfortable cross-cultural discussion on race.

Attract

In the past few years, we have seen success in entry-level attraction programs; organizations such as Management Leadership for Tomorrow, Toigo, and Sponsors for Educational Opportunities have enabled a step change in the number of people of color entering finance. Executive recruiters and hiring managers can build on this success by offering diverse slates of candidates when conducting searches for more senior positions. Their compensation could be linked to success in doing so. Companies can also encourage employees to refer people of color.

The basis of any such effort must be a transparent hiring process that standardizes the criteria for interviewing and hiring. It is critical that interviewers are trained to follow this protocol and that all candidates understand the selection criteria, so that capable individuals without personal connections are not at a disadvantage.

Foster belonging

In order for companies to retain a diverse set of employees and benefit from diverse perspectives, they must create a sense of inclusion, embracing

[6] Jake New, "Still at a disadvantage," Inside Higher Ed, March 6, 2015, insidehighered.com.

all employees and enabling them to make meaningful contributions. Belonging—the degree to which individuals feel a sense of connection and build meaningful relationships with others at work—is an important part of this.

Insights about the experience of being an only point to a set of actions organizations can take to create a work environment where people of color feel valued. Because we know that being an only results in feelings of exclusion, companies must put mechanisms in place to make this experience rare as well as create necessary supports when it is unavoidable. Such supports include employee resource groups, safe reporting mechanisms, and events promoting conversation about the only experience.

Individual leaders also play an important part in fostering belonging. In addition to diversity metrics (for example, new hires, the number of people of color advancing between management levels, rates of attrition, and comparative rates of advancement) managers can be held accountable for the experience of their teams. Employee surveys, focus groups and other instruments can provide rich insights into the experiences of different racial and ethnic groups. Leaders across all levels of an organization should be involved in translating these insights into specific actions to improve them. “Our [C-suite executive] is adamant about diversity, but those at the next level don’t make it a priority. They haven’t internalized it,” said an employee at a midsize private equity firm. This middle layer is critical to translating directives from the top all the way to the entry level.

Important too, and often overlooked, is helping people of color to develop high-quality connections with all coworkers. The financial services sector is a relationship-driven environment in which success is predicated on trust built between colleagues as well as with clients. Employees can be intentional about building authentic relationships with people who look different from them, as well as learning behaviors that make a great ally; these actions could also have other positive effects, such as improving overall satisfaction and productivity as well as reducing attrition.

Ensure fair promotion

Clear promotion criteria ensure that everyone knows what is expected of them and is judged fairly in reviews. Standard matrices that describe what great looks like at each stage of an employee’s development can help ensure fact-based promotion discussions as well as enable supervisors to give honest feedback in an objective way.

Sponsorship is an important element of any program to ensure fair promotion. Distinct from mentors, sponsors connect early- and mid-tenure professionals to critical opportunities in order to showcase their skills and potential. People tend to sponsor people who look like them,[7] so given the imbalance across race and gender at senior levels, intentional sponsorship programs can help ensure people of color are getting access to the opportunities and relationships they need to advance. “We all had the intrinsics to be successful in the role—but only two people were given [the space, sponsorship, and support] they needed to develop and grow,” said one early-tenure employee at a large bank. Sponsors can also translate feedback and help sponsees make plans to fill development gaps.

These actions and other efforts are a part of a comprehensive set of initiatives that need to be addressed with the same rigor as any other strategic priority. It is critical for senior business leaders to figure out how they can guide a company through a full transformation that achieves racial equity and ultimately leads to equitable opportunities across society for the long term.

[7] Robin J. Ely, Herminia Ibarra, and Deborah M. Kolb, “Women rising: The unseen barriers,” *Harvard Business Review*, September 2013, hbr.org.

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