# Why wealth management's diversity issues go deeper than demographics

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*Michael Nagle/Bloomberg*

Knowing if your organization is becoming more diverse by counting the number of women or people of color in the room is easy.

But understanding if a wealth management firm is fostering an environment where traditionally underrepresented talent can truly feel comfortable, supported and valued is a bit harder to pin down.

*Danika Waddell, founder of Xena Financial Planning*

*Xena Financial Planning*

"These are big things that cannot be ignored. It's our sense of who we are and whether or not we're going to be accepted," said Danika Waddell, founder and lead planner of Seattle-based Xena Financial Planning. "How do the people in power have insight and visibility into what other people are experiencing? That's a whole other thing and a subject that I think is really hard to understand. Because the last thing I want is for people of different backgrounds to feel like they have this labor of sharing with everybody what it's been like to experience racism. I don't think that's the answer … to always turn to people of color and say, 'well, just tell us what we did wrong.'"

New research from Arizent, Financial Planning's parent company, aims to pair data with the experiences Waddell describes and go deeper than demographics.

By polling 771 respondents across the wealth management, banking, accounting and insurance sectors, Arizent's second annual diversity, equity and inclusion study looks at how different groups of people experience their workplaces.

The analysis also attempts to quantify more abstract metrics like workplace toxicity and whether the letters "DEI" draw people in or push them away.

**A problem or a fad, depending on your reality**

According to the study, non-white employees are less likely than their white counterparts to report feeling valued at work. Just 60% of both women and people of color say their input is regularly requested on meaningful items compared to nearly 80% of white respondents.

Non-white women say they encounter the most unhealthy work environments and are the least likely to receive help or support from people with power in their organizations, according to the study. Women of color are twice as likely (24%) as white women (12%) to report a workplace as unhealthy or toxic. In addition, 23% of non-white women disagree with the statement that their white colleagues are using their power to uplift and support their colleagues of color.

Leadership positions also continue to elude people of color across financial services. The study finds that just 29% women and 41% men of color are in director roles or higher, and only 35% of organizations across surveyed industries have executive leadership teams that include four or more demographic groups.

Overall, DEI efforts garner a positive response from nearly half of all employees surveyed. But others worry that the issue is overblown and outweighs a "merit-based approach" to hiring and promoting. These respondents dismiss DEI as "a performative fad," and sentiment about DEI is particularly negative in wealth management, where only 33% of respondents had positive things to say about these efforts.

Thirty-five percent of wealth management respondents had only negative things to say, 24% had a mixed reaction and 8% remained neutral.

**The perception gap**

Meanwhile, employees working at organizations that are all-in on DEI are more likely to report healthy workplace experiences. Forty-two percent of employees who rated their workplace "healthy" came from a company with robust DEI commitments. These employees are also more likely to feel valued, less likely to feel isolated and more comfortable speaking up in meetings.

Among the industries surveyed, wealth management was found to be the second-least diverse. People of color make up for 17% of the workforce in wealth management compared to 15% in accounting, 19% in banking and 22% in insurance.

*Sapna Shah, managing director at Angeles*

*Angeles*

For Sapna Shah, managing director at Angeles Investments in California, not all of the numbers are encouraging, and they certainly aren't surprising. As someone who says she has benefitted from DEI initiatives early in her career via internships and educational opportunities, she is disappointed that there hasn't been more progress.

"I don't think some of the efforts are resulting in the outcomes that people want because this is more than just a DEI issue. It's a culture issue. And these organizations and cultures take a long time to shift," Shah said, noting the significant difference between how underrepresented groups feel things are going compared to the feelings of white, male employees.

"That perception gap, I think, is the root issue in terms of why there hasn't been more progress," said Shah, who chairs Angeles' DEI committee. "How do we even start to change that in organizations or in boardrooms?"

**Tracking toxicity**

To better understand the difference in workplace health across demographics, the Arizent research developed a "Workplace Toxicity" metric that quantitatively examines the degree to which an employee experiences the workplace as toxic. The study points out that because human experiences are individual, two employees in the same workplace environment could have very different Workplace Toxicity scores.

The metric is influenced by research from Mental Health America and comprises 20 statements about workplace experiences. The statements include things like "my work environment makes it difficult to concentrate or focus on a task," "when friends or family ask about my job, I tend to respond quite negatively" and "I find myself thinking about or looking for another job."

Respondents are asked to rate how frequently each workplace experience happens to them on a one-to-five scale, and a total score is calculated across all 20 statements. The higher the score, the more toxic a work environment has become.

Among all respondents, 35% reported working in healthy workplace environments, 52% in borderline healthy and unhealthy workplaces, 12% in unhealthy workplaces and 1% in very unhealthy, toxic workplaces. Employees in the accounting space (49%) are most likely to experience their workplace as healthy, followed by those in wealth management at 42%.

The survey finds that women of color report the highest levels of workplace toxicity because they are "the least likely to report having a reliable, supportive manager; are least likely to interpret fair pay within their organization; are least likely to to feel comfortable forming close, trusting relationships with colleagues; are most likely to fear for their job security; and the most likely to report feeling micromanaged at work."

**It's extremely real**
The toxicity experienced by women of color is a topic that hits close to home for Kamila Elliott, the history-making first Black chair of the CFP Board and founder of the Atlanta-based Collective Wealth Partners.

*CFP Board Chair Kamila Elliott*

*CFP Board*

Often, she said, toxic interactions can be dismissed as anecdotal and pushed to the side.

But for countless women of color, the experience is very real. Elliott shared a story about a Black woman she spoke to recently who is in the process of being transitioned out of her wealth management firm.

"They're offering her a severance package for her to go away, and she's wondering if she should take this package. Well, what does it do for her own mental health if she is trying to do right, remain in the organization and have representation within her firm? It's extremely real. I am having these conversations," Elliott said. "I would love to be able to say one day that 90-plus percent of people of color who join this profession say they're highly satisfied. Unfortunately, we're not there yet."

Elliott and Kate Healy, the managing director for the CFP Board Center for Financial Planning, said the organization has been working to keep the diversity conversation front and center to hit that 90-plus percent mark.

The organization began the year by celebrating the most diverse class of CFPs to earn the certification and pledging to release monthly demographic figures. The next month, the Center for Financial Planning, an initiative of CFP Board focused on creating a more diverse and sustainable profession, published a thought leadership report titled "Metrics That Matter" to serve as a collection of best practices for organizations looking to improve.

And on Thursday, Oct. 27, CFP Board will kick off the 5th annual Diversity Summit, an in-person event focused on actionable solutions to advance diversity in financial planning. This year's summit theme is "IMPACT – Advancing DEI in the Financial Planning Profession."

Healy said one topic that will be thoroughly explored during the summit is the need for firm leaders to get on the same page as their teams.


*Kate Healy, managing director for the Center for Financial Planning*

*CFP Board*

"There are leaders, not good leaders, but leaders that don't even realize that they don't have diversity on their teams. And to me that's the opportunity for senior leadership to be counseling and coaching and managing those people to say, 'why aren't there people that are more diverse on your teams?'" Healy said. "What often happens is we bring diversity in at the bottom, and we talk about diversity at the top, but no one's actually on the middle managers who are the people that are actually hiring the workforce, who may have the bias (but) may also just not have the time. I'm not excusing them, but there is not enough inclusive leadership."

Elliott also has a message for holdouts who believe DEI is just a passing fad and that the old ways of doing business will eventually win out.

"You know, there are people who still hold onto their Member's Only jackets thinking it's about to come back," she said. "They're not realizing that where we were 50 years ago is not where we are today. And unfortunately, there will always be that contingent, right? Sometimes people just don't get on the bus. And that's OK. But for us, it's focusing on that other percentage that realize there's opportunity and understand that diversity is a business imperative."

**DEI's reputation problem**
Toxicity aside, most respondents feel strongly about the value that different experiences can bring to the workplace. Ninety-five percent of all respondents agree they have something to learn from people who are different from themselves.

But the Arizent research found a great deal of nuance and contradiction within employee sentiment when it comes to focused DEI efforts. While nearly all respondents reported feeling that they can benefit from working with people unlike themselves, just 66% of all employees believe that companies make better decisions with a diverse employee base.

Those responses vary significantly between white men (61%) and non-white men (68%) when compared to white women (78%) and non-white women (85%).

Employees who have positive feelings about DEI efforts see "diversity" and "diversity of thought" as going hand in hand. But employees who do not think companies' decision-making abilities are boosted by diversity expressed concern that "diversity" in general has become a priority over creating "diversity of thought."

For the 35% of wealth management representatives who responded negatively to DEI efforts, reasons ranged from feeling that the topic is overblown (16%) to concerns that inclusion priorities are eclipsing a merit-based approach to work (10%) to the idea that diversity efforts are "woke" or "ridiculous" (8%).

"I think that sometimes [DEI] becomes overemphasized above merit and actual productivity. Additionally, it is rarely about tolerance and more about being a full supporter of someone else's views or values — especially to the exclusion of more conservative viewpoints on some cultural issues," one survey respondent said.

The study finds that white male employees are the least likely to say that it's highly important their company addresses DEI, but the most likely to report that their organization has a genuine commitment to DEI. In contrast, just 73% of non-white men and 60% of non-white women agree.

"It's all lip service, at the end of the day. Just a few more firms that are slightly more interested in appearing more inclusive, all while not making material, sustained changes to their hiring and retention practices," one survey respondent said.

"Attention to DEI is not as well recognized on lower levels as much as the higher-ups think it is," said another.

On the business side, the question of the return on investment with such programs remains. According to 2019 research by McKinsey, companies with women in more than 30% of executive roles are likely to outperform companies with lower gender diversity. In 2019, the consulting firm found that the top quarter of companies in terms of ethnic and cultural diversity outperformed the bottom quarter in profitability by a significant 36%.

**Real talk and slow progress**
How one discusses diversity in the workplace can be a determining factor in whether or not the best-laid DEI plans ever come to fruition. For example, employees agree that their companies are transparent and communicative when it comes to policy, but find them less transparent when it comes to how those policies can push organizations toward real change.

Ultimately, the study finds that companies are talking the talk, but not necessarily walking the walk.

Doing both consistently is always on the mind of Liz Fritz, the co-founder and chief commercial officer of the California-based wealthtech management consulting company F2 Strategy. As a female founder, Fritz says she feels a responsibility to her organization and her industry to be a leader and disruptor in the space.

*Liz Fritz, co-founder and chief commercial officer of F2 Strategy*

*F2 Strategy*

She adds that some of her passion for uplifting the underrepresented is tied to her history as the attendee of an all-girl middle and high school where she is an active member of the executive alumni committee.

"I always say, if you're successful, find another woman or person of color or somebody that may not have those opportunities, grab one with each hand to bring them along with you," Fritz said.

She adds that awareness is growing, and many in the industry no longer have a problem "talking the talk."

"It's the walk part that is really hard. And I've found that a lot of white males … because of the systematic, old-school structure that our industry is built upon, they don't even know that something is wrong," she said. "Even as a white female, I sometimes don't even know something is wrong because at the fundamental core of how our industry is built and geared toward the white, male experience."

The other difficult part of pairing the talk with the walk, Fritz explains, is the realization that walking has to precede running. Pouring time into DEI could lead to a temporary slowdown of business, something her organization experienced firsthand as F2 Strategy made equity a priority.

"We actually had to go back and really build infrastructure … and that's scary. And that can slow growth," she said. "I like to think everybody has good intentions, but maybe not everybody has the ability to put it into action because some of them may not be willing to slow down revenue or, you know, kind of slow down business growth.

"But you have to open yourself up to ways that you've never worked before."

**Learning from each other**

To improve, 76% of companies across all industries in Arizent's study say they are taking steps to better address inclusion at their firms, from providing diversity training and education to examining pay gaps and adjusting recruiting policies. In wealth management, that number drops to 69%.

Engaged employees can be a difference maker, and the Arizent research shows that organizations that are prioritizing DEI are increasingly relying on employee resource groups, or ERGs, to make it happen.

According to Sequoia's 2021 Employee Experience Benchmarking Report, 40% of all companies had employee resource groups as of last year, a 9% increase over 2020.

In recent years, ERGs have also taken on a larger role in the workplace, providing a way for employees to share feedback and concerns with leadership teams.

Paul Lally, a Pennsylvania-based principal at consulting and accounting firm Wipfli, says his firm's DEI committee is an invaluable asset.

*Paul T. Lally, head of Wipfli's wealth and asset management industry team*

*Wipfli*

As a white male with more than 30 years of industry experience, Lally, who leads Wipfli's multidisciplinary team offering services to the wealth and asset management industry, is part of the most overrepresented demographic in financial services.

Still, Lally wants nothing more than to see the business evolve into something better for everyone, and he knows that he needs to put in just as much work as the underrepresented for that to happen.

If he doesn't, he fears that he will be failing his two daughters who deserve to enter a professional environment that values them as much as their male counterparts.

"It's been a struggle for larger organizations. Financial services has, for many decades, been a predominantly male-driven industry," Lally said. "And we're like every other professional service company right now. Our ability to find and retain staff in general has been difficult. So it's a balancing act between DEI; finding, retaining and motivating qualified staff; and then making sure that qualified staff progresses."

Lally said the key for Wipfli has been understanding the difference between DEI being just a policy and being a part of everyday business. If the effort is "othered" in any way, its message stands the risk of being lost completely.

"When strategy meets culture, culture trumps strategy all the time," Lally said. "It's not just having the strategy for DEI. It's embedding it in our culture."
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