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GOOD FOR THE BOTTOM LINE: A REVIEW OF THE BUSINESS CASE FOR DIVERSITY AND INCLUSION

HEARING

BEFORE THE

SUBCOMMITTEE ON DIVERSITY AND INCLUSION

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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GOOD FOR THE BOTTOM LINE: A REVIEW OF THE BUSINESS CASE FOR DIVERSITY AND INCLUSION

Wednesday, May 1, 2019

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DIVERSITY AND INCLUSION,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:07 p.m., in room 2128, Rayburn House Office Building, Hon. Joyce Beatty [chairwoman of the subcommittee] presiding.

Members present: Representatives Beatty, Green, Gottheimer, Gonzalez of Texas, Lawson, Pressley, Dean, Garcia of Texas, Phillips; Wagner, Lucas, Mooney, Kustoff, Hollingsworth, Gonzalez of Ohio, Steil, and Gooden.

Ex officio present: Representatives Waters and McHenry.

Chairwoman BEATTY. The Subcommittee on Diversity and Inclusion will come to order. I note a quorum is present.

Without objection, the Chair is authorized to declare a recess of the subcommittee at any time.

Also, without objection, members of the full Financial Services Committee who are not members of this subcommittee are authorized to participate in today's hearing.

Today's hearing is entitled, "Good for the Bottom Line: A Review of the Business Case for Diversity and Inclusion." I now recognize myself for 4 minutes to give an opening statement.

Thank you, everyone, for joining me today for this trailblazing hearing of the Subcommittee on Diversity and Inclusion.

This hearing speaks to the foundation of why this subcommittee exists because diversity and inclusion is a business imperative. Those who embrace it will be more likely to prosper, and those who ignore it will be more likely to fail.

According to a study conducted by McKinsey & Company entitled, "Delivering Through Diversity," researchers have found that companies in the top 25 percent for gender and ethnic diversity on executive teams were 21 percent and 33 percent more likely to outperform on profitability, while companies in the bottom 25 percent for both gender and ethnic diversity are 29 percent less likely to achieve above average profitability.

Today's hearing seeks to set the stage and highlight the positive, tangible ways diversity leads to greater financial performance. This topic does not stop at the jurisdiction of this committee either.

This narrative applies equally across corporate America. According to a Harvard Business Review article entitled, "How Diversity Can Drive Innovation," employees at diverse companies are 45 percent more likely to report that their firm's market share grew over the previous year, and 70 percent more likely to report that the firm captured the new market.

It is also important to remember that diversity and inclusion goes far beyond race and gender. There are many studies that I could quote, but studies by Intel show that improving ethnic and gender diversity in the United States technology workforce represents a massive economic opportunity that could create between $470 billion to $570 billion in new value for the tech industry.

There are also studies, I am pleased to say, through the National Minority Supplier Development Council that reinforce this. This is not new to us. For many decades we have been working on diversity, so I am proud to have today's hearing establish new policy setting for diversity and inclusion established by the Democratic Majority under the leadership of Full Committee Chairwoman Maxine Waters.

I look forward to hearing from the expert witnesses today on how to tackle the business case and to further take action in transforming the culture of the financial services industry and beyond.

I reserve the balance of my time for the Chair of the full Financial Services Committee, Chairwoman Maxine Waters.

The Chair now recognizes the ranking member of the subcommittee, Mrs. Wagner, for 4 minutes for an opening statement.

Mrs. WAGNER. Thank you, Madam Chairwoman, for hosting our hearing today entitled, "Good for the Bottom Line: A Review of the Business Case for Diversity and Inclusion." As the chairwoman has made reference to, and many in this audience know, McKinsey & Company published a study in 2015 identifying a direct correlation between corporate diversity and profitability of a company.

Diversity can also help drive productivity, innovation, and good decision-making. When we talk about how diversity is good for business, I appreciate that it can encompass several different facets.

It can mean, as Mr. Guzzo writes in his testimony, that a company's profits are growing or that a company is attracting a talented diverse workforce or that it is attracting more investment. Mr. Von Hoene describes diversity as indispensable to Exelon's success and growth. And Mercer has taken tremendous strides in this field as well.

Identifying how financial services companies can continue to invest in diversity and inclusion is a primary purpose of this hearing, and I am thankful to everyone who is lending their best practices and expertise.

I look forward to discussing the business case for diversity, but let me be clear: Promoting diversity and inclusion is not just good for business; it is also simply the right thing to do.

It is right for businesses to reflect the diverse make-up of our country, and we need to focus on working to change business culture and environments from within. It is nearly impossible to legislate away cultural barriers or attitudes. A change in how a com-

pany treats and embraces women and minorities must come from active engagement and leadership.

That is why I am so pleased to welcome our witnesses today, leaders from business and academia who are leading the way and helping us do better in this space.

Mr. Guzzo, thanks for being here. I had the pleasure of meeting your Mercer colleague, Pam Jeffords, in March, when she participated in a very thoughtful, productive roundtable discussion on diversity and inclusion. I understand that she was not able to testify here today, but I want to thank you for being here. I look forward to your testimony.

I have read through a copy of the report you included with your testimony entitled, "When Women Thrive, Businesses Thrives," and I am excited about the conversation that Mercer is leading to offer thoughtful solutions to addressing female participation in the workforce and senior management. I hope we will hear more today about how to bring about cultural and programmatic changes that help women thrive.

I look forward to diving into practical strategies that help financial services companies take the next steps in ensuring that women can rise through the professional ranks, even as many are simultaneously raising the next generation.

Thank you all for sharing your time with us, and thank you to my dear friend and colleague, Chairwoman Beatty, for your leadership.

I yield back, and reserve one minute for the ranking member of the Full Committee, Mr. McHenry.

Mr. MCHENRY. I thank the ranking member for yielding. Thank you, Ms. Wagner, for your leadership.

And thank you, Chairwoman Beatty, for your leadership.

At our last hearing, I highlighted a Harvard Business School study on the distinction between diversity and inclusion, with inclusion being the driving force behind success in diverse companies.

I will take it one step further to say that the market actually rewards diversity in recruiting, hiring, and retaining that diverse talent.

So how we reward diversity, how we drive inclusion, should be the conversation we have today. I appreciate this great panel for assembling today. It was our intention for this to be a statement that we are bipartisan by having a bipartisan panel.

Nonetheless, we have the same members of the panel that we had negotiated for a bipartisan hearing. We just have four Democrat witnesses and one Republican witness, even though we had offered to make this a fully bipartisan panel, because I think all of you have a great story to tell and we have a lot to learn from you. So, thank you for being here.

And with that, I yield back.

Chairwoman BEATTY. Thank you.

Today, we welcome the testimony of a very diverse panel of five witnesses, and as has just been said by the ranking member, we are very honored that the Majority has four witnesses and the Minority also has a witness.

First, we welcome the testimony of Victoria Budson, co-founder and executive director of the Women and Public Policy Program at

the Harvard Kennedy School of Government. She also served as chairperson of the Massachusetts Committee on the Status of Women from 2011 to 2016.

Second, we welcome the testimony of Adrienne Trimble, president of the National Minority Supplier Development Council (NMSDC). She is a known leader in advancing corporate diversity, equity, and inclusion initiatives. Prior to her role with NMSDC, she was general manager of diversity and inclusion at Toyota Motor North America.

Third, we are proud to welcome the testimony of William Von Hoene. He is the chief strategy officer and senior executive vice president of Exelon. A former partner at the law firm of Jenner & Block, in 2016 Mr. Von Hoene was appointed as co-Chair of the Obama Foundation Inclusion Council, which assists the foundation in establishing a framework for diversity and inclusion in all aspects of its operation.

Fourth, we welcome the testimony of Rory Verrett, founder and managing partner of Protege Search. Mr. Verrett is a former leader in the diversity and public affairs practices of two global executive search firms, and the first ever head of Talent Management at the National Football League.

He is the host of Protege podcasts, an award-winning series of podcasts on career success, and has 20 years of experience in recruiting, developing, and mentoring high-performing executives from diverse backgrounds.

Finally, we welcome the testimony of Rick Guzzo, partner and cofounder of the Workforce Sciences Institute at Mercer. He has written dozens of professional papers and was one of the primary authors of "Bridging the Diversity Gap," the report on the Chicago financial services sector initiatives to bring more African-American and Latino talent into the industry.

He has earned a Bachelor's degree from the Ohio State University, I put emphasis on that, and a Ph.D. from Yale University in administrative sciences.

The witnesses are reminded that their oral testimony will be limited to 5 minutes. And without objection, your written statements will be made a part of the record. The witnesses are reminded to turn on their microphones and abide by the three lights in front of you: green means go; yellow means wrap it up; and red means stop.

Ms. Budson, you are now recognized for 5 minutes to give an oral presentation of your testimony.

STATEMENT OF VICTORIA BUDSON, CO-FOUNDER AND EXECUTIVE DIRECTOR, WOMEN AND PUBLIC POLICY PROGRAM, KENNEDY SCHOOL, HARVARD UNIVERISTY

Ms. BUDSON. Thank you very much. Chairwoman Beatty, Ranking Member McHenry, and members of the subcommittee, thank you for the opportunity to testify today about the importance of diversity inclusion within this industry.

For America to be most competitive in the global marketplace, we need to draw on our full talent pool, not 50 percent of it. Every major city in the United States is predicted to be majority-minority by 2040.

American women today are more highly educated than their male counterparts. They receive more high school, Associate's, Bachelor's and post-graduate degrees.

When we look across the financial services industry, we see that the industry has yet to fully leverage this talent. In the industry, we also find that although there may be many women in entry-level positions, the ability to then retain and promote these women has not been maximized.

Although 40 percent of the top 10 business schools will be graduating female MBAs at the rate of the top 10 schools, only 34 percent of financial advisors and 40 percent of financial analysts are women. And as it moves up the ranks to the top of the hierarchy, only about 20 percent of leadership positions are held by women.

When we look particularly at intersectionality and women of color, the numbers are much lower, and women of color are nearly completely absent from the C-suite.

There are, however, very specific ways that gender diversity and other forms of diversity can benefit the financial services industry. Numerous research studies show us that diversity in teams leads to better performance.

Heterogenous teams solve complex problems and catch errors better than homogenous ones. Even top-thinking homogenous teams are out-performed by heterogenous ones.

This is because cognitive diversity enables us to do some very specific things. When we bring divergent views and different life experiences and cognitive viewpoints into teams, people are more likely to view information carefully, to remain objective, to consider more viewpoints, and also to reexamine the facts.

As a result, gender and racial diversity on teams is correlated with the creation of novel solutions, greater innovation, and higher collective intelligence. And in the financial services context specifically, diverse teams have been shown to price stocks more accurately. They are less likely to make a false bubble.

Benefits to the overall economy show us that when women have a greater labor force attachment, the economy grows. Now, it would be better if we saw women's numbers rising. As of 2000, we had 77 percent of prime age women, meaning 24 to 55, in the workforce.

But by 2017 Bureau of Labor Statistics, what we find is a drop. This is compared compared to the 89 percent of men who are currently in the labor force.

When we have more women in the labor force and their participation is rising, what we find is overall market productivity rises. And this stimulus does several important things. Perhaps the most important of which, for many of our listeners today, is that wage growth continues for women and men.

In summary, the research illuminates that more women in the financial services industry is important for the efficiency and competitiveness of the U.S. economy, as well as for financial services companies themselves.

Gender inclusion needs to become business as usual, not only in this particular industry but across society as a whole. Newer research highlights that companies that have more diversity do better when the societal context values diversity overall. They get

greater leverage out of this work of having ensured that they have a diverse and inclusive workforce.

We need women in the financial services industry in general, and we need them as well at the top of the hierarchy. We need to create a broader environment that supports women and men's maximal success, not to mention that utilizing the full talent pool is simply the right thing to do for all of us and for America.

Thank you again for inviting me today. I look forward to responding to your questions and to providing information about specific strategies and tools that can be used within the workforce to create greater diversity and inclusion. Thank you.

[The prepared statement of Ms. Budson can be found on page 32 of the appendix.]

Chairwoman BEATTY. Thank you.

Ms. Trimble, you are now recognized for 5 minutes to give an oral presentation of your written testimony.

STATEMENT OF ADRIENNE TRIMBLE, PRESIDENT, NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL

Ms. TRIMBLE. Thank you very much. Diversity and inclusion are my life's work, but I don't say that because diversity and inclusion is a nice sentiment. It is not a social program. It is not a handout. I can tell you that diversity and inclusion make good business the best business. It is nothing less than the American future.

In American business, diversity and inclusion already have concrete, specific, and strategic meaning. It is a mistake to assume, as some will, that diversity and inclusion are today's form of affirmative action with supporting quotas. Not at all.

Diversity and inclusion strategies make good business more profitable, more efficient, and more of a factor in every aspect of American life. They have a clear, measurable impact to a corporation's bottom line.

I am here today because I believe that the National Minority Supplier Development Council, or what we refer to as NMSDC, is the go-to for diversity and inclusion in American business.

We are a non-profit organization sustained by our membership with a national network of 23 regional affiliate councils, over 1,400 corporate members, and over 12,000 certified minority businesses. Some of those businesses, over 2,300, are women-owned.

We are uniquely positioned to partner with this committee as we drive economic growth in communities. We do this through business ownership, through employment, and through setting a foundation for sustainable wealth creation.

I would like to take this opportunity to thank all of you, Congresswoman Waters and Congresswoman Beatty in particular, for bringing emphasis to this initiative and making it a top priority for American corporations.

It is a fact that racial and ethnic demographics are on the move in our country. It has been that stated by 2045, our population will be majority-minority. As we approach that fundamental shift, it becomes more important than ever that all Americans have a stake in the economy that will support them, every race and ethnicity, as well as full gender parity.

Diversity and inclusion strategies also transform the approach to the consumer. They offer the best ways to develop products to meet the market demand, as well as the best way to create disposable and discretionary income in communities, particularly those that have been underserved and underrepresented.

Last year, Forbes magazine cited a recent study by the Boston Consulting Group that found that increased diversity of leadership teams in business resulted in 19 percent higher revenue due to innovation, a huge factor in tech start-up companies and industries of the future.

I built my career in diversity and inclusion by working for a global leader in the automotive industry. The strategy we developed and implemented lined up with the company's business objectives.

That was how we won senior leadership buy-in and support. It covered everything from talent acquisition to marketing to the changing consumer demographics, to building a diverse supplier base.

Senior leaders embraced the idea that in order to achieve maximum business results their consumers had to be reflected throughout the company. The best D&I strategies take a holistic view of the business.

The bottom line is that CEOs have to drive this initiative within their corporations. Sometimes it is just asking the simple question, how diverse is your team, and how are all of our consumers reflected in product and/or service strategies?

Diverse supply chains are better equipped to address consumer preferences in a direct way. Diverse companies tend to hire diverse workers at a much higher rate. That decreases unemployment in underserved communities, typically with those communities being populations of people of color.

In fact, in 2018, our certified minority businesses sustained over 525,000 jobs and generated over $31 billion in wages earned; 70 percent of those workers were classified as minority. NSMDC serves to ensure that those who claim to be minority firms are indeed minority-owned, operated, and controlled. Our certification is the gold standard for corporate America.

After we certify our minority firms, we develop their skills for building growth and capacity. Diversity and inclusion drives everything that we do at NMSDC. For that reason, I would like to close by reminding everyone how urgently important it is to address some of the challenges that impact our MBEs, such as access to capital.

The challenge in seeking access to capital for our minority firms is obvious. Our certified minority businesses generated over $214 billion in tax revenues yet still struggle to get the needed capital to sustain and grow their businesses.

That is why NMSDC has established its own initiatives, and that is the call to action and an advocacy issue and one that I look forward to working with and partnering with this Diversity and Inclusion Subcommittee.

Thank you for allowing me to be here today.

[The prepared statement of Ms. Trimble can be found on page 70 of the appendix.]

Chairwoman BEATTY. Thank you very much.

Mr. Von Hoene, you are now recognized for 5 minutes to give an oral presentation of your testimony.

STATEMENT OF WILLIAM A. VON HOENE, JR., SENIOR EXECUTIVE VICE PRESIDENT AND CHIEF STRATEGY OFFICER, EXELON CORPORATION

Mr. VON HOENE. Good afternoon, Chairwoman Beatty, Ranking Member Wagner, and members of the subcommittee. Thank you for the opportunity to speak today about the critical role of diversity and inclusion in achieving financial success in business. Thank you for your commitment to this issue.

I am pleased to share Exelon's experience, which is this: Our success would be impossible but for our comprehensive commitment to diversity and inclusion within our company, with many other companies that provide essential services to us, and with the communities we serve.

Exelon operates six electric and gas utilities centered around major metropolitan areas, including Pepco, which provides electricity here in the District. We also are the largest operator of nuclear plants and the biggest producer of clean energy in the country.

All in, we have over 12 million customers, including two-thirds of the Fortune 100 corporations, and we operate in 48 States. Our business is extraordinarily complex, rapidly changing, and frequently volatile. Nonetheless, as my written testimony reflects, in the last 6 years Exelon has enjoyed significant success.

Illustratively, our total shareholder value during that period has increased 120 percent. Among other things, this has enabled us to contribute over $50 million annually to organizations providing critical services to the communities in which we work.

Our commitment to diversity and inclusion has been invaluable in achieving these results. To meet the challenges we face, we need superb engineering, operational dexterity, regulatory and financial sophistication, political acumen, close connections to our customers, and myriad other skills.

We have that array of skills only when our people possess a wide variety of perspectives, backgrounds, ideas, and connections to the diverse world in which we operate.

Our commitment to diversity and inclusion has included, in addition to many other initiatives, the following: one, tracking our diversity internally against specific metrics, just as we do for safety, operational financial performance, and holding our officers accountable.

The result? Where the utility industry is heavily white male, our workforce is 41 percent diverse.

Two, recognizing the importance of diversity in senior leadership. Our 6 regulated utilities now produce well over 50 percent of our net income and that percentage is increasing. The CEO for five of those six utilities is either Hispanic or African American and all the utility CEOs report to the CEO for Exelon Utilities, the holding company, who is a woman.

The result? Our utilities are in the top quartile or decile of virtually every metric by which utility performance is measured.

Three, pursuing diversity and inclusion with our suppliers of goods and services. Our overall spend with diverse suppliers totaled $2.2 billion last year, a 100 percent increase over 5 years ago. This is more than 25 percent of our overall supply-managed spend.

The result? A supply chain unsurpassed in our industry for efficiency, cost savings, and delivering value to our customers.

Four, and perhaps of most relevance to this subcommittee, zealous pursuit of diversity and inclusion with professional service providers including banks and money managers.

Many banks do business with us. We track the percentage of Exelon work done by professionals at each bank, rank the banks against each other, disclose to them their rankings, and weigh those results in deciding where to place our business.

The result? Sixty-four percent of the outside bankers providing coverage services to Exelon companies are diverse.

With respect to money managers, in 2010 we revamped a modest minority money manager program that relied almost exclusively on fund of funds arrangements by converting to a direct mandate approach. We then aggressively sought out relationships with minority- and female-owned money management firms.

Today, 24 of those firms manage over $3 billion in Exelon pension, decommissioning, and employee savings funds. The result? In 3 of the last 5 years, a minority-owned firm has had the highest returns of any Exelon U.S. public money manager.

It is, of course, impossible to measure with precision the financial impact of our diversity and inclusion efforts, but our financial success over the last 6 years unmistakably coincides with those efforts.

A friend of mine captured the business case for diversity in a single question: Is a person smarter if she or he reads the same newspaper 4 times rather than reading 4 different newspapers? The obvious answer to that question is, of course not.

And the compelling business case for diversity is just as obvious. Exelon is a vivid example of precisely that principle. Thank you. I look forward to your questions.

[The prepared statement of Mr. Von Hoene can be found on page 75 of the appendix.]

Chairwoman BEATTY. Thank you, Mr. Von Hoene.

Mr. Verrett, you are now recognized for 5 minutes to give your oral presentation on your written testimony.

STATEMENT OF RORY E. VERRETT, FOUNDER AND MANAGING PARTNER, PROTEGE SEARCH

Mr. VERRETT. Thank you. I want to thank Chairwoman Beatty and Ranking Member Wagner for the invitation to provide remarks at this important hearing. My name is Rory Verrett and I am the founder and managing partner of Protege Search. We are the leading retained executive search and leadership advisory firm focused on diverse talent.

At Protege Search we don't make excuses about not having a diverse talent pipeline. We don't invent the people we recruit. We simply find them. We lead searches for senior leaders at corporations, start-ups, trade associations, and nonprofit organizations.

I am also the host of Protege Podcast, the leading career success show for diverse professionals. At Protege, we are in the trenches

every single day working with corporations and organizations trying to meet their diversity and inclusion goals.

Madam Chairwoman, diversity and inclusion are vital to the competitiveness of American companies. There are three principal reasons why companies are simply more successful the more diverse and inclusive they are.

First, you will hear talk about diversity and inclusion being the right thing to do or the business case is right for diversity and inclusion. But simply put, diversity and inclusion helps companies become the fullest, most successful version of themselves as enterprises.

From my experience in professional sports, I can tell you every single professional sports league, from the NBA to the PGA Tour, owes its current level of success and profitability to diversity and inclusion. The NBA, for instance, has several innovative D&I initiatives which have helped grow the game in Asia and Africa, and years ago launched a women's league.

The strategic decisions by the NBA to enter these new markets were guided by a diverse team of executives, including Deputy Commissioner Mark Tatum and Amadou Gallo Fall who leads the efforts in Africa, both of whom brought a global perspective to the business of basketball.

Second, diversity and inclusion helps companies outperform their competitors. As was mentioned previously about the McKinsey study, companies in the top quartile for ethnic and cultural diversity on executive teams are 33 percent more likely to have industry-leading profitability.

As one venture capitalist in Silicon Valley told me, social media is driven by culture. Culture is driven by music. Music is primarily driven by influencers of color.

So if we want to know what trends our social media portfolio companies need to predict, need to harness and focus on, all we need to do is follow what is happening in communities of color.

Third, diversity and inclusion allow companies to better solve the problems they face. One of our clients at Protege Search is Freddie Mac. Freddie Mac has an innovative initiative in which the company actively hires as interns students who are on the autism spectrum.

From the program's launch in 2012, Freddie Mac has found these professionals to be exceptionally capable, for instance, in data analytics, an area of critical importance for the company.

So what can companies do to foster greater diversity and inclusion? From my work with companies in healthcare, financial services, tech, sports, and consumer products, there are five core principles which should guide any D&I strategy.

First, the D&I strategy must have the support of the CEO and the board with the requisite budget and personnel necessary to execute an enterprise-wide strategy.

Second, the diversity and inclusion strategy must be linked to individual and group performance standards and be tied to executive compensation.

Third, companies have to move beyond diversity on candidate slates and mandate diversity on interview teams. Moreover, executive search firms must be held accountable for the diversity of can-

didate slates they submit to their corporate clients and not simply state that there is a pipeline problem. There is no pipeline problem.

Fourth, companies must be transparent about hiring rates, promotion rates, and compensation and advancement to senior management by employees of color and women.

It should not require public pressure by advocacy groups for companies to be transparent about equality. If companies want to continue to earn consumer trust, they must make public-facing disclosures about where they stand on diversity and inclusion.

And fifth, companies must be smart enough to harness the latent entrepreneurial talent of their diverse staff by unleashing these high-potential professionals to help solve the enterprise's toughest challenges and help seize the company's greatest opportunities.

In a country which will be majority people of color by the middle of this century, in an era where consumers and prospective employees are motivated by the social values in the companies they support, and against the overwhelming research which supports the positive business outcomes of diversity and inclusion, companies ignore this strategic imperative at their peril.

[The prepared statement of Mr. Verrett can be found on page 72 of the appendix.]

Chairwoman BEATTY. Thank you very much.

I now recognize Mr. Guzzo for 5 minutes.

STATEMENT OF RICHARD GUZZO, PARTNER, MERCER

Mr. GUZZO. Thank you, Chairwoman Beatty, Ranking Member Wagner, and members of the subcommittee. I appreciate the opportunity to share my views with you today on this important topic.

I am Rick Guzzo, a partner at Mercer. Mercer is a consulting firm and a unit of a 75,000-person strong Marsh & McLennan Companies family of companies, and I do lead Mercer's Workforce Sciences Institute, of which I am quite proud.

Mercer has worked with hundreds of companies on diversity, both in the U.S. and globally. We are well-known for our When Woman Thrive Initiative which provides research and solutions on gender diversity for many industry sectors, including financial services.

During my 20-plus years with Mercer, I have witnessed the importance of diversity rise on the business agenda, and some of my most rewarding professional experiences have come with clients working on this topic. It is a topic that matters to me.

One element of our diversity-related work is fairness. I am proud to be part of a company that has affected millions of work lives by helping employers ensure that pay is fair, and that opportunities for advancement exist for all. While compliance has always been part of the agenda, today that agenda also is very much about values, and the business value of diversity has many aspects.

For one, reputations matter. Employers are constantly under scrutiny in social media and on websites devoted to employer reviews by employees and job applicants. Companies that acquire reputations of being inclusive, of enabling all types of people to contribute to the best of their abilities will be favored when competing for top talent and in the eyes of consumers.

Investors matter. For publicly traded companies, ESG investing, environmental, social and governance, is on the rise, and how a company manages gender, racial, and other types of diversity is an important element of the social and governance qualities that ESG investors look for. Those qualities influence where investors put their money.

And, of course, business results matter. There is real, tangible evidence that well-managed diversity contributes to business success. I would suggest the story is not a simple one, however. It is not the case that all diversity is good for all aspects of business performance. Whose diversity, what types of diversity, and what measures of performance we are talking about all matter.

Commensurate with the intensifying interest in diversity is the rapid rise of data and analytic methods in business. And so why is this worth noting today? I think there are two reasons.

First, financial services firms respect good analytics of customer behavior, of market dynamics and applying analytics to issues of workforce diversity can produce powerful and readily accepted insights. Applying this to ourselves, for example, we at Mercer recently learned some new things about the value of gender diversity in our sales teams.

Second, workforce analytics change the game for employers with regard to how best to attract, retain, and unleash the capabilities of a diverse workforce. What is a best practice in one employer may not be a best practice in another because circumstances differ. Analytics can reveal what diversity practices work best in what circumstances, thus making employers smarter.

Another development to note is the growth of collaborations among employers, and I am fortunate enough to have firsthand experience with one such example, the Financial Services Pipeline Initiative.

If you are not familiar with it, this is a Chicago-based collaborative among banks, asset managers, the Federal Reserve Bank of Chicago, and other employers in the industry, small and large, working with the Chicago Community Trust with a mission to achieve 2 things: increased representation of African Americans and Latinos at all levels in the industry; and increased cultural competence in the industry.

The Initiative is remarkable for its many services and resources such as online toolkits for individuals and for employers, the internships it offers, career advancement workshops for people in the industry and more. It is also remarkable for its transparency. I encourage you to visit its websites, see who is doing what, the information that is shared, talk to its people.

And it is also remarkable for its reliance on data and research to guide actions. Participating employers share workforce data and make their employees available for research inquiries for the good of all.

In conclusion, it is clear that the financial services industry faces many challenges on the road to greater diversity. Progress on that road, I believe, is being made.

And I think it can be accelerated through a genuine appreciation of the business case for diversity, through good research and data

to steer by and by the energy produced by collaborating to achieve common goals.

Thank you again for this opportunity. I look forward to answering your questions.

[The prepared statement of Mr. Guzzo can be found on page 35 of the appendix.]

Chairwoman BEATTY. Thank you very much, Mr. Guzzo.

I now recognize myself for 5 minutes for questions. We have heard a lot of data and statistics. We have even heard about asset management, so I am going to start my questioning and hopefully we can give brief and concise answers and I can get a question to most of you.

Mr. Von Hoene, you are up first. We have heard a lot about statistics and data, and you mentioned that your company started a diverse asset management initiative. Can you tell us briefly how you made that decision and what was one challenge with that?

Mr. VON HOENE. Thank you for your question, Chairwoman Beatty. We made the decision because of two reasons. First, the program that we had in place was not advancing our interests nor was it advancing the social interests that we think were important for a diverse management program.

The second reason we made the decision is because we weren't performing as well as we needed to perform in terms of returns on money management for our company.

So what we did was say we will be responsible for direct relationships. We sought out those relationships. We used them and deployed them, and we were able to bring into our management of money in pension funds and other funds tremendous assets that had not previously been available to us. The success story, as I mentioned in my testimony, is obvious.

Chairwoman BEATTY. Thank you very much.

Ms. Trimble, can you tell us how we can ensure that minority business enterprises are getting fair access to Federal contracting opportunities in order to generate more of this kind of economic growth?

Ms. TRIMBLE. Absolutely, and thank you, Chairwoman Beatty, for the question and for allowing me to participate. I think that it is really important for the Federal Government to understand where their sourcing opportunities lie and to do more forecasting of what those needs are going to be and reach out to the partners who can help provide those minority suppliers that have the capability and the capacity to meet those contracting opportunities.

That is something that the NMSDC is positioned to do, and there are other advocacy groups that also have membership of minority firms that can deliver on those goods and services. Our minority firms can only get access to opportunities if those opportunities are made available to them and they are transparent in the procurement process.

So I think that those are things that we need to work more closely hand-in-hand and understanding who the capable minority suppliers are, how do we position them for those opportunities and making sure there are accountability measure throughout the Federal Government for inclusion.

Chairwoman BEATTY. Thank you very much.

Mr. Verrett, we have heard a lot about pipeline and all this great statistics about if we do this, it builds a case for diversity. But can you tell us, if you look inside a company, what do we need to know to ensure minority retention in firms so they are getting into the pipeline?

Mr. VERRETT. Thank you, Madam Chairwoman, for that question. I think a couple of things have to happen. First, I think most companies underappreciate the difficult journey that women and executives and professionals of color have in corporate America.

They are the least likely to be mentored. They are the least likely to be sponsored. They are the least likely to be promoted. And so I think having the right data on the engagement of your minority and women employees is hugely important.

I think companies have to also have a brand recognition about how they are recognized in the market by women and by executives and professionals of color. Not every employee, future employee, thinks about that company the same.

And what we encourage our clients to do is to have a narrative that is specific to employees of color, specific to women candidates of color, who may want to work at the company. So I think there is a lot of work that needs to be done and, frankly, there are companies like Exelon and others in sports and in utilities that are doing admirable work in this area.

Chairwoman BEATTY. Thank you.

Ms. Budson, we know that you have done extensive work at Harvard University and you mentioned in your testimony the inequities and disparities with gender equality in talking about women. Can you give us one thing or one practice that you think organizations should take heed to to help overcome gender and racial biases in the workplace?

Ms. BUDSON. Yes, and thank you for the question, Chairwoman Beatty. So one of the things that we see is often when someone is recruited into an organization who is a woman, who is a woman of color or who is a person of color, anywhere across the gender spectrum, they often, even if they are on the team, aren't given the same opportunities for stretch assignments which are the pathway to promotion.

So if there can be a system that is metric-based, that is organized and that is tracked, we can then provide opportunities more equally across the organization so people aren't going to people who read physically like them, might happen to live in their same community, might go to their same community of worship, but instead there is an evidence-based, tracked system so that each new employee has opportunities for advancement.

Now, within the financial services industry, this is particularly important around profit and loss. So we have a—

Chairwoman BEATTY. Sorry, my time is up, but hold some of those thoughts. I know we will be able to let you get to them.

I now recognize the distinguished ranking member of the subcommittee, Mrs. Wagner, for 5 minutes for questions.

Mrs. WAGNER. I thank the chairwoman.

Mr. Guzzo, I think we are all here because we recognize that diversity and inclusion are essential for future growth and innovation in the financial services industry. Both from your experience and

from your report on "When Women Thrive, Businesses Thrive," how specifically can leaders in this industry actively implement practical strategies to build diverse workforces?

And then also, how does the financial services sector compare to other industries, please?

Mr. GUZZO. The financial services sector has, if you will, a more favorable representation of women and minorities than some industries. It could be, if I recall, manufacturing and energy. But less favorable than others, right? So I think each industry has its own unique challenges. Certainly, financial services does as well, but it is in the distribution.

In terms of tactics, I think the first tactic that everyone looks to, business leaders look to, is hiring. And you have to, if you want to increase representation. But the big lesson that we have had in our work with clients is that hiring surely is not enough, right?

That the notion of bringing people in can sometimes be a revolving door because they go out. Why? Because of the factors that create a work environment that are not accommodating, friendly, which frankly don't let them flourish, don't let them thrive, hence how we got to that word with regard to women.

I would say that the fundamentals of fair practices in the workplace, right, fair opportunities are the starting point after hiring, and close tracking of the dynamics of who is staying, who is going, who is advancing and how to change it are the—

Mrs. WAGNER. In your testimony, you mentioned how the evidence-based business case for diversity in terms of its impact on business is sometimes nuanced.

Mr. GUZZO. Yes.

Mrs. WAGNER. Can you elaborate on these nuances?

Mr. GUZZO. Well, the standards of evidence, if you will, that sometimes go into the public discourse aren't maybe the standards of evidence that you would find in research publications, right?

Mrs. WAGNER. Yes.

Mr. GUZZO. And I make that statement based on the standards of evidence in research publications to say it is not simple. It is very nuanced, such that we might find, for example, in our organization that gender diversity matters to sales teams, but ethnicity may not in one situation, but it may in another.

There are lots of place and people differences that need to be understood and need to be accounted for. And my observation is simply that we need to be nuanced in our thinking about the topic with regard to the business case.

Mrs. WAGNER. Ah, I see. Well, you also write that the business case for diversity is multifaceted. We shouldn't assume that one of the best practices discussed today will work effectively, as you said, in all business sectors. So could you elaborate on the one-size-fits-all approach when it comes to diversity within a company?

Mr. GUZZO. Yes. No, absolutely true. For example, many companies will have what might be called resource groups in their organization which are affiliations of people with something in common. It could be ethnicity. It could be a women's group, et cetera.

Sometimes those groups are really effective at creating climates and cultures in the place that enable others like them to succeed. Sometimes it is not. Why?

I think it is sometimes leadership. I think it is sometimes resources. I think it is sometimes other aspects of the environment which make their work believable or not to the newcomer to the organization.

So there is just lots of variation. The fact that you implement a resource group isn't sufficient.

Mrs. WAGNER. Mr. Von Hoene, you spoke about your efforts to recruit, retain, and promote underrepresented groups. Can you tell us what programs you have established to make Exelon a more attractive place to work for your diverse employees?

Mr. VON HOENE. Thank you for the question, Ranking Member Wagner. We do a series of things once people arrive, including an extensive mentorship and sponsorship program for new people entering the company, programs that are particular for lifestyle challenges that people may have in terms of flexible work schedules, in terms of equal pay, in terms of paid family leave.

We have systems in which we have training programs for people at all levels in the company designed to enable them to be successful and to learn how they can rotate through the company and find opportunities in other areas in the company. And we take a personal stake in development and hold our officers and our leaders accountable for doing all of these things.

Mrs. WAGNER. In my brief time here, tell me more about the Honor Roll Program.

Mr. VON HOENE. The Honor Roll Program is a program that we instituted with respect to professional services. We started it with law firms. What we do is we measure—

Mrs. WAGNER. Banks and then other institutions, too, right?

Mr. VON HOENE. Insurance companies, consultants, banks. What we do is we measure for each engagement team at Exelon the percentage of work that is performed by women, by people of color. We then rank those. We tabulate that.

We rank the firms from first to last. We tell them where they are ranked. We give them report cards. Those who perform best get an opportunity to have a personal dinner with our CEO. Those who perform worse don't get as much business as they would have if they had been in the latter categories.

Mrs. WAGNER. Thank you. My time has expired.

I yield back.

Mr. VON HOENE. Thank you.

Chairwoman BEATTY. Thank you.

The Chair now recognizes the distinguished Chair of the full Financial Services Committee, the gentlewoman from California, Chairwoman Maxine Waters.

Chairwoman WATERS. Thank you so very much, Madam Chairwoman. I appreciate the opportunity to be here with you this afternoon. I appreciate all the work that you have done on OMWI where we created this opportunity for diversity in the Dodd-Frank reform.

And you have been carrying that for the whole time that you have been here and what you are doing now is a part of all of that, and I appreciate the work that you have done.

I want to just raise a question about upper mobility in firms, in corporations. One of the consistent complaints that we get all the time, particularly from African Americans, and African-American

women in particular, is that, "I have been on this job for 10 years and they pass over me and give the job to newcomers coming in." And this is a constant, consistent complaint of African Americans in general, and African-American women in particular.

So what do we do to help companies stop passing over good employees who put the time in, who do the work, but when the time comes to select a new supervisor or manager, they are overlooked? It is constant. Who wants to take this question?

Mr. Verrett?

Mr. VERRETT. Madam Chairwoman, thank you so much for that question. It is common. It is frequent. And the research behind this beyond the anecdotal information that stretches across nearly every company.

David Thomas, who is the president at Morehouse, and was an organizational design professor at Harvard, wrote a book called, "Breaking Through." And he said that if you want to understand diversity and inclusion in corporate America, and why people don't get promoted who are not white men, it is because of risk. It is the risk of the blowback if they don't work out.

So what you have to do is simply tie promotion of minority and women executives to executive compensation. What gets measured will get done. If people's performance standards are tied to diversity and inclusion it will get done. If it is a nice-to-do it will be the last thing that gets done, and it most often will not get done.

Chairwoman WATERS. I think Ms. Budson had her hand up? Yes.

Ms. BUDSON. Thank you, Chairwoman Waters. One of the things which can take place is that when these decisions are being made rather than having an evidence-based framework where there is a clearly defined set of what needed to be achieved for someone to move forward, there is, in essence, a conversation which takes place where people talk about who is ready.

And when companies can use best practice and evidence-based performance models where instead of saying who is ready you define out clear characteristics for that upward mobility within the organization that are transparent to the employees.

And these decisions are made within the management team where it is literally written out. And instead of talking about general fit or readiness, one can mark who has ticked off all the different things to rise.

Sometimes what we find is that this implicit bias makes it so one does not, as my colleague shared, take the risk instead of looking at who has demonstrated. And as I mentioned earlier, if people are not given the opportunity for their stretch assignments they then can't collect those key factors for upward mobility.

A second piece which can take place as well is during the evaluation process ensuring that there are metrics which can live outside of either the self-evaluations, because people with less social capital in the organization tend to rate themselves lower and people with more tend to rate themselves higher. But to again move to an evidence-based approach rather than a readiness or a fit conversation.

Chairwoman WATERS. Well, thank you. And of course what we have had to do is we have had to file discrimination complaints and we can't keep doing that for the rest of our lives. But what about when you first get hired and you are told what the job is all about

and how you get promotions and what is possible so that when the time comes and it doesn't happen, you know what to do in order to speak up for yourself, et cetera, et cetera?

I want to thank you for your comments. This is a very important subcommittee and this is very important work that is being done.

And again, I want to thank our chairwoman here, Ms. Beatty, for the work that is being done. And I am very pleased that this issue is finally getting attention in this country all over every section of the country. Thank you very much, and I yield back.

Chairwoman BEATTY. Thank you, Madam Chairwoman.

The gentleman from Indiana, Mr. Hollingsworth, is recognized for 5 minutes.

Mr. HOLLINGSWORTH. Good afternoon. I appreciate everyone being here and I genuinely appreciate you holding this hearing. This is an important topic of discussion. I know every Member sitting up here cares a lot about these outcomes and cares a lot about the work that has been invested by so many private firms and frankly us as a government in making sure we get to better outcomes with regard to this.

And Mr. Von Hoene, I wanted to talk to you for a brief second. You have talked about how you guys really walk the walk. How you don't just talk the talk but you are genuinely making these efforts, having these scorecards, ensuring this is a part of your company's very DNA.

Now, we have seen so many of the research studies that indicate there are tremendous rewards out there for firms that do pursue with meaningful intent diversity and inclusion as a part of who they are.

But I wondered if you might talk about the genesis of this at your firm? How did this all get started? If everyone in every private firm has the opportunity to see the rewards that might come out of this not only for themselves, not only for their employees but for their communities and for the country as a whole, how is it that others haven't followed in your footsteps? And how did you and your firm get started in this?

Mr. VON HOENE. Sure. Well, we are in an industry where we touch large urban populations.

Mr. HOLLINGSWORTH. Right.

Mr. VON HOENE. So as a starting point one of the things that we have to be mindful of is who are our customers? Who are our stakeholders? And they reflect a very broad, diverse group of individuals and institutions.

In order to address concerns that they have it is important that we be able to mirror that effectively so we start with a little bit of an advantage in that regard.

But the other part of it that is really important is the work that this committee is doing today which is when you stop and recognize that this is not simply the right thing to do, it is the right business thing to do.

And you see how that evolves in your business as you see people making contributions who had not historically been invited to the table to do so and you see the value that comes with that. It begins, I think, a trend or a momentum to understand more fully the business case that all of you fully embrace here.

So what we have found is as we have done these things starting with baby steps and being more energetic as time went on to see the progress that our business made and to be able to tell people this is not only the right thing to do, this is a thing that is going to make you and to make the company more profitable and more successful. The key is delivering that message over and over again.

Mr. HOLLINGSWORTH. Right. Well, I love that you see it as an advantage that you are with a utility company that touches so many different customers. One could see it as a disadvantage though, right?

When I go to the supermarket I have a wide variety of options perhaps on every shelf and I can choose the products that match my values, companies that match my values, match my ethics, but I don't always have that same choice in utilities.

So for you to be able to say, even as a utility, that it matters to you that you have the same culture of the people that you serve, I think that is a really unique position to take, and I think you guys should be applauded for the efforts that have already been undertaken with regard to that.

Mr. VON HOENE. Thank you very much, Congressman.

Mr. HOLLINGSWORTH. Absolutely.

Ms. Budson, I know that you earlier spoke a little bit about some of the challenges that are associated with ensuring that we get everybody's talent into the workforce. This is something that I am passionate about as well, making sure that everyone has the ability to contribute to this economy, the ability to contribute to this country's future.

I wonder if you might just pick out a few little areas where we are holding specifically women back from being able to engage in the workplace. Where are we losing them along the way, so to speak? In 90 seconds, hopefully you can solve that problem.

Ms. BUDSON. Thank you. So sometimes we hear about women opting out and I would like to state that women don't opt out. Women get fed up, and there is a very significant difference. We need to create environments where all employees are able to fundamentally contribute. The most likely reason for a woman to leave her place of employment is because she doesn't feel valued.

Mr. HOLLINGSWORTH. Right.

Ms. BUDSON. More so even than what her income is in that organization.

Mr. HOLLINGSWORTH. Right.

Ms. BUDSON. And how do we communicate value? Within organizations we communicate value by pay. We communicate value by status. We communicate value by flexibility. We communicate value by what work we assign.

And we communicate value by what are the narratives that our organizations share so that employees feel a specific sense of investment. And who within the company do we highlight and promote?

Mr. HOLLINGSWORTH. Can I ask you a specific question about that?

Ms. BUDSON. Yes.

Mr. HOLLINGSWORTH. And I—

Ms. BUDSON. Please.

Mr. HOLLINGSWORTH. This is a sensitive topic but I want to just parse something up. Are we not communicating to our female employees that we value them enough? Or are we not communicating it in the right way where they receive the message? What is going on there? Kind of bifurcate that a little bit for me in 20 seconds.

Ms. BUDSON. I think the answer is yes.

Mr. HOLLINGSWORTH. Okay.

Ms. BUDSON. And particularly when we talk about women of color, and really this applies not just to women but for anyone who doesn't have high social capital in their organization. My colleagues' comments about sponsorship, mentorship, people being reached out to to have those unique assignments to join the team that is going to be defining whether someone can advance and looking more thoughtfully about—

Are we done?

Mr. HOLLINGSWORTH. We are. Hopefully, someone else will let you continue it again.

Madam Chairwoman, I appreciate you holding this hearing.

Chairwoman BEATTY. Thank you.

The gentleman from Florida, Mr. Lawson, is recognized for 5 minutes.

Mr. LAWSON. Thank you, Madam Chairwoman, and welcome to the subcommittee, witnesses.

When I go into financial institutions, especially banks and so forth, when you walk into the institution mostly the only thing you see is women. Some women of color and some women of non-color, but they are there.

So my question would be who determines whether women will get promoted in those institutions? Is it the human relations person, human affairs person who interviews people before they come into the institution? And you just assume when you go into the financial institution when you see the women who are clerks and everything else there, you know that this must be a pretty good atmosphere.

We don't know until later on that you find and see people who say, well, I don't get promotions, but if you go upstairs, then you will see up there then it is probably all men and so forth, but you don't see that when you come into the institution.

Now, I am in the financial services industry and the insurance field and I know we have had a difficult time in getting women into management positions for many, many years, over the last 30 years in working with Northwestern Mutual and other companies who are beginning to look at it differently and see what can they do.

But I want to know from the position of financial institutions and larger banks and so forth, how are they recruited and the perception that you have? And any of you can comment on it.

We can just go down the line and see what happens in human resources, because you don't see anyone in human resources. You just see the people out there working. So maybe you can comment on that.

Yes, Ms. Trimble?

Ms. TRIMBLE. Thank you for that question and I would like to draw back on my human resources experience having been a

human resources professional before working in the diversity and inclusion space.

I do think it is a joint effort between the line business managers as well as the human resources department. You have your H.R. professionals who are outsourcing talent and finding talent to bring to hiring managers, however, many times that is where the challenges usually occur is when the hiring managers are making their final decisions.

So in my experience has shown me that we really have to have a more intentional strategy for our hiring managers and those in those line positions to have more accountability measures for the types of decisions that they are making, particularly around talent as you look at promotions and job assignments and things of that nature. And understanding that there are some biases that are bleeding into this process and how do we address that.

Everyone brings a bias to work with them. We know that. It is how you manage those biases that is going to make the difference. So I think that companies, particularly financial institutions, have to be much more intentional around addressing what those challenges are, addressing those barriers and making sure that they are being held accountable for the decisions that they are making.

Mr. LAWSON. Okay. Anyone else?

Yes, sir, go ahead?

Mr. VON HOENE. One point to amplify on that is this. It is not just the responsibility of the financial institutions to address the problem that you have articulated. It is the responsibility of their clients to do so as well. Are the clients looking at financial institutions and saying, we want a diverse body of leaders servicing our business?

Because until that demand is made, the incentive internally in the financial institutions is much less than it is if the clients are saying, this is important to us. So this is a problem not just in financial services but for all businesses to address. And it is important that corporations step up to the plate and do so.

Mr. LAWSON. Would anyone else like to comment?

Mr. GUZZO. Well, if I could add to it? I agree with everything that has been said, and I think there is an under-observed or under-accounted for phenomena often which is that in any one cycle of promotions in a year we might look at as an employer, what is the ratio of minorities to whites hired or promoted to the next level?

There might be a small difference. Over time those small differences, if they are in the wrong directions, can really accumulate and turn into big differences.

And I think the point here I am trying to make is that we need to understand the running record of an organization's actions, not point-in-time actions, to really manage the issue of upward mobility in organizations.

Mr. LAWSON. Yes, go ahead, Mr. Verrett.

Mr. VERRETT. Congressman Lawson, just to finish up, I also think we have to acknowledge that promotion processes are subjective. There are some objective elements to them, but at the end of the day every company has a group of people deciding the behavior,

the performance, the results of a group of employees and deciding who gets advanced and who doesn't. It is a subjective process.

To say the common retort that we simply want the best people. We are fine with diversity and inclusion as long as we find the best people. That is often only said when we are talking about women and people of color.

It is assumed that the best people are hired when they are non-diverse and we simply have to just get rid of that old trope and decide that we are going to understand this as a subjective process and lean into all the data that is available.

Mr. LAWSON. Okay, thank you.

And with that, I yield back, Madam Chairwoman.

Chairwoman BEATTY. The gentleman from Ohio, Mr. Gonzalez, is recognized for 5 minutes.

Mr. GONZALEZ OF OHIO. Thank you, Madam Chairwoman.

And thank you to all the witnesses for your testimony and participation today.

One of the neatest things about my—I am new to Congress—time in Congress so far is that when I go home and I talk about what we are doing in committee and I mentioned this subcommittee specifically, the Diversity and Inclusion Subcommittee, to the business community I get more interest and positive feedback than maybe anything that we are working on, quite frankly.

And so I find that encouraging because to me what that shows is there is a real hunger for this in our society. I think we get it now. And then there is all kinds of progress we still need to make obviously but I have just been so encouraged by that and I just want to thank you all for being here.

I am going to start with my fellow Buckeye grad, Mr. Guzzo. I see from your testimony that you are a fellow Buckeye grad and you laid out Mercer's four-pronged approach to helping companies implement a diversity and inclusion plan: one, strategic development; two, creating a roadmap; three, executing that roadmap; and four, measuring the success of the plan.

Two questions. One, how is diversity defined in the company? And then also, how do you measure success? What does it look like?

Mr. GUZZO. Right. So diversity has different meanings to some extent at different employers. It always refers to issues of representation of people of color and women absolutely.

Other aspects of diversity, age for example, might pop up as being really important in some employers' situations and not others. I think a lot of companies here will face age-youth diversity issues in the coming wave of retirement. So there are some differences but the basic identities are always there.

And the measures of success have to do with two types of outcomes I would offer. One is what I will call workforce outcomes which is to say who is advancing? Who is getting their lion's share of pay when they do well to earn it? What are the outcomes experienced by the individual employee?

And the other would be the business outcomes. There are indeed ways of deciphering and understanding the impact of diversity on business results, customer satisfaction, customer retention, dollars spent. Those are the measures.

Mr. GONZALEZ OF OHIO. Thank you.

And then Mr. Von Hoene, it is great to see all the effort that Exelon is doing. Obviously, it has been a huge benefit to the business but is also just the right thing to do.

I ran a small business prior to coming to Congress. It was a start-up and I was so proud of what we were able to do on a diversity and inclusion front. We were a tech company, a small start-up competing against the Googles and Facebooks of the world who can devote a lot of resources and energy to these sorts of programs. As a startup sometimes it is a lot harder so we were very intentional about what we were doing, and I think we did a great job on that.

But I would be curious for your thoughts or anybody's thoughts on the panel about how we can tailor what you all were doing or what you are doing to small businesses so that we can provide maybe guidance or a toolkit or whatever it is so that, you know, it is not just the big companies who can focus on this?

Mr. VON HOENE. Well, you have correctly surmised, Congressman, that one size does not fit all and that programs that can be implemented in a large company are not viable programs for a smaller institution. But I think the same general principles apply and it is a recognition of the fact that there is a business advantage to doing so, as you obviously did in your business.

In some ways, it would seem to me that a smaller company that is really devoted to this issue would have some advantages because the personal attention and the customization of the work to enable someone to come in and feel comfortable who has not historically been there at the company allows a sense of warmth and a sense of receptivity that would be valuable.

But that depends on location, company, opportunities, and the like. Note there is no blueprint for this.

Mr. GONZALEZ OF OHIO. Yes. What we found is it ended up being kind of a virtuous cycle where once we started and we got it going so that it kind of fed on itself in what was a really positive way.

My last question, Ms. Budson, in the short time that I have, I just want to kind of have you parse through what you were talking about with my colleague, Mr. Hollingsworth. Can you speak a little bit more about when women drop out of the labor force, why is that? Just go a little bit deeper on that if you could?

Ms. BUDSON. Yes, and I was talking a bit about particularly when women leave the company.

Mr. GONZALEZ OF OHIO. Yes.

Ms. BUDSON. What we find is regardless of what reason is either self-reported or presumed by the entity, that woman is working for a competitor within 18 months.

Mr. GONZALEZ OF OHIO. Yes.

Ms. BUDSON. So the key is how can businesses effectively both harness the current talent that they had where they have already made an investment.

And note as a nation we have made an investment in educating women; 57 percent of college students today are female and we have this large number of women achieving MBAs. If we can't keep that talent in the workforce we are underleveraging an asset that in essence we have already paid into.

And the same thing goes—

Mr. GONZALEZ OF OHIO. I think our time is up, but I absolutely thank you for your feedback.

And I yield back.

Ms. BUDSON. Thank you.

Chairwoman BEATTY. The gentlewoman from Massachusetts, Ms. Pressley, is recognized for 5 minutes.

Ms. PRESSLEY. Thank you, Madam Chairwoman.

And I would like to thank Chairwoman Waters for creating this subcommittee.

And I want to thank you, Chairwoman Beatty, for your leadership and your entire time. This is a historic happening that this subcommittee even exists and we thank you all for your participation today and your good work every day.

Certainly, I am biased, but Ms. Budson made great contributions in the Massachusetts 7th and so it was wonderful to have you here today.

The scope of my questioning, much of my line was asked because I wanted to sort of lean in on the gender parity front and the inclusion front, especially in light of a recent tour at the IMF where we learned that if we were to have a more inclusive economy and realize gender parity we could increase the GDP by some 35 percent.

And that makes the business case, so this is both about benevolence and justice and also the bottom line. And it is unfortunate we have to keep making that case.

I wanted to ask, how much of that is about policies and practices and metrics of accountability and how much of it is simply about leadership and will?

And the other thing I wanted to ask you, Ms. Budson, is specific to women. Are there variables outside of, since women are not independent contractors, that we should be addressing within the financial services industry, on-site childcare, things like that?

Ms. BUDSON. Thank you, and it has been a pleasure working on these issues together for many, many years of diversity and inclusion. So when we look at the issue of leadership, a tremendous amount of this is about leadership. My colleagues on the panel have talked about how executive sponsorship can be instrumental and that tying it to metrics, tying it to compensation, tying it to numbers is invaluable.

And in addition, this is one of the places where justice and good business intertwine sort of with a yield for everyone. We will see men's and women's wages rise together when we grow our economy.

Having this greater attachment to the labor force is something where everyone can actually gain. And if we do it mindfully it gives us an opportunity to provide additional jobs in communities that haven't had them, to provide additional promotion and opportunity for those who have been passed over and overlooked who have earned them.

And for us to look at how we can truly compete as a nation in what is a very global industry so that we are harnessing one of our key advantages, which is that we have this diversity.

And to note as well that when we look at particularly women, women are making the majority of purchasing decisions when we

are looking at banking, when we are looking at home buying, even when we are looking at cars. And I believe the statistic is that the largest purchasing power will be Latina women by the time we get to about 2040.

Ms. PRESSLEY. Okay. I am sorry. I am reclaiming my time because I am running out here.

So you said that women leave not because they opt out but because they get fed up. So that speaks to the retention challenge around culture—

Ms. BUDSON. Yes.

Ms. PRESSLEY. Right? Inclusion can't just be a seat at the table. It is about the overall experience.

Ms. BUDSON. Yes.

Ms. PRESSLEY. And so to that end, disproportionately the data supports, Mr. Guzzo, bridging the diversity gap that minorities are usually in the low level jobs. And so, one, how do we keep them there and prevent them from being most vulnerable to layoffs and general attrition?

And also A.I. is very heavy on my mind right now because these will also be the folks most vulnerable to advances in technology. So if you could speak to that? So culture, retention and how do we protect the most vulnerable to layoffs? So—

Mr. GUZZO. So I think—

Ms. PRESSLEY. In some ways it is conflated.

Mr. GUZZO. You directed that to me, Congresswoman?

Ms. PRESSLEY. Yes.

Mr. GUZZO. Great. So I think the vulnerability to layoffs is a really terrific issue for you to raise because I do think that there are segments of the population more vulnerable to the challenges of new technologies, A.I., et cetera.

I don't think it is just at the entry level of work. I think it is at the professional level as well, particularly in financial services. So the skilled individual contributor, right? The person with his or her MBA, person of color, et cetera.

If there are dispersed risks of technology disruption, some of us may be more prone or subject to those risks than others. And I think it needs, like, we don't have data on it. I think it is a real issue that we don't know yet the result.

In terms of I think the retention for us, one of our big learnings is that what keeps people in the enterprise is very local. You need to discover it in your enterprise about what is working or not to keep the right people there.

Ms. PRESSLEY. I am sorry, just reclaiming my time. And so just for the record, do you believe we have insufficient data on the Federal level in this space?

Mr. GUZZO. On the impact on the impending technology impact?

Ms. PRESSLEY. Yes.

Mr. GUZZO. Yes, insufficient data.

Ms. PRESSLEY. Okay. All right.

And Ms. Budson, I will have to follow up with you offline. It looks like I am running out, but I thank you for being here and I have read your statement for today and I will follow up.

Thank you.

Chairwoman BEATTY. Thank you.

And Ms. Budson, I hope we can note that you started first that time so I did not have to cut you off.

The gentleman from Wisconsin, Mr. Steil, is recognized for 5 minutes.

Mr. STEIL. Thank you very much, and thank you, Madam Chairwoman, for holding today's hearing on what is a very important topic.

I want to build on the comments that my colleague, Mr. Gonzalez, had, in particular as it relates to small businesses. Sometimes we hear about plans that work well for large businesses. And larger companies with big human resource departments and ample resources may find it sometimes easier to incorporate some of the strategies that we have been discussing today.

However, I want to focus in a little bit on small businesses and how small businesses can take the strategies that we are discussing today, how they can implement them and also be successful.

Can you give and kind of talk about how you advise small businesses that want to invest in diversity, and maybe start with you, Mr. Von Hoene?

Mr. VON HOENE. Well, one of the things, we obviously run very large businesses, but we have a number of very small businesses who provide services, goods and services for us. And we are very interested in diversity in that field as well as our internal work.

So what we do in that regard is we make sure that they understand how important this is to us, and we reward them accordingly for being successful in that area.

So if you have done a good job in recruiting a diverse workforce in a small business you are more likely to have favor with Exelon in terms of rewarding work than you are if you haven't done so.

Mr. STEIL. Do you see challenges as you track that as it relates to kind of standard deviation with a smaller sample set in some of these smaller businesses as you are looking at how you are identifying success?

Mr. VON HOENE. We do, but have a broad enough array of businesses.

Mr. STEIL. Okay.

Mr. VON HOENE. We have hundreds and hundreds of businesses so we are able to be statistically, I think, accurate and statistically meaningful in connection with looking at that.

Mr. STEIL. I appreciate that. Does anybody else want to comment on the small business side?

Mr. Verrett? And then I will come back across.

Mr. VERRETT. Thank you, Congressman. We have small business clients, start-up clients, backed by private equity and venture capital. And it is much easier to attract a broad array of talented individuals if, as the Congressman mentioned with his company, you start at the beginning with a diverse workforce. It is just much easier.

Millennials, in particular, research shows are much more likely to work for diverse companies. They are choosing to work for diverse companies over companies that are non-diverse, as the most diverse generation in American history.

And in my conversations with Silicon Valley startups they say, look, it is not our competitor down Sand Hill Road or in San Jose. It is in China. And we have to simply get the best talent with the best ideas to offset the next Googles and Facebook that are likely going to come from China.

So this is about American competitiveness and building this from the ground up as an institutional value at the board level and at the executive level to maximize the ability to attract that genius executive, that genius professional that might be at an HBCU or a Latino-serving institution that might not be on the radar of another tech company.

Mr. STEIL. Thank you very much.

Ms. Trimble?

Ms. TRIMBLE. Yes, thank you, Congressman. I think that my colleagues are absolutely right. I think that there are opportunities that small businesses have to be more flexible in applying their strategies.

What I found in working and talking with Millennial workers and Gen X is that they are looking for more flexible environments. They are sometimes not as open to working in the complex, larger corporate structures. So I think that there is an opportunity to be able to bring these individuals in.

And one of the advantages that entrepreneurs have is that they have the freedom and the flexibility to select their leadership team and so they can start with diverse pool. And we know that diverse people tend to hire more diverse people.

So I think that those are ways that we can maybe encourage our small businesses to make sure that they are really living out their values and bringing in people that reflect their values.

And I would also agree with Mr. Von Hoene that when corporations are doing business with these firms they need to ask those questions and hold them accountable for making sure that they are bringing diverse talent to represent their interests in their supply chain.

Mr. STEIL. Thank you.

Ms. Budson?

Ms. BUDSON. There are also many tools that small businesses can use that have virtually little or no cost: one, building partnerships with student organizations, talent management, and other firms that specialize or are known to do a good job in this area.

Two, one can also do some things internally if you don't have a big human resource information system where once you have been recruiting from a very diverse talent pool to de-bias your processes, just covering the name removes a huge amount of bias.

We like in our organization to also cover where somebody went to school, cover motherhood or fatherhood so that we are really just looking at those factors which are going to tell whether or not you are going to yield the talent that you need from the individual.

And in addition, small organizations have the ability to go into the community in which they are located and to say this is a value. We mean it realistically and even sometimes just moving the interview site into the communities that you want to deeper engage sends the signal of seriousness and partnership.

Mr. STEIL. Thank you very much.

And I yield back.

Chairwoman BEATTY. Thank you.

The gentleman from Texas, Mr. Green, the Chair of our Subcommittee on Oversight and Investigations, is recognized for 5 minutes.

Mr. GREEN. Thank you, Madam Chairwoman, and I compliment you and the ranking member on the fine job you are doing.

I have three areas of inquiry. The first has to do with the performance metric that you mentioned, Mr. Verrett. I was monitoring this in my office. You indicated that if we can tie the acquisition of diversity to performance where is this currently working? Can you give me some major corporations where they are doing this?

Mr. VERRETT. Congressman, I believe Exelon—

Mr. GREEN. Well, we have this one.

Mr. VERRETT. —does this.

Mr. GREEN. Yes. But can you give me another? We are proud to have them. I am just curious if you are aware of some others?

Mr. VERRETT. I believe the National Basketball Association also ties it to that as well. There are other sports leagues that do that. And how that is manifest is you don't have to tie it to a specific, measurable goal per se. Most companies are reticent to do that. The general counsel will come in and say that is illegal, that is a quota. You can't do that.

If you tie it to the efforts made, what efforts have you made to make sure your division has people of color and women up for promotion? What efforts have you made to tie executive search firms like mine to make sure they are really submitting diverse slates of candidates?

If you force executives to actually show their efforts you will find that most companies' executives will get in line if their compensation is tied to it.

In some companies executive compensation can be 10 times the base compensation. You can get a base salary of $350,000 and a bonus of $3 million. And so tying it to executive compensation makes it measurable and make sure it is monitored.

Mr. GREEN. Thank you. And I think you have spoken well. I am just curious about actual companies that are employing this technique.

Yes, Ms. Trimble?

Ms. TRIMBLE. Thank you, Congressman. I would like to say that actually my previous company where I was working, our automotive global leader, that was actually one of the ways we were actually able to make traction is by tying it to executive compensation and creating scorecards and dashboards for our executive leaders so that we could monitor their progress, measure their progress.

And frankly what I found is that there was a spirit of competitiveness. So once we started visualizing this amongst the leadership team, no one wanted to be at the bottom of that list.

So those are ways that we were actually able to see traction, to actually get progress is when we implemented a formal scorecard they were held accountable to and tied it to their performance metrics.

Mr. GREEN. Next area, you mentioned the NBA and professional sports they do require that the talent pool, the final three, perhaps, will have at least one person who would represent diversity in it. How successful is this in business?

Yes?

Mr. VERRETT. I would just say as somebody who was the keeper of the Rooney Rule at the NFL, the Rooney Rule is an extraordinarily effective tool to get diversity moving in your organization. But it is not a complete solution.

It is part of a series of solutions. A better solution related to that is to make sure that you have diversity on the interview team to make sure that bias doesn't creep into the questions, bias doesn't creep into the order in which candidates are interviewed, into archetyping about what the ideal candidate is, which might have a bias of gender or race or age or orientation subtly built into it.

So the Rooney Rule is effective and many of our clients are utilizing the Rooney Rule to make sure they have diversity. But I also think we should be mindful. Research shows that if you only have one person of color or one woman on the slate, the research shows that it is almost a guarantee that that person is not going to get selected for the role because they become the outlier.

So organizations are now requiring two people of color or two women on the slate to make sure that there is sufficient—

Mr. GREEN. I have little time and I do want to ask this last question.

With reference to the culture in an office, a good many offices are concerned about bringing people in who just won't fit into the culture, don't play poker on Friday nights, not avid sports fanatics, if you will. How do you deal with that?

Mr. VON HOENE. Well, I think all companies, Congressman, do have that challenge wherever they are on the diversity and inclusion spectrum.

One of the things that I did with the people who work for me at one point in time who were officers of the company was, I said, let us keep track of who you go to breakfast with, who you go to dinner with, and who you go to lunch with, and let us look at the end of the year and see whether you have distributed your personal sponsorship and mentorship in an even-handed way.

So we have to do those things that try to break that, but that is a journey that requires an enormous amount of ongoing effort. And to the degree that we can measure our success in that, it is very valuable.

Mr. GREEN. Thank you, Madam Chairwoman.

And I thank the witnesses as well.

Chairwoman BEATTY. Thank you, Mr. Chairman.

I would like to thank our witnesses for their testimony today. And without objection, I would like to enter into the record letters from the African-American Credit Union National Association addressed to this entire subcommittee, thanking us for holding this important hearing. Without objection, it is so ordered.

Additionally, I would like to enter into the record an article by Alex Gorsky, CEO of Johnson & Johnson, and Chair of the Business Roundtable Governance Committee. Without objection, it is so ordered.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing is now adjourned.

[Whereupon, at 3:35 p.m., the hearing was adjourned.]

A P P E N D I X

May 1, 2019

HARVARD Kennedy School
WOMEN AND PUBLIC POLICY PROGRAM
Ask what you can do to create gender equality

Good for the Bottom Line: A Review of the Business Case for Diversity and Inclusion
House Committee on Financial Services
Subcommittee on Diversity and Inclusion

Chairwoman Waters, Ranking Member McHenry, and Members of the Committee:

Thank you for the opportunity to testify today about the importance of diversity and inclusion in the Financial Services Industry. My name is Victoria Budson and I am the co-founder and Executive Director of the Women and Public Policy Program of Harvard Kennedy School. In my testimony I will cover some of the key, evidence-based research regarding the business case for including more women in the U.S. Financial Services Industry.

Benefits for U.S. Competitiveness

First, let me begin with the importance of gender diversity for our national competitiveness. For America to most effectively compete in the global marketplace, we need to draw on talent from the full talent pool, not just half of it. American women today are more highly educated than men across many levels of the education spectrum, from associates and bachelors degrees to masters and doctoral degrees. Women earn the majority of all of these postsecondary degrees,[1] and approximately 3 million more women are currently enrolled in postsecondary education than men.[2] Whereas in 1964, only about 39% of college students were women, today that figure is 57%.[3] And among the top ten business schools in the United States, women make up more than 40% of the MBA student population.[4] Even though the educated talent is there, the Financial Services Industry has not yet made full use of it. According to the latest Bureau of Labor Statistics data, only 34% of personal financial advisers and 41% of financial analysts are women.[5] Even when women are more equally represented in entry-level roles, they are not making it to the top of the organizational hierarchy.[6] Currently, women overall comprise

[1] Anthony P. Carnevale, A. P., Smith, N., & Gulish, A. (2018). Women Can't Win. *Georgetown University Center on Education and the Workforce*. p. 9. Women overtook men in associate's degree attainment in 1977-78 (today, women earn 61% of associate's degrees); bachelor's degree attainment in 1981-82 (today, women earn 57% of bachelor's degrees); master's degree attainment in 1986-76 (today, women earn 60% of master's degrees); and doctoral degree attainment in 2005-06.
[2] Ibid.
[3] Ibid.
[4] Ethier, M. (2018, January 31). MBA Programs With The Most Women. *Poets and Quants*. Across all U.S. MBA programs, women are 36% of the student population.
[5] U.S. Bureau of Labor Statistics. (2018). Labor Force Statistics from the Current Population Survey.
[6] McKinsey & Company and Lean In. (2018). Women in the Workplace 2018. p. 64. In the "Banking and consumer finance" sector, according to their survey of 279 companies in North America (17% of the companies, or approximately 47, were in finance), women's representation was 56% at the entry level, 42% at the manager level, 39% at the senior manager/director level, 31% as VPs, 25% as SVPs, and 24% in the C-suite. Similar numbers from the consulting firm Mercer show that in the financial services industry, support staff is 67% female; professional staff is 46% female; managers are 37% female; senior managers are 26% female; and executives are only 15% female (Mercer. Gender Diversity is an Imperative for the Financial Services Industry.). Finally, according to Catalyst, in 2016 women made up 61.3% of accountants and auditors, 52.5% of financial managers, and 36.9% of financial analysts in the U.S. (Catalyst. (2018, January 5). Quick Take: Women in Financial Services.).

only about 20% of senior leadership positions in the U.S. Financial Services Industry.[7] The numbers are even lower for women of color, who are nearly totally absent in the C-suite.[8]

Benefits to the Financial Services Industry

There are, however, very specific gains of gender diversity for the Financial Services Industry. Women make up just over 50% of the U.S. population[9] and control a sizeable share of wealth in this country, yet they are significantly underrepresented in the financial services sector.

Numerous research studies from the last few decades show that diversity in teams leads to better performance, and that heterogeneous teams solve complex problems and catch errors more effectively than homogeneous teams. Diverse groups perform better even than homogeneous groups of the best problem-solvers because diverse groups of people bring more ways of thinking and more divergent perspectives to the table. This allows them to solve problems faster and better.[10] Adding diversity to teams makes them better at decision-making because they are more likely to process information carefully, remain objective, consider more viewpoints, and re-examine facts.[11] As a result, gender and racial diversity on teams are correlated with the creation of novel solutions, greater innovation[12] and higher collective intelligence.[13] And in the financial services context specifically, diverse teams have been shown to be more likely to price stocks accurately.[14]

Benefits to the Overall U.S. Economy

Finally, increased female participation in the labor force, and in the Financial Services Industry in particular, is beneficial to the overall economy. Simply put, the U.S. economy moves closer to its peak as women's participation in the labor market grows. Evidence suggests that the market is not optimized today as women's participation has declined. As of September 2017, the labor force participation rate of prime-age women was 75%, compared to 89% percent for men, and down from its

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[7] Jaekel, A., & St-Onge, E. (2016, October 25). Why Women Aren't Making It to the Top of Financial Services Firms. *Harvard Business Review*. Analysis based on disclosures from 50 American financial services companies showed that women occupy only 20% of executive committee roles, 22% of board positions, and 12% of chief executive officers.

[8] McKinsey & Company. Closing the gap: Leadership perspectives on promoting women in financial services. p. 5.

[9] U.S. Census Bureau. (2018). Quick Facts: Population estimates, July 1, 2018.

[10] Dreifus, C. (2008, January 8). In Professor's Model, Diversity = Productivity. *The New York Times*. Full argument in Page, S. (2008). *The Difference: How the Power of Diversity Creates Better Groups, Firms, Schools, and Societies*. Princeton, NJ: Princeton University Press.

[11] Phillips, K. W., Liljenquist, K. A., & Neale, M. A. (2009). Is the Pain Worth the Gain? The Advantages and Liabilities of Agreeing With Socially Distinct Newcomers. *Personality and Social Psychology Bulletin, 35*(3), 336–350.

[12] Díaz-García, C., González-Moreno, A., & Sáez-Martínez, F. J. (2013). Gender diversity within R&D teams: Its impact on radicalness of innovation. *Innovation, 15*(2), 149-160. Among 4,277 R&D teams in Spain, companies with more women were more likely to introduce radical new innovations into the market over a two-year period.

[13] Woolley, A. W., Chabris, C. F., Pentland, A., Hashmi, N., & Malone, T. W. (2010). Evidence for a collective intelligence factor in the performance of human groups. *Science, 330*(6004), 686-688. Groups with more females had a higher collective social sensitivity, leading to a higher collective intelligence and better performance on a variety of tasks (visual puzzle solving, collective brainstorming, moral decision-making, bargaining for resources etc.).

[14] Levine, S. S., Apfelbaum, E. P., Bernard, M., Bartelt, V. L., Zajac, E. J., & Stark, D. Ethnic diversity deflates price bubbles. *Proceedings of the National Academy of Sciences, 111*(52), 18524-18529. In experiments in Texas and Singapore, financially literate participants in simulated markets were asked to price stocks. Individuals who were part of ethnically diverse teams were 58% more likely to price stocks correctly, whereas those in homogenous groups were more prone to pricing errors.

peak of 77% in 2000.[15] The impact of these numbers on the U.S. economy is significant. Researchers have shown that there is a connection between the productivity growth observed in a country and that country's progress in increasing female labor force participation. Evidence suggests that adding women to the labor market will increase productivity overall and stimulate wage growth for both women and men.[16] Having people of different backgrounds with different skills and competencies enhances value.[17]

Conclusion

In summary, the research illuminates that more women in the Financial Services Industry is important for the efficiency and competitiveness of the U.S. economy, as well as for financial services companies themselves. Furthermore, gender inclusion needs to become business as usual, not only in this particular industry but across society as a whole. New research highlights the importance of the larger social context when looking at the benefits of gender diversity for a firm. The more we make gender diversity and gender balance a norm overall, the more gender diverse companies will experience market success.[18] So we not only need women in the financial services industry in general; we need them at all levels of the decision-making hierarchy, including at the very top. We need to create a broader environment that supports both women and men's maximal success. Not to mention that utilizing the full talent pool is simply the right thing to do, for all of us and for America.

Thank you again for inviting me today. I look forward to responding to your questions.

[15] Shambaugh, J., Nunn, R., & Portman, B. (2017, November 2). Removing barriers to women's labor force participation. *Brookings Institution*. Prime-age women are defined as 25–54-year-olds.
[16] Ostry, J. D., Alvarez, J., Espinoza, R., & Papageorgiou, C. (2018, October). Economic Gains from Gender Inclusion: New Mechanisms, New Evidence. *International Monetary Fund*.
[17] Ibid.
[18] Zhang, L. (2019). An Institutional Approach to Gender Diversity and Firm Performance. *Organization Science* (forthcoming). The longitudinal study examines data from 35 countries and 24 industries (n = 1,069 public firms), showing that gender diversity's relationship with firm performance depends on both its normative and regulatory acceptance in the broader institutional environment.



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Testimony of

Richard Guzzo,
Partner,
Mercer

Before the Subcommittee on Diversity and Inclusion,
Committee on Financial Services

May 1, 2019
Washington, DC



Chairwoman Beatty, Ranking Member Wagner and Members of the Committee, thank you for the opportunity to discuss the business case for diversity.

My name is Richard A. Guzzo. I am a Partner at Mercer and co-leader of Mercer's Workforce Sciences Institute. Prior to working at Mercer, I was Professor of Psychology at the University of Maryland and before that I was on the faculty of New York University. I published my first research paper on gender discrimination in the workplace in 1976, and more recently authored a chapter on diversity in the *Encyclopedia of Race, Ethnicity, and Nationalism* (Oxford, 2015). In addition to my academic background, I have over 20 years of experience consulting to organizations, often on issues of workforce diversity. My B.Sc. degree is from The Ohio State University and Ph.D. is from Yale University.

Mercer is a business unit of Marsh & McLennan Companies (MMC), a US-based leading professional services firm with a global network of nearly 75,000 with expertise in risk, strategy and workforce management. In addition to Mercer, the businesses of Marsh & McLennan include Marsh, Guy Carpenter, and Oliver Wyman. Collectively, we employ 25,000 colleagues in the US.

Today I will focus on a few key considerations related to the business case for diverse, inclusive workplaces, as well as examples of actions being taken by financial services employers to increase workforce diversity. In addition to speaking from experience, I will emphasize evidence over opinion, such as evidence from academic research literature, from research Mercer has conducted and from our data-driven consulting engagements.

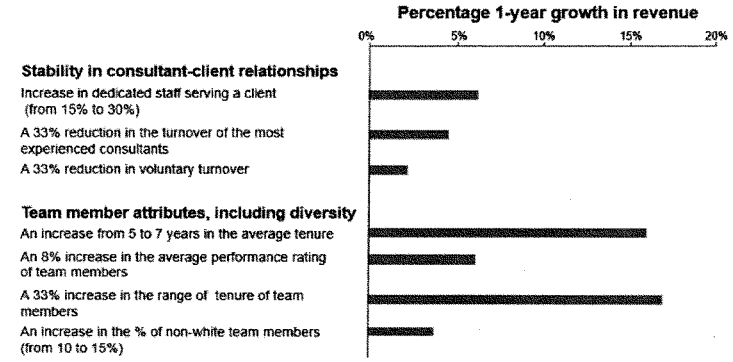
The Business Case

There is more to the business case than a simple link between diversity and near-term business results, though some may wish it were so simple. For example, advocacy groups and consulting firms are known to release reports purporting to show that diversity in Boards of Directors is associated with higher levels of firm performance. However, the evidence from rigorous academic research on this very issue—and here I am summarizing the results of studies involving thousands of firms around the world—is that the relationship between Board diversity and financial results ranges from nonexistent to very slightly positive at best.

However, there are countless other evidence-based examples of the positive effects of diversity in a business on performance, such as the example illustrated in Exhibit 1. The exhibit shows that the diversity of a consulting services company's client-facing teams positively impacts the success of those teams. Success here is defined as year-over-year revenue growth. In this case, teams with a larger percentage of non-white members grow revenue at higher rates. Also note that it is not only diversity of race/ethnicity that matters but also diversity of experience (tenure).

Exhibit 1

Team Composition and Revenue Growth in a Consulting Services Firm



Source: Mercer client case

I invoke these two examples to show that the evidence-based business case for diversity in terms of impact on "the bottom line" is often quite nuanced. The specifics are shaped by the types of diversity under consideration and the performance measures investigated.

Reputations matter to the success of companies, and evaluations of employer reputations are readily accessible at websites such as fairygodboss.com, glassdoor.com, kununu.com, inhersight.com, vault.com and others. To the point of this hearing, many of these websites provide evaluative ratings of employers' culture, equality, and inclusiveness, ratings made by individuals based on their experience as employees or as job applicants. A poor reputation for workplace diversity can thus become an impediment to successfully attracting desired talent.

Also relevant to the business case is the rise of ESG—Environmental, Social, Governance—investing. Diversity and fairness are elements of the Social and Governance qualities of publicly-traded companies that ESG investors want to know about. To illustrate, the Bloomberg Gender-Equality Index aids ESG investors by providing data about women's representation and company practices that support gender equality. Other entities, too, provide evaluations based on companies' disclosures about such things. Large US financial services firms are conspicuously present on the rosters of companies evaluated for ESG investors.

The business case for diversity can thus have several facets:

- "Moving the needle" of business performance,
- Enhancing the ability to attract talent and
- Drawing investors' dollars.

For these reasons and others, many employers have built into their business objectives the continued pursuit of diverse and inclusive workplaces. Especially noteworthy are examples of collaborative efforts in this pursuit.

Collaborative Efforts within the Financial Services Industry

Recognizing the value of diverse workforces to business and community, and also understanding that the demographics of the industry's workforce had fallen out of sync with those of the metropolitan area, seven Chicago-area financial services employers joined with the Chicago Community Trust in 2013 to create the Financial Services Pipeline (FSP) Initiative. Currently 19 area employers participate. The FSP pursues two goals:

- Increase the representation of African-Americans and Latinos at all levels in the industry, and
- Improve the cultural competency of the industry.

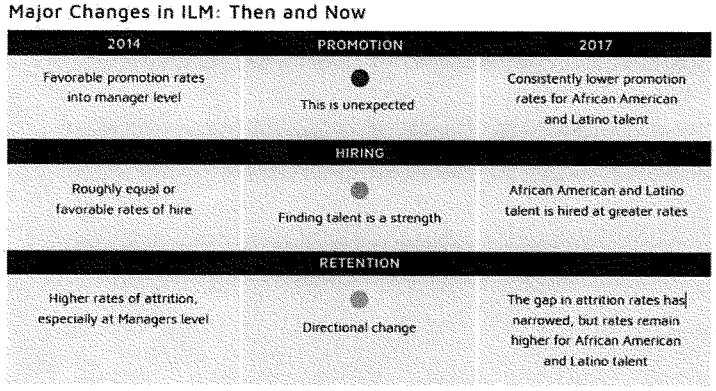
The FSP provides a number of events, programs, and resources to support its goals. These include online toolkits for individuals and employers, information-sharing and problem-solving events for employers, student internships, workshops to accelerate the career advancement of professionals employed in the industry, and early outreach activities to create awareness of the industry among students in high school and in early years of college.

A distinctive feature of the Initiative is its commitment to using evidence to guide its efforts and to document change. Mercer has had the privilege of supporting the Initiative with research since 2014. For example, results from the early outreach programs reflect research findings that African-Americans' and Latinos' interests in a career in financial services tend to develop earlier than do the interests of whites.

It's not just hiring. Achieving workforce diversity also is about retaining and about advancing diverse talent into positions of leadership. The patterns of hiring, retaining, and promoting—called "internal labor market dynamics"—are critical data that FSP member firms share to assess progress and set priorities for further action. For example, Exhibit 2 shows that from 2014 to 2017 FSP member firms had great success in increased hiring of African-Americans and Latinos, modest success at increasing their retention rates with employers, but fared poorly at promoting African-Americans and Latinos into leadership roles at rates comparable to whites.

Exhibit 2

Changes in Internal Labor Market (ILM) Dynamics, 2014-2017



Source: Financial Services Pipeline Initiative Year in Review, 2018

There are numerous other interest groups and associations that seek to influence diversity within the financial services industry. FSP happens to be among the most prominent—and transparent—in its efforts. The FSP Initiative makes it clear that the pursuit of workforce diversity is a long-term commitment that is best guided by data and is attentive to the reality that unexpected setbacks will accompany successes on the journey.

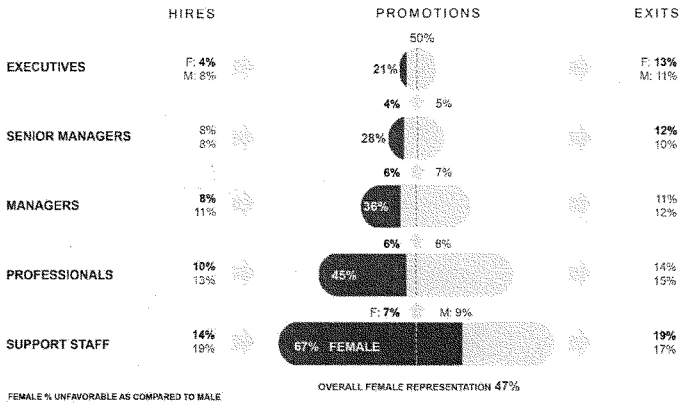
Lessons from Research on Gender Diversity

Mercer's "When Women Thrive" research focuses on gender representation and inclusion. Data come from over 800 employers in 55 countries and represent nearly two million working women. There are valuable insights from this research relevant to diversity in financial services. (see addendum 1)

Our data reveals, not surprisingly, that women's representation declines with each successively higher rung of the career ladder, from staff positions through managerial positions to executive-level positions, as Exhibit 3 illustrates. However, there are differences among organizations: Some have substantially greater representation of women in positions of leadership. What explains these differences?

Exhibit 3

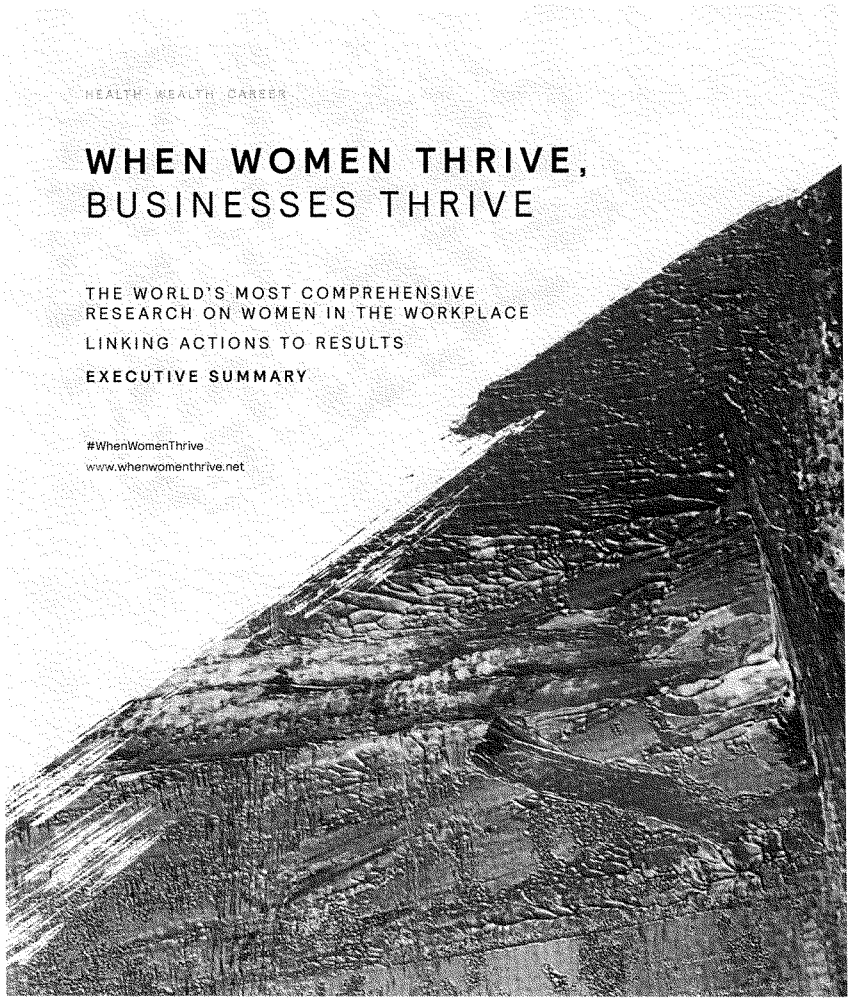
Gender Representation in Financial Services



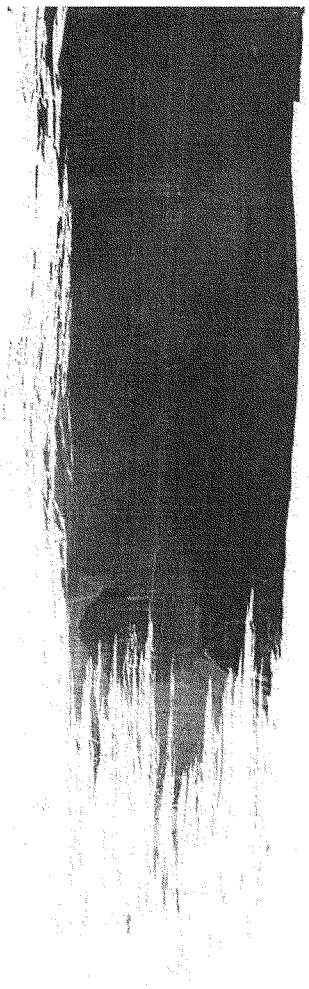
Source: Mercer, 2019

Our analysis shows that the presence of family-friendly policies or policies that hold individuals accountable for diversity goals, for example, are by themselves not predictive of representation of women in leadership roles. Important are active engagement and sustained commitment. For example, we find that firms with leaders actively involved in diversity and inclusion initiatives, and firms that dedicate resources to state-of-the-art statistical approaches to identify and eliminate unfair gender pay gaps, are firms more likely to have higher proportions of women in leadership levels.

We believe that this insight applies not just to gender diversity but also to achieving greater racial and ethnic diversity in financial services. Active engagement and unrelenting effort—fueled by an appreciation of the business case for diversity, strong evidence to steer by, and collaboration with peer companies—are keys to successful change.



MAKE TOMORROW, TODAY MERCER



When Women Thrive is a call to organizations and leaders to think and act differently to advance gender diversity. It is a business imperative with deep and profound social implications — an imperative that every business leader needs to personally drive. Now is the time for us to take action.

AMPLIFYING THE CONVERSATION

In 2014, we released our inaugural *When Women Thrive* report to amplify the conversation about how to fully engage the global female workforce. Policymakers, academics, CEOs, nonprofits, media, employers, and women themselves recognize that advancing women in the workforce offers one of the biggest opportunities to impact growth, innovation, community, and vitality. But data shows that significant roadblocks remain, despite advances over the past several decades.

On pay alone, women are still a staggering 118 years away from closing the gender gap, according to the World Economic Forum's recently released *2015 Global Gender Gap Report*. 118 years!

We can — and must — do better, and employers and leaders have a critical role to play. The time has come for us to think and act differently.

To break through the inertia and accelerate progress, organizations need actual behavioral change on the individual level — beginning with leaders and progressing peer by peer to create real momentum for change. Organizations need women and men together to recognize that all are better off economically and personally when women make up a larger share of the workforce. And women and men need targeted programmatic changes built on robust proof of what is helping and what is hurting the advancement of women in their own organizations.

When Women Thrive one year later — the most comprehensive look at women in the workplace

Since the release of *When Women Thrive*, we have had the pleasure of continuing the conversation with thousands of leaders and employers eager to share their progress on the journey toward enhanced gender diversity in their own organizations. With 13 additional countries added in 2015, our research now covers responses from 583 companies across 42 countries, including data on 3.2 million employees, making it the largest study of its kind.

This expanded footprint has enabled us to develop the most robust insights to date about what is required to help women thrive. In this report, we share information about the strategies and tactics that are moving the needle, and about those that are not. We tell you which levers are associated with the largest gains, and provide specific steps you can take to increase the representation of women in your organization. Finally, we share with you a proven roadmap — no matter where you are today — to make that journey to a thriving and gender diverse workforce.

Women are just one component of a thriving workforce

Our ultimate goal in sponsoring this work is broader than ensuring that women thrive — it is ensuring a thriving workforce that is diverse and inclusive of all populations. This is what drives innovation and growth in organizations and what drives the advancement of society.

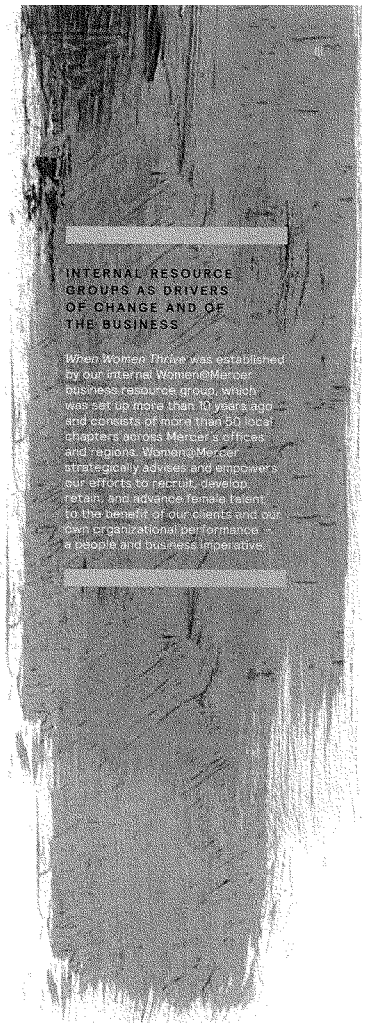
We begin here with women because of the glaring and persistent gap in female workforce participation worldwide and the tremendous danger — and opportunity — this presents to companies and societies. But our approach to analyzing and addressing the drivers of female participation can and should be used to maximize the engagement and productivity of all diverse segments of the workforce.

Thank you to all of our participating organizations

We are very grateful to all the organizations that contributed their data and insights to inform *When Women Thrive*. Our goal now is to further focus the tremendous interest and commitment generated over the past year into an ongoing dialogue among stakeholders that accelerates our progress toward sustained gender diversity in the workforce. Over the course of this multi-year journey, we will continue to track progress across this community and refine our recommendations as needed.

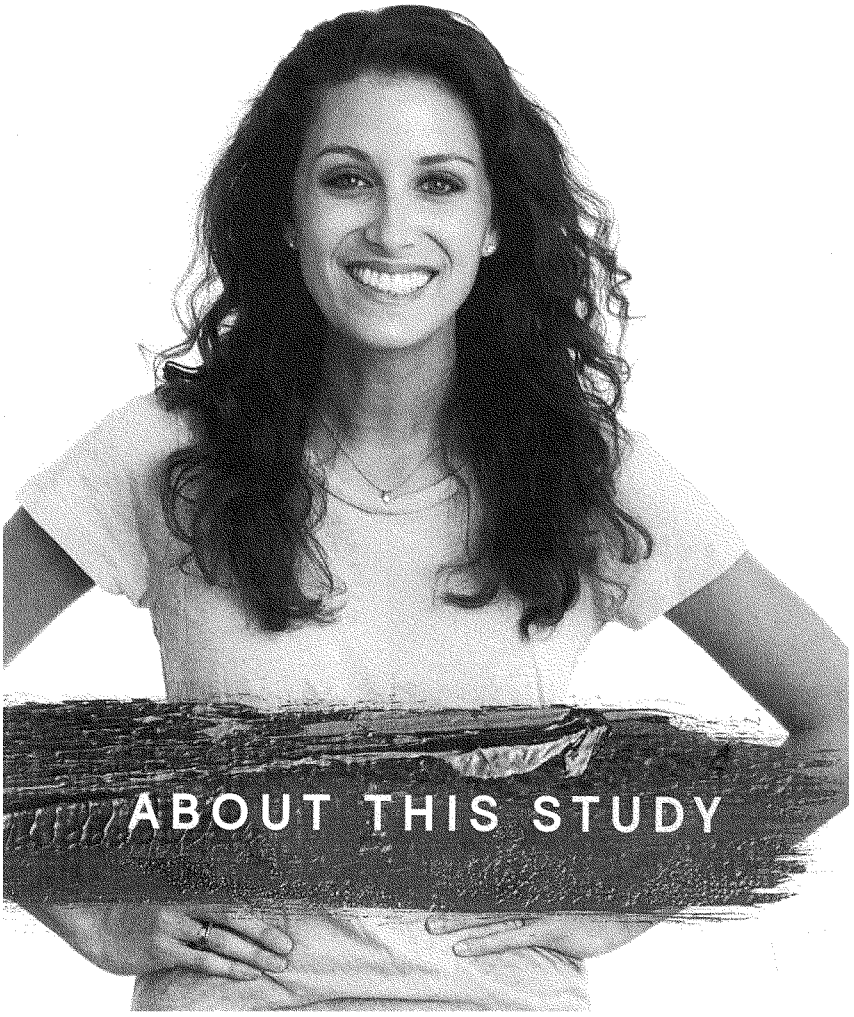
We invite you to join us in seizing this moment. Only by engaging the full talents of both women and men can we expect to keep our organizations and our societies growing.

PATRICIA A. MILLIGAN
Global Leader of When Women Thrive and Multinational Clients, Mercer



INTERNAL RESOURCE GROUPS AS DRIVERS OF CHANGE AND OF THE BUSINESS

When Women Thrive was established by our internal Women@Mercer business resource group, which was set up more than 10 years ago and consists of more than 50 local chapters across Mercer's offices and regions. Women@Mercer strategically advises and empowers our efforts to recruit, develop, retain, and advance female talent, to the benefit of our clients and our own organizational performance – a people and business imperative.


ABOUT THIS STUDY

THIS RESEARCH IS UNIQUE — AND IS DRIVING REAL OUTCOMES

Building on considerable research that proves the link between diversity, innovation, and profitability, *When Women Thrive* leverages Mercer's extensive experience with thousands of companies around the world to help understand the actual drivers of success in building gender diversity. Here is a summary:

Global: Our study covers 583 organizations in 42 countries, representing 3.2 million employees , including 1.3 million women.

Holistic: Our research is more than a snapshot of where organizations stand today. Our focus includes linking diversity and inclusion (D&I) programs and policies to tangible outcomes in order to uncover which practices are helping and which are hurting progress toward gender equity.

Forward-looking: Using the data collected from participating organizations, we are able to forecast how workforces are positioned for change over the next 10 years.

Ongoing, real time: Through our open survey, we will add to our growing database and regularly analyze the latest inputs to provide critical insights, and to keep business leaders on the cutting edge.

IN 2015 WE ADDED
13 NEW COUNTRIES

TO OUR RESEARCH DATABASE AND SIGNIFICANTLY INCREASED SUBMISSIONS FROM BRAZIL, CHINA, AND JAPAN

647

UNIQUE SURVEY SUBMISSIONS FROM **583** ORGANIZATIONS

3.2 MILLION

EMPLOYEES REPRESENTED IN THEIR EMPLOYER'S RESPONSES, INCLUDING 1.3 MILLION WOMEN

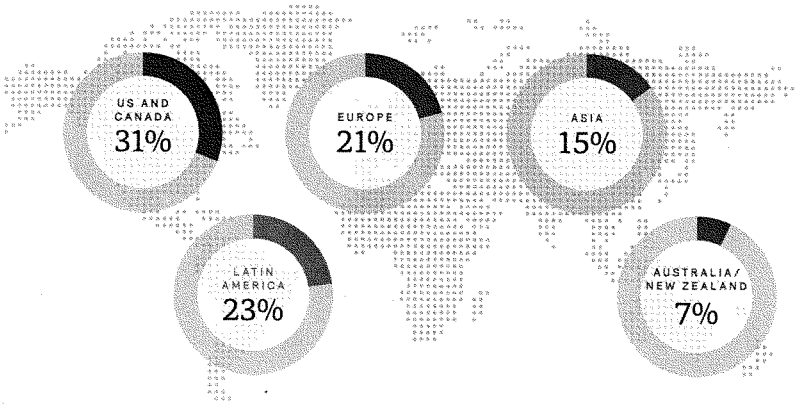
LINKS HR PROGRAMS

FOCUSED ON EMPLOYEE
HEALTH, WEALTH, AND CAREER
TO SUCCESS IN BUILDING GENDER DIVERSITY

PARTICIPANT PROFILE

PARTICIPATION BY REGION

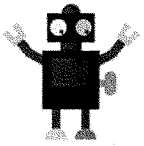
FIGURE 1. PARTICIPANT PROFILE BY REGION (N=647)



A note about organizations in the Middle East and Africa:
Ensuring that women thrive in the Middle East and Africa is critical to the region's economic and social development. This report captures limited findings from the Middle East and Africa. We hope to capture additional data and to report on these regions in the future and include the outcomes in our report.

PARTICIPATION BY INDUSTRY

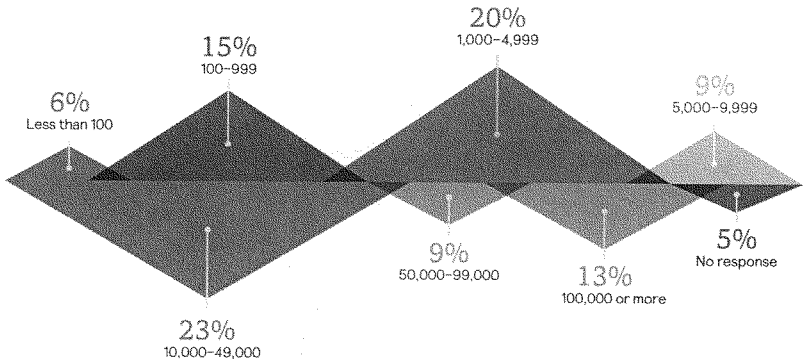
FIGURE 2. PARTICIPATION BY INDUSTRY (N=647)

PRODUCTS/ MANUFACTURING	SERVICES	INFORMATION AND TECHNOLOGY
		
31%	24%	11%

FINANCE/BANKING	ENERGY	OTHER
		
11%	8%	15%

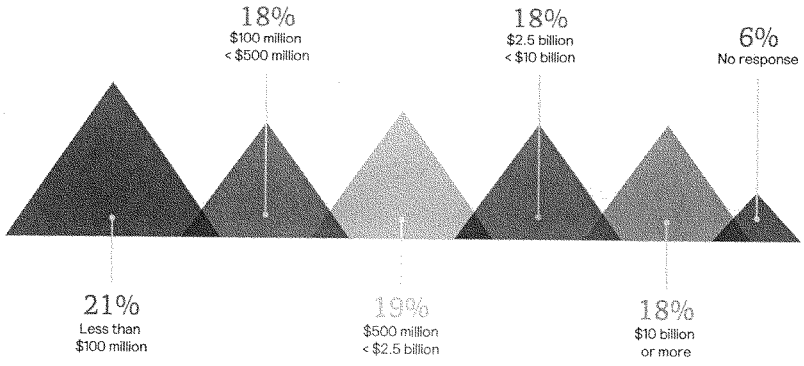
PARTICIPATION BY GLOBAL HEADCOUNT SIZE

FIGURE 3. DISTRIBUTION BY HEADCOUNT SIZE (N=647)



PARTICIPATION BY TOTAL REVENUE SIZE

FIGURE 4. DISTRIBUTION BY REVENUE SIZE (GLOBALLY) (N=647)



PARTICIPATING ORGANIZATIONS

- 36 South Capital Advisors LLP
- 3M
- Aberdeen Asset Management
- Acando
- Accor
- adidas Group
- AECOM-INOCSA
- Airbus Helicopters
- Alcon
- Alliance One International
- Alstom
- Amadeus
- AMD
- American Express
- Amgen
- Amica Mutual Insurance
- Amil
- Amundi
- Andersen Tax
- Apotex
- Arcos Dourados Comercio de Alimentos
- Armaggan
- Arriva
- Arrow Electronics
- Assicurazioni Generali
- AstraZeneca
- AT&T
- Atkins
- Atla Consultoria
- ATT Global Network Services
- Australia and New Zealand Banking Group (ANZ)
- Avaya Argentina SRL
- Avery Dennison
- Avon
- AXA
- B. Braun Medical Devices
- Bakhtar Development Network Global (BDN Global)
- Banco Hipotecario
- Bancompartir
- BASF
- Bayer
- BC Assessment
- Beaulieu ASIA
- Beijing Kerry Property Development
- Belatrix Software
- Belgacom
- Bell
- Bematech
- Bepensa
- Best Buy
- Blue Shield of California
- BNP Paribas
- Bose
- Bouygues
- British Petroleum
- Brownells
- Brown-Forman Corporation
- Bruker Corporation
- BT
- Bunge
- CA Technologies
- California Institute of Technology
- Canadian Nuclear Laboratories
- Canadian Oil Sands
- Canexus Corporation
- CAPA International Education
- Capgemini
- Capital Group
- Capital One
- Carvajal Educación
- Caterpillar
- Celgene
- Cementos Progreso
- CEMEX
- Central 1 Credit Union
- CEPM
- CEVA Logistics
- CGG
- CH2M Hill
- Charles Schwab
- Cineplex Inc.
- City of Olathe Kansas
- City of Yarra
- Civeo
- Clayton Utz
- Club Assist
- Coca-Cola
- Colgate Palmolive
- College of Lake County
- COM DEV International
- Compass Group
- Compass Metrics
- ConAgra Foods
- Constant Contact
- Construtora Andrade Gutierrez
- Continental
- Copersucar
- Crawford & Company
- Credit Union Central of Manitoba
- Crescent Point Energy
- Crown Worldwide Holdings
- CSIRO
- CSL Behring
- CUNA Mutual Group
- Danone Nutricia Early Life Nutrition
- Decathlon
- Dedham Public Schools
- Del Monte Fresh Produce
- DENSO
- Deutsche Bank
- Devon Energy
- Dixon Hughes Goodman
- DNP Property Management
- Durham University
- Eastman Chemical Company
- Eaton
- Eczacibasi Group
- Edebé Group
- Educational Testing Service

- Eletros
- Embassy of Australia
- Embraer
- Emeco International
- Emerson
- Empresas Polar
- Enbridge
- Energias de Portugal
- Eneva
- Equión Energía
- Ernst & Young
- Erste Group
- ERT
- European Investment Bank
- EVRAZ
- Falabella
- Federal Mogul
- Fidelity Internationl Limited
- First American Financial
- First State Super
- Forrester Research
- Fresenius Medical Care
- Fujitsu
- GEBALIS
- Georgia Institute of Technology
- Giesecke & Devrient
- Glasgow Caledonian University
- Gleason
- Goldcorp
- Grace
- Graphic Packaging International
- Groupe SEB
- Grupo Clarín
- Grupo Omnilife-Chivas
- Guangzhou Nanxin Pharmacy
- H&M Retail
- Halliburton
- Henkel
- Herbalife
- Hercules Offshore
- Hershey
- Hewlett Packard
- HomeServe
- Honeywell
- Hopewell Group of Companies
- Hoteles City Express
- HSBC
- Humana
- Hydro Ottawa
- ICA
- ICL Group
- IFA Celtics
- IHS
- Indra
- Information Services Corporation
- Infraestruturas de Portugal
- ING Direct
- Ingersoll Rand
- Ingram Industries Inc.
- Interceramic
- International Flavors & Fragrances
- International Personal Finance
- Intesa Sanpaolo
- IPM Informed Portfolio Management
- Jack in the Box
- Jacobs
- John Howard Society of Ontario
- John Lewis Partnership
- Johnson & Johnson Switzerland
- Johnson Controls
- Johnson Electric
- Johnson Matthey
- JTEKT Corporation
- K+S Potash Canada
- Kimberly-Clark
- Kinross Gold Corporation
- Klohn Crippen Berger
- KPMG
- Kroll
- Lancaster University
- LandCorp
- Lantmännen Unibake
- Laurentian Bank
- LCJ Investments
- Leighton Holdings
- Lendlease
- Level 3
- Lexmark
- Lindorff Group
- Logicalis Inc
- L'Oréal
- Lowe's
- Lufthansa Group
- Macquarie Group
- Mahle
- Maison Délice
- Manulife Financial
- Maple Reinders Group
- Marathon Oil Company
- Marsh
- Marsh & McLennan Companies
- Massachusetts Technology Corporation
- MassMutual
- MasterCard
- Materialise
- McCain Foods
- Mead Johnson Nutrition
- Media Capital Grupo
- Medtronic
- MEG Energy
- Mercedes-Benz
- Mercer
- Merck & Co.
- Merrick & Company
- MetLife
- Mexichem
- Molinos
- Monsanto
- Motorola Solutions
- Motta Internacional
- Mundicenter

- National Bank of Canada
- National Democratic Institute for International Affairs
- Natura Cosméticos
- NCM
- Nestlé
- Nexteer Automotive
- Nice
- Nielsen
- Nissan
- Nomura
- Northwestern Mutual
- NASDAQ
- Nutrisa
- Oliver Wyman
- ON Semiconductor
- Opain S.A.
- Oxfam
- PACCAR
- Pacific Gas and Electric Company
- Pacific Life Insurance
- Pan American Silver
- Panalpina
- Panasonic
- Pentair Valves & Controls
- PepsiCo
- Pernod Ricard
- Perrigo
- Petrobras
- PI (Physik Instrumente)
- Piper Alderman
- PJM Interconnection
- Plaza Logística
- Portugal Telecom
- Portunus Corporate Advisory
- PPG Industries
- PricewaterhouseCoopers
- Principal Financial Group
- Privalia
- Proeza
- Prologis
- ProMéxico
- Proximus
- PVH
- QIC
- Québecor Média
- Raytheon
- Reckitt Benckiser
- Reinsurance Group of America
- Reliance Home Comfort
- Resolute Energy Corporation
- Rexam BCSA
- Robert Bosch
- Roche
- Royal Bank of Canada
- Ruizhi Petro Services
- Ryan Companies
- Sage
- SAICA
- San Miguel Global
- Sandvik
- Sanofi
- SAP
- SCA Group
- Schneider Electric
- Schneider National
- Schroder Investment Management Australia
- Serco
- Siemens
- Simplot
- SKF
- Smartmatic
- Smiths Medical
- Solar Turbines
- Solvay
- Sonae
- SPDAD, Unipessoal (Decathlon Portugal)
- SPX Corporation
- State Street Corporation
- State Super Financial Services
- Steck Indústria Elétrica
- SteelBridge Solutions
- Stinger Ghaffarian Technologies
- Strauss Group
- SunGard
- SunTrust Banks
- Superior Propane
- Swiss Re
- Symantec Corporation
- TAM S.A.
- TAQA Bratani
- TasNetworks
- TC Transcontinental
- TE Connectivity
- TechMahindra
- Telstra
- Tenaris Andean
- TenarisTamsa
- Tenzing
- Tetra Pak
- Thai Central Chemical
- The Calgary Airport Authority (YYC)
- The Canadian Real Estate Association
- The Canterbury Community Trust
- The Phoenix Group
- The Rockport Company
- Tieto
- Time Warner Cable
- TNT Express Worldwide
- TUH
- UBS
- UCB
- Union Gas
- United Breweries Limited
- United Launch Alliance
- United Rentals
- United Super (Cbus)
- UnitedHealth Group
- Unitywater
- University of Hull

- University of Leeds
- University of Liverpool
- University of Ottawa
- University of Wales Trinity Saint David
- URS Corporation
- Vancouver Foundation
- Vermilion Energy
- Veyance Technologies
- Victoria University
- Virgin Australia
- VLI Logistica
- Vodafone
- Volaris
- Walmart
- Washington Trust Bank
- Waters
- Weir Minerals
- Wesfarmers Chemicals, Energy & Fertilisers
- West Corporation
- Wheaton Franciscan Healthcare
- William Blair
- Wipfli LLP
- Workday
- World Resources Institute
- Wrigley
- Xerox
- Xylem
- Zinfra Group

A note about organizations:
Organizations listed have agreed to be named in the study. This is not a comprehensive list of all participants as some have indicated they did not want their name published.

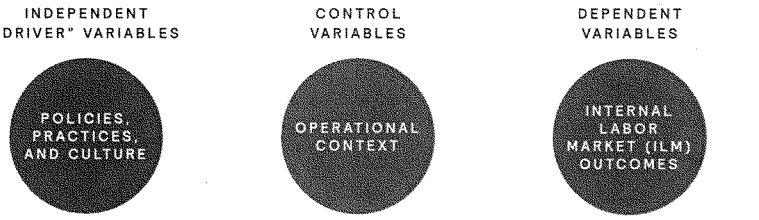


METHODOLOGY

Proprietary, predictive, and analytical — identifying solutions that will drive gender diversity.

Mercer's *When Women Thrive* research is looking deeply into what it means for women to thrive — grounding our analysis in the data of today's workforce, and also in an examination of the programs, policies, and operational context in which employees work.

FIGURE 5. RESEARCH FRAMEWORK



DRIVERS EXAMINED:

Health, and financial well-being.

Critical skills and experiences needed for career success.

Leadership engagement and accountability.

CONTROLS INCLUDED:

Region.

Industry sector.

Revenue size.

Global employee headcount.

OUTCOMES MEASURED:

Current female representation.

Projected future improvement in female representation at the professional through executive levels.

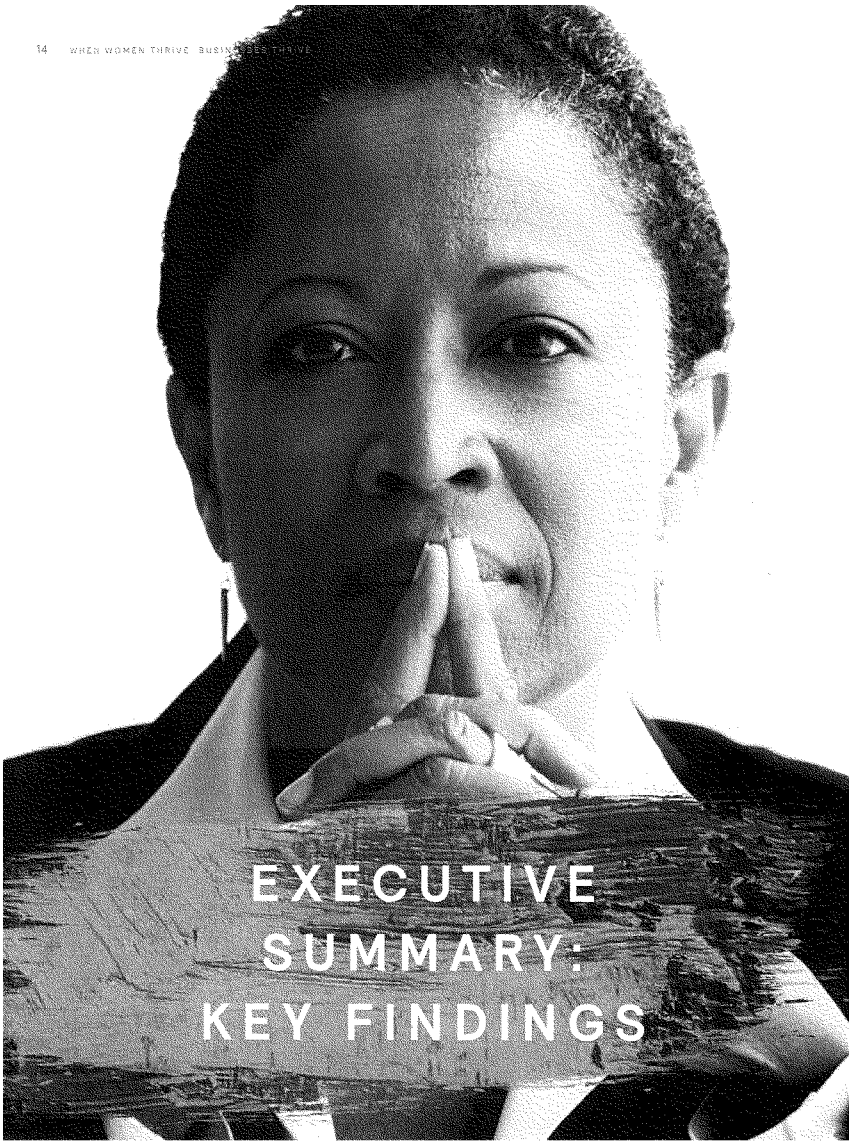
This research uses robust analytics to correlate companies with what they are doing to support female talent across an exceedingly holistic set of policy categories, and correlate policies with the following outcomes:

- **Current representation of women at the professional through executive levels.**
- **Projected *future* representation of women at the professional through executive levels over the next 10 years.**

We used a regression-based approach to link survey responses to the specific outcomes described above. The approach controlled for differences across regions and industries and between organizations of different sizes.

Potential drivers were analyzed — one at a time — to assess their impact on our outcome measures, using a statistical model that accounted for the above controls. This approach ensures that the analysis had sufficient statistical power to identify true effects. Relationships presented are statistically significant at conventional levels.

We also wanted to understand the extent to which organizations are offering key programs — from maternity/paternity leave, care giving, and sponsored child care to diversity and inclusion resource groups — and actually using them. You can find regional comparison in our global report on these important programs.



EXECUTIVE SUMMARY: KEY FINDINGS

Where do you stand?

Take the *When Women Thrive* diagnostic.

www.whenwomenthrive.net

WOMEN IN 2016: THRIVING OR NOT?

WOMEN CONTINUE TO BE UNDERREPRESENTED IN THE WORKFORCE AT ALL CAREER LEVELS

- Only 60%–70% of the employable female population is in the workforce, versus male participation rates in excess of 80%.[1]

Women make up only 35% of the average company's workforce at the professional level and above.

- Female representation declines as career level rises. Globally, women make up 33% of managers, 26% of senior managers, and only 20% of executives.
- There is an increased focus on hiring and promoting women into executive ranks, seemingly driven by regulation and heightened media attention.

[1] World Economic Forum *Human Capital Report, 2013.*

ORGANIZATIONS ARE FAILING TO BUILD FUTURE FEMALE TALENT PIPELINES

- Current female hiring, promotion, and retention are insufficient to create gender equality over the next decade.
- Improvements in hiring at the highest levels of the organization are not extending to lower levels.
- The progress made over our 2014 data does not appear to be the result of systemic improvements in good practices that will support long-term success. Instead, it seems to result from ad hoc actions, such as increased hiring at the top.

THIS IS A GLOBAL ECONOMIC IMPERATIVE WITH DEEP SOCIAL IMPLICATIONS

- Today, there is no region not committed to improving gender equality. Indeed, there are profound implications for women, their economies, their companies, even families.
- What we're doing now is radically changing the trajectory – addressing the deep-rooted inertia that has held organizations and leaders back from real progress on gender diversity.

Studying and talking alone won't lead to change.

- Our research shows that there are strategies waiting for you. With this report, we give you the actions to take today to become the company you want to be tomorrow.

A REGIONAL OVERVIEW OF WHERE WOMEN ARE THRIVING — AND WHERE THEY ARE NOT

Most regions of the world continue to face challenges in increasing women's representation at all levels, with Asia projected to have the lowest representation of women in 2025. A bright spot is Latin America, the only region on track to reach gender parity at the professional level and above by 2025.



ARE WOMEN THRIVING IN ASIA?

Asia is projected to have the lowest representation of women in 2025.

- A focus on increasing representation at the top of organizations will not help Asia move out of last place over the next decade in terms of overall female representation.
- Female representation will reach only 28% at the professional level and above by 2025, given current hiring, promotion, and retention rates.
- Organizations here are least likely, compared with other regions, to be focused on many of the drivers of gender diversity uncovered by this research — the engagement of their middle managers (30%) and their male employees (28%), the adoption of a rigorous pay equity process (25%), or the review of performance ratings by gender to look for adverse impact (20%).



ARE WOMEN THRIVING IN EUROPE?

Despite growth in female representation at top levels, European organizations are not on track to make any improvement in female representation at the professional level and above over the next decade.

- Women will make up 37% of those at the professional level and above in 2025 — the same percentage as today.
- However, hire rates for women at the top of the organization are almost double those for men. This might reflect the impact of quotas, regulation, or media pressure. Regardless, the "quick fix" isn't working, as organizations fail to put into place supporting policies and practices, and as senior women are more likely to exit.
- European participants are much less likely to agree that their women are as well-represented in P&L jobs as they are in functional jobs.



ARE WOMEN THRIVING IN LATIN AMERICA?

Latin America is the only region on track to get close to gender parity at the professional level and above by 2025.

- Although women account for 17% of executives today, they are projected to account for 44% of executives in 2025, given current hiring, promotion, and retention rates.
- Women are more likely than men to be promoted from every level — and twice as likely to be promoted from the senior manager level.
- Latin American participants are doing best globally when it comes to middle management engagement in D&I efforts (51%) and equal representation of women in P&L and functional jobs (48%).
- The challenge in Latin America will be to sustain the momentum observed over the past two years.



ARE WOMEN THRIVING IN THE US AND CANADA?

Although women make up more of the mid- and senior-level workforce in North America than in any other region, current talent flows will yield virtually no gain in women's representation at the professional level and above over the next decade.

- Although we have seen improvements in promoting and hiring women into the executive level over the past year, women are hired at lower rates at other levels. Again, organizations appear to be focused on a quick fix to improve senior-level representation.
- Less than a quarter of organizations agree that their managers are provided training to actively manage leave and flexibility programs (24%) or report equal representation of women in P&L and functional jobs (22%).
- The region is ahead of other regions when it comes to customizing retirement and savings education/training programs by gender — although this is still very rare, with only 14% of organizations doing so.



ARE WOMEN THRIVING IN AUSTRALIA AND NEW ZEALAND?

Lower hiring and retention rates for women at the executive level, relative to men, mean that women will hold only a third of top jobs by 2025.

- Women currently make up only 17% of executives and 33% of professionals and above — the second-lowest rates after Asia.
- Organizations are much more likely than those in other regions to review performance ratings by gender (38%) and actively manage leave and flexibility programs (57%).

PUTTING THE 6P'S INTO ACTION

This research reveals that breaking through inertia and advancing women in the workplace requires **individual** and **organizational** alignment. At Mercer we call this our 6Ps of an effective gender diversity strategy.

WOMEN THRIVE WHEN THERE IS INDIVIDUAL AND ORGANIZATIONAL ALIGNMENT –



INDIVIDUAL

PASSION

PERSONAL

PERSEVERENCE

INDIVIDUALS NEED TO:

- Have *passion* to drive diversity
- Make it a *personal* priority
- Show *perseverance* over time

WOMEN THRIVE WHEN



ORGANIZATIONAL

PROOF

PROCESS

PROGRAMS

ORGANIZATIONS NEED TO:

- Rely on *proof* before jumping to solutions
- Install regular, robust *processes* to ensure equity
- Implement and support critical *programs*

PASSIONATE LEADERSHIP

WOMEN THRIVE WHEN LEADERS AT ALL LEVELS ARE PASSIONATELY ENGAGED.

Only 52% of organizations believe their board members are engaged in D&I initiatives and just 39% agree their middle managers are engaged.

- Organizations with leaders who are actively engaged in D&I have more women at the top, and they hire, promote, and retain women at higher rates relative to men.
- Our experience shows that it is not enough for leaders to mandate change — they must personally drive change through communication and exemplary behavior.

PERSONAL COMMITMENT

WOMEN THRIVE WHEN MEN ARE ENGAGED — AND SEE GENDER DIVERSITY AS WIN-WIN.

Men today are not perceived to be strongly engaged in gender diversity efforts — only 38% of organizations say their male employees are engaged in D&I activities.

- Organizations where men are actively driving D&I efforts have made more progress on improving gender diversity than those where men are not engaged.
- Greater gender equity can improve family economics and afford greater opportunities and flexibility to both men and women.





PERSEVERENCE

WOMEN THRIVE WHEN THE FOCUS IS BROADER THAN ACQUIRING DIVERSE TALENT AT THE TOP.

Organizations are not making progress in building their future female talent pipeline.

- Though our data show a recent improvement in hire rates for women relative to men at senior levels, in most regions, men continue to be hired into and promoted from mid-level positions at higher rates than women. And women in senior levels are more likely than men to leave the organization.
- Although focus at the top is necessary given that women today hold only 20% of executive-level positions, the failure to focus further down the pipeline means that women will still represent only 40% of the workforce at the professional level and above by 2025. Organizations need to focus on systemic, supporting practices to build the female talent pipeline that will sustain gender equality in the long term.

PROOF OF WHAT IS HELPING AND WHAT IS HURTING

WOMEN THRIVE WHEN LEAVE AND FLEXIBILITY PROGRAMS ARE ACTIVELY MANAGED.

Leave and flexibility programs can either help or hurt gender diversity, depending on who uses them and how well they are managed.

- When both men and women use leave programs, organizations exhibit higher female representation.
- Only 29% of organizations say they give their managers training so they can effectively support employees through the maternity/paternity leave and return-to-work processes — and effectively counter any unconscious bias in rewards and promotion decisions that might be triggered by leave.

WOMEN THRIVE WHEN THEIR UNIQUE COMPETENCIES ARE LEVERAGED IN HIGH BUSINESS-IMPACT ROLES.

Our research finds that women have different and unique skills relative to men — skills that are considered critical to career success.

- Traditional job design and valuation leave business growth potential untapped, as leadership competencies are often more closely aligned with the relative strengths of men.
- Incentives for executives to achieve goals are insufficient to drive progress. Executives need to be deeply committed to success.

PROCESSES THAT ACTIVELY SUPPORT WOMEN

WOMEN THRIVE WHEN THERE IS A DILIGENT PAY EQUITY PROCESS.

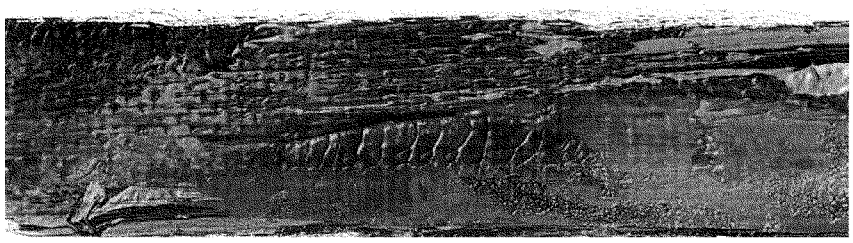
Only 35% of organizations report a pay equity analysis process built on a robust statistical approach.

- A significant driver of greater gender equality is conducting and managing pay equity analysis that relies on statistical analysis, identifies process owners, and includes formal remediation protocols to address identified pay equity risks.

WOMEN THRIVE WHEN PROMOTION AND PERFORMANCE MANAGEMENT PROCESSES INCLUDE A GENDER LENS.

Less than 30% of organizations routinely review performance ratings by gender to check for disparities that translate into differences in opportunities for men and women.

- Progress on gender diversity requires regular focus on equity in performance evaluation and advancement opportunity.

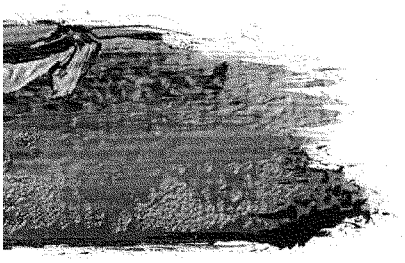


PROGRAMS THAT SUPPORT WOMEN'S UNIQUE NEEDS

WOMEN THRIVE WHEN THEIR UNIQUE HEALTH NEEDS ARE SUPPORTED.

Female representation increases when organizations understand and support women's unique health needs.

- Women have a unique relationship with health care — as patients, caretakers, and decision-makers — but only 45% of organizations agree that supporting this unique relationship is important in attracting and retaining female talent.
- Only 22% of organizations conduct analyses to identify gender-specific health needs and education.



WOMEN THRIVE WHEN THEIR UNIQUE FINANCIAL NEEDS ARE SUPPORTED.

Gender-specific financial wellness practices drive better future representation of women.

- Women face a "perfect storm" financially, because they tend to work in lower-paid employment than men, have more significant gaps in service, and live longer than men, so they need retirement funds to last longer. On top of that, women are more risk-averse investors,[2] impacting overall returns.
- Less than 10% of organizations offer education programs related to retirement savings customized for the behaviors and needs of different genders, or that they monitor savings and investment choices by gender.

[2] Nasdaq, "Men vs. Women: Risk Aversion," 2013, available at http://www.nasdaq.com/article/men-vs-women-risk-aversion-cm287364.


WHAT'S
NEXT

HOW MERCER CAN HELP YOUR GENDER DIVERSITY STRATEGY

We are here for you. For more information, contact us or visit us at www.whenwomenthrive.net

DIAGNOSTIC AND STRATEGY

BASE YOUR STRATEGY ON ROBUST WORKFORCE ANALYTICS AND DATA

Mercer has powerful predictive analytics capabilities to support effective strategy development

ROADMAP

IDENTIFY DISRUPTERS AND SOLUTIONS TO ADDRESS YOUR NEEDS

Mercer's team of D&I experts can assist your company in building a roadmap focused on your priorities

EXECUTION

EXECUTE ON YOUR ROADMAP WITH CLARITY AND FOCUS

Mercer has the unique ability and experience to structure our services to your organizations exact needs. We can provide resources to bolster in-house capabilities, or manage the entire project from start to finish.

MEASURE

CREATE A DASHBOARD FOR ALL LEVELS OF THE ORGANIZATION

It is important to keep a pulse on the key measures of success to ensure you are progressing. Mercer has a variety of tools and portals that will assist in measuring and communicating progress.

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WHAT'S NEXT?

TAKE ACTION TODAY

- Be a part of it: www.whenwomenthrive.net
- Join the *When Women Thrive* LinkedIn group.
- Join the conversation: #WhenWomenThrive.
- Become a member of our global D&I networks.
- Benchmark your own responses and be part of our ***When Women Thrive*** research.
- Engage at our *When Women Thrive* events around the world.
- Talk to our ***When Women Thrive*** experts. Contact your local Mercer office.

JOIN US ON THIS JOURNEY

We invite organizations around the world, in all industries and from all sectors, to join the growing community of organizations that have embarked on this journey toward a thriving female workforce. Successfully moving forward will require all of us to think and act differently. But the rewards for fully using this significant workforce are sure to drive great value.

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ABOUT *WHEN WOMEN THRIVE*

Founded in 2014, *When Women Thrive* is Mercer's global research initiative designed to help companies drive their growth through their female workforce.

Organizations that make women a priority may capture a portion of the reported $12 trillion economic opportunity.

It's Mercer's goal to help firms implement successful diversity initiatives — leveraging our unique data and predictive analytics — to realize their corporate growth goals.

ABOUT MERCER

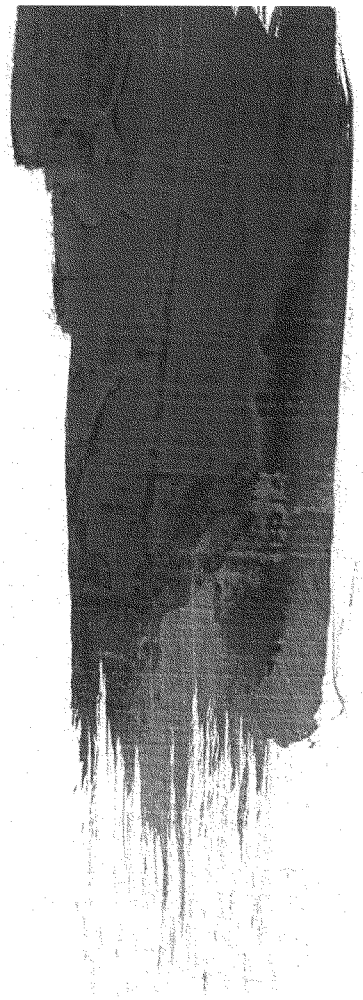
Mercer is a global consulting leader in talent, health, retirement, and investments. Mercer helps clients around the world advance the health, wealth, and performance of their most vital asset — their people.

Mercer's more than 20,000 employees are based in more than 40 countries, and the firm operates in over 130 countries.

Mercer is a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), a global professional services firm offering clients advice and solutions in the areas of risk, strategy, and people. With 57,000 employees worldwide and annual revenue exceeding $13 billion, Marsh & McLennan Companies is also the parent company of Marsh, a leader in insurance broking and risk management; Guy Carpenter, a leader in providing risk and reinsurance intermediary services; and Oliver Wyman, a leader in management consulting.

For more information, visit www.mercer.com.

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RESEARCH SURVEY CONDUCTED IN COLLABORATION WITH EDGE CERTIFIED FOUNDATION

EDGE is the only global assessment methodology and business certification standard for gender equality.

The EDGE assessment methodology was developed by the EDGE Certified Foundation and launched at the World Economic Forum in 2011. EDGE Certification has been designed to help companies not only create an optimal workplace for women and men but to also benefit from it. EDGE stands for Economic Dividends for Gender Equality and is distinguished by its rigor and focus on business impact. The methodology uses a business, rather than a theoretical, approach that incorporates benchmarking, metrics, and accountability into the process. It assesses policies, practices, and numbers across five areas of analysis: equal pay for equivalent work; recruitment and promotion; leadership development training and mentoring; flexible working; and company culture. EDGE Certification has received the endorsement of business, government, and academic leaders from around the world.

Congressional Subcommittee on Diversity & Inclusion
May 1, 2019
"Good for the Bottom Line: A Review of the Business Case for Diversity and Inclusion"
Adrienne Trimble – witness

"Diversity and inclusion" are my life's work. But I don't say that because "diversity and inclusion" is a nice sentiment. It's not a social program, it's not a handout. I can tell you that diversity and inclusion make good business, the best business. It is nothing less than the American future.

In American business, diversity and inclusion already have concrete, specific, and strategic meaning. It's a mistake to assume, as some will, that diversity and inclusion are today's form of "affirmative action," with accompanying quotas. Not at all: diversity and inclusion strategies make good business more profitable, more efficient, and more of a factor in every aspect of American life. They have a clear, measurable impact to a corporation's bottom line.

I am here today because I believe NMSDC is the "go-to" for diversity and inclusion in American business. We are a non-profit organization sustained by our membership, with a national network of 23 regional affiliate councils, over 1,400 corporate members, and 12,000 minority business enterprises (MBEs). Some 2,300 of those businesses are women-owned. We are uniquely positioned to partner with the D&I Committee. We can drive economic growth in communities, through business ownership and through employment, setting a foundation for sustainable wealth creation.

I would like to take this opportunity to thank you all – Congresswoman Waters and Congresswoman Beatty, in particular – for bringing emphasis to this initiative and making it a top priority for corporate America.

It's a fact that racial and ethnic demographics are on the move in our country – by 2045, our population will be majority-minority. As we approach that fundamental shift, it becomes more important than ever that all Americans have a stake in the economy that will support them – every race and ethnicity, as well as full gender parity.

Diversity and inclusion strategies also transform the approach to the consumer. They offer the best way to develop products to meet the market demand, as well as the best way to create disposable income in communities, particularly those that have been under-served and under-represented.

Last year, Forbes Magazine cited a recent study by the Boston Consulting Group (BCG) that found that increased diversity of leadership teams in business

resulted in 19% higher revenue due to innovation – a huge factor in tech companies, start-ups, and industries of the future.

I built my career in diversity and inclusion by working for a global leader in the automotive industry. The strategy we developed and implemented lined up with the company's business objectives. That was how we won senior leadership buy-in and support. It covered everything from talent acquisition, to marketing to the changing demographic consumer, to building a diverse supplier base. Senior leaders embraced the idea that, in order to achieve maximum business results, their consumers had to be reflected throughout the company.

The bottom line is that CEOs have to drive this initiative within their corporations. Sometimes, it's just asking the question: how diverse is your team, and how are all of your consumers reflected in product and/or service strategies? Diverse supply chains are better equipped to address consumer preferences in a direct way. Diverse firms tend to hire diverse workers at a much higher rate. That decreases unemployment in under-served communities, typically those with high populations of people of color.

NMSDC serves to ensure those who claim to be minority firms are indeed minority-owned, -operated, and -controlled. Our certification is the gold standard for corporate America. After we certify MBEs, we develop their skills for building growth and capacity.

Diversity and inclusion drive everything we do at NMSDC. For that reason, I would like to close by reminding everyone how urgently important access to capital is to our cause. The challenges in seeking access to capital for MBEs are obvious – painfully obvious. That is why NMSDC has established its Growth Initiative, with an additional focus for building access to capital for MBEs that are ready to grow. But we need the financial services industry to work alongside us to understand and address existing barriers to lending. This is a call to action and an advocacy issue – one that I look forward to working on with the D&I Committee.



May 1, 2019

Testimony of:

Rory E. Verrett
Founder, Protégé Search

"Good for the Bottom Line: A Review of the Business Case for Diversity and Inclusion"

Subcommittee on Diversity and Inclusion
Committee of Financial Services
United States House of Representatives

I want to thank the House Financial Services Subcommittee on Diversity and Inclusion, chaired by Congresswoman Joyce Beatty, for the invitation to provide remarks at this important hearing.

My name is Rory Verrett and I'm the founder and managing partner of Protégé Search, the leading retained search and leadership advisory firm focused on diverse talent. At Protégé Search, we lead searches for senior leaders at corporations, startups, trade associations, and nonprofit organizations. We also build diverse talent pipelines for middle management positions, offer executive coaching as a retention tool for high potential diverse leaders, and lead strategy consulting projects in diversity and inclusion for organizations. Our clients include companies in the financial services, tech, sports, entertainment, and consumer products industries.

I'm also the host of Protégé Podcast, the leading career success show for diverse professionals. My daughter Jordan does the intro for Protégé Podcast, which was selected as a New & Noteworthy podcast by Apple/iTunes, and has featured accomplished diverse leaders such as White House advisor Valerie Jarrett, NBA deputy commissioner Mark Tatum, superlawyer Ben Wilson, and the best sportscaster in America, my brother, Stan Verrett of ESPN, in addition to dozens of other extraordinary leaders of color.

I have worked as an executive in professional sports, at two of the largest executive search firms, and as an entrepreneur and founder of two diversity startups. My experience with diversity and inclusion began as a student at Howard University, where I researched the emerging policy area of environmental justice. I continued my diversity advocacy at Harvard Law School where, as a member of the Coalition for Civil Rights, I advocated for greater faculty diversity at the law school.

Madame Chair - diversity and inclusion are vital to the competitiveness of American companies. There are three principal reasons why companies are simply more successful the more diverse and inclusive they are.

First, diversity and inclusion helps companies become the fullest, most successful version of themselves as enterprises. From my professional experience in the sports industry, I can tell you that every single professional sports league - from the NBA to the PGA Tour - owes its current level of success and profitability to diversity and inclusion. Ask PGA Tour players if they want to return to the era before Tiger Woods when tournament purses were a fraction of what they are now, when viewership was narrow and niche-oriented, and when the game couldn't honestly claim to be as global as it is today. Or ask the NBA about the power of its industry leading diversity and inclusion initiatives, which have helped grow the game in Asia and Africa. The strategic decisions by the NBA to enter those new markets were guided by a diverse team of executives, including Mark Tatum and Amadou Gallo Fall, both of whom brought a global perspective to the business of basketball.

Second, diversity and inclusion helps companies outperform their competitors. According to the groundbreaking study by McKinsey & Company in 2018, companies in the top-quartile for ethnic/cultural diversity on executive teams were 33% more likely to have industry-leading profitability. As one venture capitalist in Silicon Valley noted: "Social media is driven by culture. Culture is driven by music. Music is primarily driven by influencers of color. So if we want to know what trends our social media portfolio companies need to predict, harness, and focus on, all we need to do is follow what's happening in communities of color."

Third, diversity and inclusion also allows companies to better solve the problems they face. One of our clients at Protégé Search is Freddie Mac. Freddie Mac has an innovative initiative in which the company actively hires as interns students who are on the autism spectrum. Freddie Mac works with a variety of organizations to identify candidates and trains managers to aid with the interns' adjustment to life at the company. From the program's launch in 2012, Freddie Mac has found these professionals to be exceptionally capable, for instance, in data analytics, an area of critical importance for the company.

What can companies do to foster greater diversity and inclusion? From our work with industry-leading companies, there are five core principles which should guide any D&I strategy.

First, the diversity and inclusion strategy must have the support of the CEO and the board with the requisite budget and personnel necessary to execute an enterprise-wide strategy.

Second, the D&I strategy must be linked to individual and group performance standards and be tied to executive compensation.

Third, companies have to move beyond diversity on candidate slates and mandate diversity on interview teams. Moreover, executive search firms must be held accountable for the diversity of the candidate slates they submit to their corporate clients.

Fourth, companies must be transparent about hiring rates, promotion rates, compensation, and advancement to senior management by employees of color. It should not require public pressure by advocacy groups for companies to be transparent about equality. If companies want to continue to earn consumer trust, they must make public-facing disclosures about where they stand on diversity and inclusion.

Fifth, companies must harness the entrepreneurial talent of their diverse staff, by unleashing these high potential professionals to help solve the enterprise's toughest challenges and to help seize the company's greatest opportunities.

In a country which will be majority people of color by the middle of this century, in an era where consumers and prospective employees are motivated by the social values of the companies they support, and against the overwhelming research which supports the positive business outcomes of diversity and inclusion, companies ignore this strategic imperative at their own peril.

END

Testimony of
William A. Von Hoene, Jr.
Senior Executive Vice President and Chief Strategy Officer
Exelon Corporation

Before the
Committee on Financial Services
Subcommittee on Diversity and Inclusion
U.S. House of Representatives

May 1, 2019

Introduction

Good afternoon Chairwoman Beatty, Ranking Member Wagner and members of the subcommittee. My name is William Von Hoene, Jr. I am the senior executive vice president and Chief Strategy Officer for Exelon Corporation. Exelon operates six electric and gas utilities, and is the largest operator of nuclear power plants and the largest producer of carbon-free energy in the United States. Constellation, our retail electricity business, participates in energy markets in 48 states, serving 2 million customers and two-thirds of companies on the Fortune 100. Our six utilities, Atlantic City Electric; Baltimore Gas & Electric (BGE); Commonwealth Edison (ComEd); Delmarva Power; PECO; and Pepco, serve approximately 10 million customers in the cities and metropolitan areas around the District of Columbia, Wilmington, Del., Chicago, Baltimore, Atlantic City, and Philadelphia. Thank you for the opportunity to share our company's perspective today as your Committee examines the critical role that diversity and inclusion plays in corporate success and financial performance.

Corporations often talk about fostering diversity and inclusion as a moral imperative. America is a nation founded on the ideals of freedom and equal opportunity for all people. To be true to that principle, we must implement diversity and inclusion so that all segments of our

population can have the opportunities, for themselves and their families, to flourish. At Exelon, we fully embrace this concept.

However, today's hearing is about a related but different principle: businesses gain a competitive advantage and are more likely to succeed and thrive when they are diverse and inclusive. That means everything we can do as business leaders and policymakers to advance diversity and inclusion goals makes our economy and nation stronger. At Exelon, we embrace this principle as well, and as our history reflects, doing so has brought enormous benefits to our customers, our shareholders and the communities we serve.

Studies repeatedly have confirmed the business value of diversity. A 2018 research report by McKinsey & Company concluded that companies with the most ethnically diverse executive teams are 33 percent more likely to outperform their peers in profitability. McKinsey also concluded that companies with higher gender diversity on their executive teams were 21 percent more likely to experience above-average profitability than those with lower gender diversity. A similar 2018 report by Deloitte Insights concluded that organizations with inclusive cultures were more likely to meet or exceed financial targets, be high-performing, innovative and agile. Numerous other analyses are fully in accord. Set forth in my testimony below is a summary of the Exelon experience, which powerfully corroborates those findings.

Exelon's Business

Exelon is a major economic engine in the communities we serve. In addition to employing over 34,000 people, the energy we provide touches every home and business in our service territories and supports every sector of the economy. We are inexorably tied to those communities; electric and gas utilities, power plants, windmills, hydroelectric dams and solar

installations can't get up and move. As our headquarter cities – Chicago, Washington DC, Baltimore and Philadelphia – reflect, those communities are diverse, with rich cultural heritages.

Our businesses also are extraordinarily complex, rapidly changing and occasionally quite volatile. Running utilities and power generation successfully requires superb engineering, operational dexterity, regulatory and financial sophistication, political acumen and myriad other skills. Technology is rapidly changing our business, requiring ingenuity and creative thinking unnecessary for most of the long history of our industry. In many instances these technological advances can turn the financial fortunes of utilities upside down. The collapse of gas prices, occasioned by the development of fracking to extract natural gas, is illustrative and comes close to home for our company. The income from our nuclear units has profoundly diminished in the last decade as this technology has matured. The rapid escalation of distributed generation such as solar electricity likewise is impacting utility operations in major ways. These are but two examples as to how the future financial well-being of the companies in our industry will turn on finding new ideas, relationships, products and services to bring value to our customers.

In the world I have just described – serving heterogeneous communities, facing a complex and rapidly changing business landscape, and confronted with the potential for significant financial demise by standing still – Exelon has found diversity and inclusion to be indispensable to its financial success and future growth. Our diversity strategy lies at the heart of everything we do, and rests on three primary pillars: building a diverse workforce and culture; seeking out supporting business partners who reflect our diversity goals; and empowering diverse communities through workforce development, corporate giving and community engagement.

Exelon's Culture of Diversity and Inclusion

Our culture of diversity starts at the top. Beginning approximately six years ago, Exelon launched an effort to put more rigor around our efforts to measure our progress on diversity. We began tracking our progress just as we do other key metrics, such as safety, operational excellence and financial performance. In the six years since, we have increased diversity in our workforce from 34 percent to 41 percent. Diversity at the management level has increased from 30 percent to 37 percent. Board representation by women and people of color increased 7 percent.

Each member of our Executive Committee is held accountable for her or his performance on diversity and inclusion measures, and it remains a key agenda item at each of our quarterly management meetings. In fact, it is the first agenda item at these meetings. Inclusive Leadership was the primary focus of last year's fall gathering of top leaders in our company. Also last year, we developed an inclusive leadership model consisting of seven behaviors to enable members of our Executive Committee to place inclusivity into action. And, approximately 80 company leaders have participated in a learning lab designed to develop inclusive leadership skills and build diverse partnerships.

This focus is reflected powerfully in the most senior leadership ranks of our companies. Our six utility businesses now account for well over fifty percent of our net revenue and we expect that percentage to increase going forward. The Chief Executive Officer for three of those utilities (Atlantic City Electric, Delmarva Power and Pepco) that operate under a single holding company is Hispanic. The Chief Executive Officer of our largest utility (ComEd) also is

Hispanic, and the Chief Executive Officer of BGE is African American. Their "boss," the Chief Executive Officer of Exelon Utilities, is female.

It is of course impossible to measure with precision the financial impact of our diversity and inclusion focus over this period, but our results over the past six years align with what the McKinsey and Deloitte reports teach us about the success of companies who make diversity and inclusion part of their culture. Since 2013, our total shareholder return has increased 120 percent, our share price is up 73 percent and we have beaten the UTY index, which measures performance among our peers in the utility industry, by 12 and 9 percent, respectively. Our utility performance, led almost entirely by CEOs who are diverse, is in the top quartile or decile of virtually every metric by which utility performance is measured across the nation.

Exelon's Diverse Business Partners

Exelon's financial wellbeing depends not only on the performance of its officers and employees, but heavily upon that of its suppliers of goods and services as well. Contracted workers, providers of essential materials, lawyers, accountants, money managers and the like all are indispensable to our success. Like Exelon generally, the responsibilities we delegate to our providers have become increasingly complex and are rapidly transforming, requiring dexterity and ingenuity unneeded a decade ago. Again, a key driver for our success has been our commitment to diversity and inclusion with our outside partners. I will provide three examples.

First, general supplier diversity. Five years ago, Exelon's overall spend with certified diverse suppliers was $1.1 billion. In 2018, our purchases with diversity-certified suppliers totaled $2.2 billion, representing 25 percent of total supply managed spend, and a three percent increase over 2017. Seventy-one percent of that amount was with direct suppliers (T1) and only

29 percent with subcontractors. We have an extensive branded supplier diversity program – the Diverse Business Empowerment Process – to actively seek and prepare diverse suppliers who may work for us in the future; a highly talented internal organization devoted exclusively to enhancing our certified diverse supplier deployment; and individual outreach programs in every one of our businesses. In 2017, the Billion Dollar Roundtable, a top tier advocacy organization with only 27 members (including Microsoft and Apple) that promotes corporate supplier diversity excellence, named Exelon as its first energy company member.

Second, professional services. Nine years ago, Exelon initiated a program to track the percentage of work done by diverse lawyers in its outside law firms, to rank those firms against each other (disclosing to each firm its ranking against others to encourage performance), and to recognize the firms whose diversity performance aligned most closely with Exelon's diversity and inclusion goals. In the last six years, Exelon has expanded this program to evaluate the diversity performance of firms providing banking, insurance, IT, and consulting services. The results have been a dramatic increase in the representation of women, persons of color and other diverse groups in both the ranks and key roles on Exelon's account teams. For example, in 2018, 37 percent of Exelon's spend for outside counsel at "majority firms" was for work performed by diverse attorneys (in addition to $2 million of spend with minority- and women-owned firms). And, in 2017, 64 percent of the outside bankers providing coverage services to Exelon companies were diverse.

Third, money management. Corporations and many public institutions historically have had minority- or female-owned firms manage virtually none of their pension dollars. Exelon initiated a modest minority manager program in 2003 for its pension funds, relying largely on fund of fund arrangements without any direct manager/company relationship. This is an

approach that is still very common elsewhere today. In 2010, with $691 million dollars under minority management, Exelon converted its program to a direct mandate approach, bringing all sourcing and investment decisions in house. We subsequently expanded our program to cover nuclear decommissioning trust funds and our employee savings plans as well as our pension funds. As of March 31 of this year, 24 women and minority owned investment firms manage over $3.1 billion dollars for Exelon. A number of those firms are among our strongest performers, and, in three of the last five years, a minority firm has had the highest returns of any of Exelon's U.S. public money managers.

What has the result been of all these activities on Exelon's overall performance and financial success? Profound. Again, it is hard to calculate with precision the financial impact of diversity and inclusion initiatives, but our supply chain had never operated more efficiently than it does today, nor have our banks, outside law firms, money managers or other professional service providers. In our challenging and complex world, diverse partners have brought us new ideas, unique perspectives and energy.

Empowering Diverse Communities

The foregoing testimony provides a snapshot of how diversity and inclusion programs have impacted Exelon's bottom line today. The business case for diversity does not end there. As we look to the future, we need to develop future employees from diverse backgrounds to continue to provide us with unique ideas and perspectives. And, we need the communities we serve to grow and prosper for us to grow and prosper. Focusing on underserved populations, particularly in our urban centers, is the key to doing both.

As to the former, we have devoted enormous resources to workforce development. Building the next-generation energy grid will require expertise in engineering, communications, cyber security, machine learning, big data, app development and software coding, among other fields. In other words, the industry needs experienced STEM (science, technology, engineering and math) workers to take our grid, and our industry, into the future. And increasingly the industry needs skilled craft workers, particularly in clean energy. As we build this workforce, we are working to ensure that under-represented groups such as people of color, women, veterans and people with disabilities receive access to training and educational opportunities that will position them to reinvent and lead this business in the new era.

For example, Pepco recently partnered with the District of Columbia leadership to launch the DC Infrastructure Academy. Pepco and the District recruit, train and prepare residents for well-paying careers in the electric utility industry. In 2017 and 2018, the program launched with classroom training that was geared to help students pass the utility industry prerequisite CAST test – a test of basic energy, technology and math principles. While just recently launched, Pepco has hired 16 graduates from the program into positions such as cable splicer mechanics, substation technicians and trainee line mechanics. Moving forward, Pepco and the DC Infrastructure Academy are expanding and developing a comprehensive 12-week Utility Training School in the District of Columbia modeled on a similar program our ComEd utility launched in Chicago.

In a similar vein, BGE is developing talent at the high school level with its Baltimore City Schools Partnership, which involves partnering with Baltimore City high schools to host conferences and workshops for high school students on the topics of construction, computer-aided design, engineering and automotive technology. Similarly, Exelon Generation has funded a STEM Academy program at Everett High School, which is in a low-income, diverse

community near its Mystic Generating Station in Massachusetts. In fall 2018, Exelon Generation provided all 125 Everett High School STEM Academy students with their own laptop to use for schoolwork.

Yet another example of our efforts is our partnership with the United Nations Women HeForShe initiative, under which we launched our inaugural STEM Innovation Leadership Academy for teen girls in Chicago, followed by a second academy in Washington, D.C. The academies brought young women ages 14 to 19 together for a week of interactive experiences, field trips and conversations with leaders in STEM fields, among other activities. The academies took place on the campuses of the University of Maryland and Illinois Institute of Technology and provided students with a college-like experience, including an innovative energy challenge where students had to redesign a public space to make it more sustainable and energy efficient.

As to the latter, Exelon is deeply rooted in its communities; we succeed or fail together. As our business grows and our communities benefit, we must ensure that no one is excluded from that progress – regardless of gender, race, cultural background, sexual identity or economic circumstances. That's why each year we give our time and dollars to nonprofits and other organizations and institutions to help strengthen our communities and ensure that no one is left behind. Last year, our total giving topped $51 million, with 83 percent of that total going to organizations, programs or events that were targeted specifically to diverse populations. The balance of our grants supported programs that benefited all audiences. Similarly, our employees volunteered more than 240,000 hours last year, with many pledging support to organizations serving diverse populations.

Conclusion

A friend of mine once captured the business case for diversity in a single question: is a person smarter if she or he reads the same newspaper four times rather than reading four different newspapers? The obvious answer to that question is of course not, and the compelling business case for diversity and inclusion is just as obvious. At Exelon, our commitment to diversity and inclusion has been a tremendous competitive advantage, providing us ideas, resources, perspectives and contacts with the communities we serve that otherwise would be impossible to replicate. Our financial success had leaned heavily on that advantage, and with the rapid and transformational changes coming in our industry, our dependency on diversity and inclusion in the future will be even greater.

Written Testimony for the Topic of the Business Case for Diversity
Joyce Beatty (OH-3)
Monday, April 29, 2019

Thank you, Chairwoman Beatty, for the opportunity to submit written testimony on the Business Case for Diversity. My testimony will touch on three focus areas around this topic including; different interpretations of 'business' and 'diversity', a focus on root issues and movements colliding with stagnation.

1. **Different Interpretations of 'Business' and 'Diversity'**

In response to receiving low diversity and inclusion marks from their workforce, the CEO of a fortune 500 company may just show you a 7-year trend of increasing profitability in nuanced defiance to you briefing them the business case.

In response to similarly low marks, a senior executive within the federal government may show you accomplishments, impact statements and high evaluation scores that prove mission success—this before politely dismissing the business case for diversity.

The business case for diversity has been written about, discussed, argued, and championed ad nauseam. To some, the word 'business' is all about dollars and direct mission execution. As such, they believe that if money is flowing and mission is being achieved, there is no need to address a diversity or inclusion problem. This can be true even as you attempt to point out the revenue and impacts that they are leaving on the table.

Since 2009, I have facilitated over 4,500 culture sessions across 97 federal and private industry organizations and the above scenarios represent real life outputs of those discussions. My job has been to get a sense of the culture without introducing specific topics or asking leading questions.

- In 83% of the discussions, concerns around diversity and inclusion were surfaced.
- In 73% of the out briefs to senior leadership, findings and recommendations around diversity and inclusion were initially met with resistance due to views that things were fine because profitability was up or mission was being executed.
- In 69% of the discussions, participants at all levels initially countered diversity and inclusion concerns with demographics that showed an increase in hiring of women and minorities. These conversations reflected both an oversimplification of diversity and an underappreciation for inclusion.
- In 67% of the discussions, participants at all levels initially opined that diversity and inclusion was met so long as cognitive diversity was present—this regardless of workforce representation by race, gender, sexual orientation, physical capabilities, etc.
- In 58% of the discussions, participants at all levels admitted that they were tired of the bombardment of discussions around diversity and inclusion.

These findings, in addition to similar discourse that came up in the multitude (196) of panels and speaking engagements I've participated in highlight the reality that a business case for diversity will be subjectively interpreted depending on how people define 'business' and 'diversity'. As well, a subsection of the workforce already tires of the topic, an unfortunate reality that further complicates making the business case.

2. A Focus on Root Issues

Poor training, poor marketing and communication, and poor business cases. These are the three most common rationale brought forward when people are asked why diversity and inclusion is less than optimal in their organization. Except:

- We have had mandatory and voluntary diversity and inclusion training for decades. This training has been developed, taught, and attended by millions of different people in different positions in different years in different organizations.
- We have had different messages in different formats by millions of different people utilizing different words and different tones in different years in different organizations.
- The business case has been developed and received by millions of different people in different years and different organizations.

One of three things is true.

1. No one knows how to train, how to communicate, or how to develop a business case for diversity
2. No one cares to take the training, receive the communication, or consider the business case for diversity
3. Diversity and inclusion is a human issue that can only be resolved when a movement of humans decide they are going to resolve it, regardless of the efficacy of things such as training, communication, and business cases.

I have 10 years of unprovoked and masterfully facilitated human data that says the answer is number three. More powerful than any of my efforts however are the outcomes brought forward by the movements that have come as a result of Dr. Martin Luther King, Harriet Tubman, Rosa Parks, and countless others, to include the voices behind #MeToo, #TimesUp, and #BlackLivesMatter.

When we want something, we go for it. When we don't, we point to other things as the reason we don't have it. This is not to suggest that these symptomatic issues (communication, training, etc.) could not be improved. They are just not the root issue for our inability to embrace the business case for diversity.

3. Movements Colliding with Stagnation

Ask a Generation Y or Generation Z employee what they think about the business case and you may hear words and phrases such as healthy work environment, relationships, empowerment, and the need for people to be able to see themselves in the organization; to have their position not only exist but to matter.

There is a culture change afoot. Culture is, in its simplest form, collective regard and social norms. How the collective regards diversity and inclusion will inform their social norms in this space. It will influence what they talk about, how they talk about it and who they talk about it with. Today, we are seeing these norms play out in the form of movements and counter movements all over the country.

Today's younger generations grew up in a time when diversity was more prominent in families, amongst friends, and in schools. The explosion of the internet and the advent of social media have introduced them to information, ideas, and perspectives that have opened their eyes and their hearts to the possibilities and necessity for diversity and inclusion. Their passion is intense, their goals clear. Are senior leaders embracing it? The statistics and demographics would emphatically point to no. Even more visible however are organized walkouts, active discussion boards and blunt challenges and conversations brought forward by concerned employees. Mission may be getting done and profits may be increasing but the culture is growing more divisive and less patient.

I am never at a loss for work because of this constant tug of war and the affect it has on work environments across the country.

- In 78% of the non-supervisory culture discussions, participants cited an informed willingness to go outside of their leadership chain to express their insistence on improving diversity and inclusion
- When diversity and inclusion issues are raised in culture discussions, I asked the participants to describe where they were at, mentally, with regards to sense of urgency and desire for change. There are four categories: Time for Change (change now), Respect the Past (not so fast), Change Takes Time (measured change), and Burn It Down (start over now).
    - 83% of non-supervisors were of the 'Time for Change' or 'Burn It Down' mentality
    - 66% of supervisors were of the 'Change Takes Time' and 'Respect the Past' mentality

These statistics reflect the growing divide between the slow pace of change over the last several decades and todays younger generations tire of said pace. Such distinctions have created a wedge that is both obvious and uncomfortable for people on all sides of the discussion.

In Closing: Organizations spend $8 billion a year on diversity and inclusion efforts. Think about that. The growth and profitability for diversity and inclusion work is running simultaneous to continuous questions about the business case for it by none other than businesses who fund the growth. In short, they're spending the money but they don't know how and they don't necessarily agree with the why. Meanwhile, their workforce is showing them the business case every single day. They are so adamant about their desire for representation, fairness and inclusion that they are prepared to campaign for it by any means necessary. What's more, their efforts show through in so many ways that those same business leaders struggle to understand or deal with.

There is a concept that leaders must begin to warm up to: Leverage diversity or it will leverage you. This is the message from younger generations who tire of waiting on the world to change. With the aforementioned movements afoot, the business case for diversity is clear and it is human centric. Organizations are spending too much time and money *proving* the business case for diversity and inclusion with data and demographics that are most certainly being countered with profit and mission execution data. What cannot be countered is the undeniable impact of the failure of diversity and inclusion efforts as seen through the eyes of our future leaders who want the workplace to be more reflective of the world around them."

I sincerely appreciate your review and consideration of the above information and approach as submitted by my colleague, Vince Brantley, and I. We stand by to answer any questions you may have.

Sincerely

Chris Armstrong
Co-Owner, Veritas Culture
Certified Diversity Executive
Certified Master Facilitator