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Research

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Promoting Gender Diversity in the Investment Industry

KEY ELEMENTS

- Despite evidence that gender-diverse teams can lead to better performance, the institutional investing industry is less inclusive than it should be—and executives say it is less diverse than they want it to be.
- There are still many cultural and organizational barriers regarding inclusion in our industry. The industry needs to make sure it accommodates specific gender needs in order to advance the talent pipeline, such as maternity benefits, and family leave for both men and women.
- My own observation is that an organization also needs women who have already reached the top and who can be strong role models and advocates to facilitate the promotion of more women.
- Gender diversity can never occur without a complete commitment by senior management. It must be one of its top priorities.

"I believe our experience in recruiting and promoting women can help to advance gender diversity in the investment industry."

Ron Peyton
Executive Chairman

Multiple studies have found that gender-diverse organizations tend to make better decisions and be more successful than those with less diversity.[1] This academic revelation—that together, men and women are more insightful and successful—resonates on an intuitive level as well: Men and women frequently approach problems from different perspectives, and through collaboration will typically produce solutions that are more robust, creative, and potentially successful than would a non-diverse group. However, it is always wise to avoid stereotyping and remember that men and women of all diverse backgrounds are still people and all people have different world views, needs, motivations, and aspirations that must be individually addressed if we are going to work effectively together to create the best outcomes for our businesses and clients.

Despite the evidence supporting diverse teams, the institutional investment industry continues to be less inclusive than it should be—and less diverse than top executives want it to be. This imbalance comes at all levels: Fewer than 20% of those with the right to use the Chartered Financial Analyst® designation are women and fewer than 10% of chief executive officers (CEOs) and chief investment officers (CIOs) in the investment management industry are women.

What can be done? In this paper I review the industry's track record on the inclusion of women, explore why diversity is important, and outline why many firms have found it so difficult to add women to their workforce. I also share my observations on what has worked for gender inclusion at Callan over the last 45 years and what we have learned in the hope it will inform others on how we can progress toward equality in senior roles industry-wide. I am by no means saying that our process was the best or that Callan has completely fulfilled our diversity goals. But I believe our experience can advance the conversation around gender diversity in the investment industry, and I think it is important to make clear that we are practicing what we preach.

One final note: My observations apply as well to all forms of diversity, and Callan's experience with gender diversity has informed our approach toward our overall diversity goals.

Together, men and women are more insightful and successful

1 The website of Catalyst, a nonprofit organization that works with leading companies to improve workplaces for women, includes a comprehensive overview of this topic as part of its research titled "Why Diversity Matters."

What Is the Industry's Track Record?

The CFA Institute studied gender diversity in investment management and found that the industry is dominated by men at all levels (**Exhibit 1**).[2] Among its most striking findings is the fact that men represent more than 80% of CFA Charterholders. This is particularly discouraging since the pool of CFA Charterholders is where many investment managers and consultants fish for talent. Would there be more women in the industry—and perhaps eventually more earning the right to use the CFA designation—if managers and consultants cast a wider net and hired and developed more men and women from other backgrounds and disciplines?

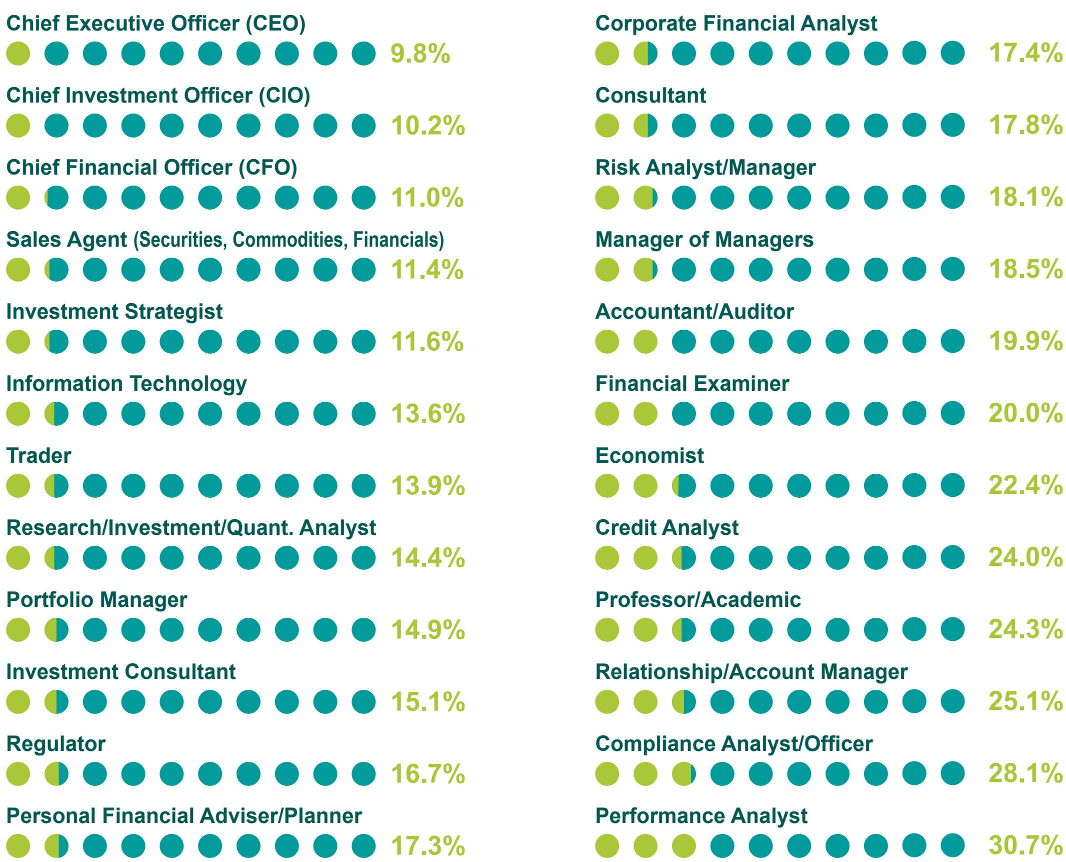
In another survey, the Pew Research Center found that 40% of women say they have experienced gender discrimination at work.[3] We all need to stop and reflect on whether this might be occurring within our own organizations. (By the way, both of these studies are short, easy to read, and detail the problems women regularly face in our industry and the broader workforce, and I recommend you take the time to review them.)

Exhibit 1

Share of Women at All Levels in the Investing Industry

Women

Men



Source: CFA Institute Research Foundation

2 *Gender Diversity in Investment Management*. CFA Institute, May 2016

3 *Gender Discrimination Comes in Many Forms for Today's Working Women*. Kim Parker, Pew Research Center, December 2017

An article in the April 30, 2018, print edition of *Pensions & Investments* found that women make up 40% of employees in the investment management industry but just 25% of executives, only 9% of CEOs, and 6% of CIOs.[4] According to the investment managers interviewed in this article and those I have talked with personally, it's not for lack of wanting or even trying to hire and promote women that they fall short of their own goals. Many CEOs say they are frustrated that they just can't seem to move the needle.

Unfortunately, there are still cultural and organizational barriers to inclusion in our industry. Undergraduate and graduate finance programs remain male-dominated in spite of the fact that women pursuing a college degree now outnumber men. The long inflexible hours and extensive travel required of many investment professionals can also serve as deterrents for women, who often face greater time obligations outside of work.[5]

These factors are among many that work together to make it more difficult to achieve diversity in our industry. This doesn't mean, however, that progress is impossible, or that there isn't hope for change. May Seeman, former CEO of MEAG New York and a 20-year Wall Street veteran, observes that "in the more innovative, non-established areas of finance, it does not matter if you are a man or a woman. If you produce good work, you can build a career. Go where you have less competition and less requirements in the form of incumbents. Be involved, be persistent and you'll have more room to be successful, to grow and shine." This is good advice for anyone pursuing a career in finance, but it is particularly inspiring coming from a strong role model who has achieved the level of success that she has in our industry.

Why Is Gender Diversity So Important?

Catalyst, a global nonprofit that works with leading companies to improve workplaces for women, has a useful list of various studies on its website that support the idea that gender-diverse organizations are more effective and ultimately more successful than those that are not diverse. I think that some of us have always known through our experience that gender-balanced teams do better. If only part of a group is represented, then only part of the problem—and perhaps not all solutions—may be analyzed. "People often gravitate toward people who think like them rather than challenging themselves," said Susan E. Oh, CFA, senior portfolio manager, risk parity and currency hedging, with the Pennsylvania Public School Employees' Retirement System. "When women are not sufficiently represented, only one gender view of the issues is assessed and the organization's governance may be suboptimal."[6]

I noticed the difference and the benefits right away when women joined Callan's Management Committee in 1992. I believe that it is just plain good governance to have a variety of views addressing the needs of our diverse clients and associates. For instance, I would never publish an important communication externally—or even internally—without reviews from a diverse set of people. This paper is a great example of a communication that benefited from the collaboration of a broad range of our associates before publication, and we hope that this collaboration resonates with all of our readers.

4 "A Long Way to Go in Manager Diversity," Arleen Jacobius, *Pensions & Investments,* April 30, 2018

5 Adams, Renee B., Barber, Brad M., and Odean, Terrance, *Family, Values, and Women in Finance* (Sept. 1, 2016). Available at SSRN: https://ssrn.com/abstract=2827952

6 "Women and Their Increasing Role in Investment Management," Pension Bridge Conference, 2018

Why Has Gender Diversity Been So Difficult to Achieve?

Even with the best intentions, originally male-dominated firms have struggled to create a culture that welcomes senior female colleagues and effectively drives their career progression. The *Pensions & Investments* article I mentioned explores this struggle through interviews with a few investment managers. One conclusion: organizations need to better support women at the midpoint of their careers because of their needs regarding maternity leave, child care, etc.

At the same time, the firm's culture needs to undergo a transformation. Women need to speak up for themselves in respect to seeking increased responsibility and pay and may benefit from a sponsor who won't hesitate to give them a "push" when they need to raise their hands. And senior management needs to make sure it identifies all candidates for promotions, not just those who are more vocal in making their ambitions known.

"Be strong and be courageous. You are mightier than you think," advises Ms. Oh. "Everyone has to do their part, not just a few leaders. (Women) have much more to contribute than they may think."[7] The late Jean Otte approached the new owners of the company she worked for and explained her value to the firm and why she deserved a promotion—and got it. She was an example of a courageous woman who seized an opportunity to tell management what she was capable of and succeeded by doing so.[8]

My own observation is that when an organization has women in senior positions acting as strong role models, the promotion of more women becomes part of the natural process. Until that time, however, it takes focus and work. To address the "chicken and the egg" dilemma this raises, the organization needs unwavering commitment from its leaders until women reach senior positions in the firm. This can be a tall order, particularly for organizations with outside ownership where there may be more emphasis placed on meeting short-term financial goals than long-term cultural objectives. The key to success is making diversity a top priority in an organization that may have many competing priorities.

How Can an Organization Achieve Gender Diversity?

When I joined Callan in 1974, there were few women in our industry, and most held marketing positions. This was something I remember wanting to change if I ever had the opportunity. Callan, established in 1973, did have a large number of women in operations and administrative positions but none in the research, consulting, or senior management ranks. It was apparent to me that Ed Callan had already done a great job in recruiting a very gifted and productive group of women. We frankly could not have run our company as well without their contributions.

What we did right was to recognize the hard work, talent, and the complementary perspectives of the women we already had at Callan. Over the years this approach has led to a number of talented women taking on new roles and increased responsibilities. And as those women have advanced at the firm, they have not only provided role models for other women but have actively mentored both female and male associates and helped them with their career progression.

7 Pension Bridge Conference, 2018

8 "Jean Otte Founded a Firm to Help Women Navigate the Corporate Jungle," *The Wall Street Journal*, May 25, 2018 (subscription required)

When I became president and chief operating officer (COO) in 1981, we continued to hire and support women in their careers at Callan and promote them into more senior positions. We didn't just hire people with investment-oriented degrees. In fact, we had the most success with both women and men who majored in the humanities. And, of course, including both genders in our recruitment process naturally expanded the pool of job candidates.

The key to our success was to pay close attention to all of our associates, respect their individual needs, and give them a chance to develop their talents. We encouraged all of our associates to "be courageous" and speak out. As a result, we learned more about our associates' career goals and aspirations, and that became part of our planning process. We also learned to recognize and accommodate the critical work/life balance necessary for many women and men to actively pursue careers. I learned early in my career that managing people is not an exercise in efficiency. Nurturing and encouraging human beings through the obstacles and challenges of organizational change and their own careers is far from an efficient process over the short term. However, taking the time to listen and accommodate individual needs and concerns proves to be a very efficient process over the long term (which happens to be the time span of a career).

Callan was very early in offering flex-time and work-from-home arrangements when it made sense for everyone. We found that by allowing some "prime time" for personal and family commitments, productivity and happiness actually went up for all genders, even when the official work hours might have been less than full time. We observed that the work still got done during "unofficial hours." And we made it clear that employees would not suffer adverse consequences from availing themselves of these options. Of course, we also took care to compensate all of our associates fairly and equitably, a process overseen by our Compensation Committee. And to better assess gender pay equality, it certainly helps that half the members of the committee are women. Most importantly, our values of collegial respect and encouraging each associate's success have led us to develop a robust set of policies and procedures for handling any potential grievance.

When the first woman joined our Management Committee, it changed the nature of the dialog and the dynamics of our decision-making process. Issues were raised that had never come up before. I like to say that the best management decision I ever made as CEO was to promote a woman as our first full-time COO. Today, half of Callan's C-suite executives are women, and four of our Fund Sponsor Consulting offices are managed by women. Women now make up 52% of our Management Committee, 36% of our shareholders, and 45% of our managers across the firm—and we are not finished yet.

How Can We All Promote Gender Diversity?

An October 2016 Mercer study[9] reached the following conclusions for promoting women to senior positions:

- Change needs to be driven from the top until senior management is gender-diverse.
- Family-friendly and flexible work programs should be established.
- An organization must focus on the entire pipeline of talent for career development and always be alert for bias.
- Employees should be encouraged to spend time reaching out to the next generation, educating high school and college students about the industry and opportunities for women.

9 *When Women Thrive*, Mercer, October 2016

Callan was fortunate. We had many strong women role models right at the founding of the firm. And we knew that gender diversity would be good for our business in many ways, just as we felt that diversity in education and work experience would be strengths. Still, it took a very long time (a career) for women to succeed and move up in our firm—even with a commitment at the top. Thankfully, once senior women role models were included at the top of Callan, the momentum for advancement of all women significantly increased.

What we did not do was establish formal goals or rules for creating diversity. Attempts by management to control the integration process in this way have been shown to actually produce negative bias.[10] Managers have to be positively engaged and encouraged to want to see the results and benefits of any program. Callan has a culture of "bottom-up" management. Managers on the ground have the flexibility to spot problems, to fix them, and to seize opportunities to benefit our clients as they occur. Individual associates are encouraged to find something they are interested in and become the expert, whether or not it is in their job description. They are encouraged to talk about their interests and career aspirations during their regular "check-in sessions" that are a part of Callan's performance-review process. Managers are motivated to engage the most willing and interested people at our firm to achieve success regardless of gender or ethnicity. Providing a voice for both women and men, listening to their diverse needs, and finding practical ways to honor those needs is essential for retaining their services. It is also the key to creating a culture that truly values and embraces a diversity of perspectives.

Management has the responsibility to create a culture of trust that enables and encourages employees to share their career aspirations.

We are also fortunate to be independently owned by our associates. This has afforded us the flexibility to focus on long-term objectives, sometimes at the expense of short-term financial goals. We have used this flexibility to promote and maintain a strong and supportive culture, with a bedrock commitment to our values of integrity, client service, and supporting one another. We recognize that the challenges in individuals' private lives are often a reflection of the challenges in their work life, and vice versa. We know we must find ways to deliver the appropriate flexibility in our work/life balance if we want to keep our people productive. For instance, we eagerly accommodate our San Francisco associates who want to relocate to our other offices where the cost of living may be more affordable. The recent opening of our new Portland office is a prime example of this ongoing initiative. This long-term perspective and our focus on promoting a healthy culture have both been important factors in allowing us to create a more diverse organization.

Callan is in the investment business, where the recognition of risk and how to manage it effectively is paramount. We also understand that people often perceive and react to their personal career risk differently. What is needed in a firm is a culture of trust that enables and encourages women—and all associates—to share their career aspirations with management without fear of judgment or retribution. Telling management what they are good at, where they want to go with their career, and what their needs and expectations are can be terrifying for some associates. Management has the responsibility to create a culture of trust that enables and encourages employees to share their career aspirations. Management must also make clear its tolerance for failure. This is essential for encouraging people to take the risks that lead to accomplishments. When people trust that management has their back, even in the event of failure, they act more creatively and confidently, leading to better career outcomes for themselves and better business outcomes for the firm.

10 "Why Diversity Programs Fail," Frank Dobbin and Alexandra Kalev, *Harvard Business Review*, July-Aug. 2016

Conclusions

Patience and consistency in encouraging people over the long term will achieve gender diversity faster and more effectively than an attempt at a quick-fix, rules-based program initiated by management. Empowering people to develop more productive organizations takes time. It requires that management truly cares about all of the individuals that make up the firm and works to promote a culture of collegiality and respect. It requires that management listen to and be aware of everyone's needs, interests, and career aspirations. Never forget that talent has many possible nuances and it can be found in the many valuable attributes of diverse individuals. But management must look for them. If you enjoy people for their differences and what they can be, you will recognize the talent in everyone, and that talent can come from any background. Equally important is a trust in management's tolerance for failure in order for people to take the risks that lead to accomplishments. Organizations that made diversity a priority early on are having more success and momentum than those that did not. And never forget, equal compensation—and recognition—for those who are contributing equally in the same relative position is a necessity to build an effective workplace culture.

In an effort to help organizations trying to improve their diversity goals, I offer these next steps, which I think can be helpful in all career-development plans but can be especially impactful with under-represented groups:

- Widen your hiring net to include those with non-traditional backgrounds (e.g., non-finance degrees for financial firms)
- Encourage employees to voice career aspirations, listen to them, and incorporate their perspectives in your talent-development program
- Regularly review your compensation structure to ensure that it is free of any bias
- Adopt flexible scheduling programs to encourage positive work-life balance
- Understand the critical importance of a diverse set of role models for career development—identify the people within your organization who can play these roles and provide them with the platform and encouragement to lead by example

Finally, and perhaps most importantly, never underestimate the importance of maintaining a long-term perspective. Building a healthy culture of inclusion requires hard work, consistency, tolerance, and respect. In many instances it requires short-term sacrifices in pursuit of the long-term objective. When your associates truly understand your long-term commitment to them, they will work more collaboratively together, listen to each other's diversity of ideas and perspectives, and ultimately improve the long-term value proposition for both the firm and your clients.

About the Author

Ron Peyton is Executive Chairman of Callan, where he provides firm-wide oversight to improve communications, process, and service quality. He regularly meets with clients and senior industry professionals, and engages in industry and community events through speaking and service opportunities. He is also Chairman of the Callan Board of Directors and the Diverse and Emerging Manager Committee, and is a shareholder of the firm.

Outside of Callan, Ron serves on the Governing Board of Filoli, a National Historic Trust Preservation site, as well as on its development committee. He is also “Counselor” for the Indiana University Kelley School of Business Dean’s Council and an advocate for the Vista Center for the Blind and Visually Impaired, which Callan has supported for more than 20 years.

From 2008-2018, Ron served on the board of the United Way Bay Area and currently has a leadership position in its Tocqueville Society. He also served on the CFA Institute’s Performance Presentation Standards Implementation Committee (now GIPS) and was Chairman of the Asset Manager Code of Conduct Advisory Committee. He is also a past member of the advisory board of the University of California, Berkeley Extension, and the Castilleja School Investment Committee.

Prior to joining Callan in 1974, Ron worked with Marathon Oil Company’s pension investments while serving as an officer in the U.S. Army Reserve. Ron earned an MBA in finance and a BS in accounting at Indiana University, where he was President of the Indiana Delta Upsilon chapter his junior and senior years.

If you have any questions or comments, please email institute@callan.com.

About Callan

Callan was founded as an employee-owned investment consulting firm in 1973. Ever since, we have empowered institutional clients with creative, customized investment solutions that are backed by proprietary research, exclusive data, and ongoing education. Today, Callan advises on more than $2 trillion in total fund sponsor assets, which makes it among the largest independently owned investment consulting firms in the U.S. Callan uses a client-focused consulting model to serve pension and defined contribution plan sponsors, endowments, foundations, independent investment advisers, investment managers, and other asset owners. Callan has six offices throughout the U.S. For more information, please visit www.callan.com.

About the Callan Institute

The Callan Institute, established in 1980, is a source of continuing education for those in the institutional investment community. The Institute conducts conferences and workshops and provides published research, surveys, and newsletters. The Institute strives to present the most timely and relevant research and education available so our clients and our associates stay abreast of important trends in the investments industry.

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