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With rollovers at stake, firms embrace diversity

But skeptics doubt success of program

By Brooke Southall

SAN FRANCISCO — Wall Street firms, in an effort to attract the retirement assets of affluent minorities and women, are stepping up recruitment of diverse stockbrokers, who they define as people who are not Caucasian males.

“There’s an 11th-hour movement afoot [among full-service brokers] to rush to market to get the best employees that can reach diverse markets, because there’s so much 401(k) rollover money that’s slipping away,” said Janice R. Ellig, co-chief executive for Chadick Ellig Inc., a New York executive search firm that just completed a search for a chief diversity officer for a major Wall Street firm.

The defined contribution market, including 401(k) assets, is \$3.45 trillion with \$200 billion rolling over annually, an amount expected to grow about 11% annually through at least 2012, according to Financial Research Corp. of Boston.

Although no organization can pinpoint how much of these rollover assets are coming from women and minorities, the amount is big and fast-growing, according to Mark Willis, who Smith Barney Inc. of New York hired in April as its head of diversity, a newly created position.

A history of lawsuits

Despite the opportunity for wirehouses to grab some of this burgeoning wealth, industry observers are



Janice Ellig: Says wirehouses have yet to prove they can change their policies.

skeptical, because these firms chronically fail to attract women and minorities, and they have had to defend against lawsuits for alleged sexual and racial discrimination.

Morgan Stanley of New York paid \$54 million to settle a sex discrimination suit brought by the U.S. Equal Employment Opportunity Commission on behalf of women working in the institutional-equity-sales division of that company.

UBS Warburg LLC (now UBS Investment Bank) in Stamford, Conn., paid almost \$30 million to Laura Zubulake, a former equity saleswoman, to settle a discrimination and harassment suit in 2005.

UBS Wealth Management USA in New York is hiring a chief diversity officer, according to spokeswoman Kari-

na Byrne, who declined to comment further on the matter.

In November 2005, current and former black employees of Merrill Lynch & Co. Inc. sued the New York-based brokerage giant over alleged discriminatory hiring and promotion practices. The lead plaintiff is a Nashville, Tenn.-based adviser, but the suit could involve 700 litigants if the case attains class action status, according to press reports.

Merrill is going national in 2007 with a mentoring program it piloted in 2006 intended to make female and minority hires more likely to stay with the company and succeed.

Lawsuits aside, Wall Street wirehouses have yet to show they can change their policies, Ms. Ellig said.

“Nobody’s come up with the right model yet,” she said. “The executives get it, but what’s needed is strong marketing internally that this is a business imperative.”

There is no silver-bullet model, but an accommodating corporate culture can evolve, said Maura Gallagher, Princeton, N.J.-based director of analytics and assessment for global-private-client diversity for Merrill. The firm in October created its office of diversity for the global-private-client group.

“It’s hard to communicate to 30,000 employees and have them connect the dots,” Ms. Gallagher added.

Past efforts aimed at creating harmony among diverse employees ended up appearing "one-off," because of the lack of a centralized diversity effort, she added.

In this litigious atmosphere, top wirehouse executives are putting the spotlight on recruiting women and minorities.

"Diversity is now a business imperative," said Caroline Gundeck, chief diversity officer, global wealth management for Morgan Stanley who was hired to this newly created position last year. "I'm not really part of [human resources]. It makes great business sense."

To capture this business, Wall Street is trying to do something it hasn't done before — hire and retain women and minorities as financial advisers.

This has been a non-starter in the past, because brokerage training programs are among the most cutthroat of any profession — dominated by white men who are comfortable with veteran brokers and who enjoy access to wealthy clients, said Steve Winks, principal with SrConsultant.com of Richmond, Va.

Corporate mandates aside, renewed efforts could fail.

"[Wirehouse executives] want to do the right thing," Mr. Winks said, "but what if you find it doesn't make any [significant] difference" in the diverse composition of work forces? "It's conceivable that all the effort may be for naught, because what if you get a lot of Asians or Hispanics or women who don't produce?"

Executives from Wachovia Securities LLC of Richmond, Va., and Raymond James & Associates Inc. of St. Petersburg, Fla., however, boast successes, and their competitors demurred on this point.

"Making Wachovia a more diverse organization is a top priority to me," David Carroll, president of the capital management group and executive vice president of Wachovia Corp. in Charlotte, N.C., wrote in an e-mailed response. It is making progress, particularly in retail brokerage, where in 2006 nearly one in four financial advisers hired were non-white males or women, including more than one in three new financial advisers, he said.

"Getting our fair share of both employees and clients from the diverse markets we serve needs to be an integral part of our business strategy," James Gorman, president of the global private-client group of Morgan Stanley, wrote in an e-mail.

But corporate mandates can filter down effectively, said Kathleen E. Malone, a financial adviser for Wachovia who believes that her company's early efforts at becoming woman-friendly paid off for the firm.

"I remember being afraid to tell my clients I was pregnant," she said. "When I was hired, I felt like a minority. Now I don't think about it anymore."

Indeed, Wachovia can quantify its success in boosting its diverse hiring, noted Chip Walker, managing director of financial adviser integration at Wachovia Corp.

Fully 23% of the 972 hires made last year were from diverse backgrounds, up around 10% from 2005; it hit a high mark of 30.1% last June, Mr. Walker added. "If we can be up 10% every year, we can double [the total] in six or seven years," he said.

Raymond James also has benefited from its hiring efforts to recruit women, said Karen Schultz, director of the company's 13-year-old women's network. Raymond James Associates hired 174 people in 2006, of which 19, or around 11%, were women. Only 6% of its hires in 2003 were women.

But there's still a long road ahead.

White males over the age of 18 represented only 35.9% of the populace in 2000, according to the U.S. Census Bureau. But of the 389,000 personal financial advisers in the United States, 227,000, or 58%, are white males, according to the Bureau of Labor Statistics.

Hispanics represent 12.5% of the population but only 24,000, or 6%, of advisers are Hispanics. These statistics do not begin to explain the real disparities because of the way the Bureau of Labor Statistics collects its data, which encompasses brokerage assistants, analysts said.

But slow, steady change is coming, Ms. Gallagher said.

"Diversity's been on the radar for a long time," she said. "We're just getting a lot smarter about how we're doing this."

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