Is Diversity a Strategic Asset for Organizations in the Financial Services Industry?

By

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An honors thesis submitted in partial fulfillment

of the requirements for the degree of

Bachelor of Science

Undergraduate College

Leonard N. Stern School of Business

New York University

May 2009

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Abstract

This study aims to explore how people in financial firms perceive and value diversity. Broadly, diversity in the workplace can be defined as either social category or informational diversity. In this paper, I focus on informational diversity, which is the different ideas, characteristics, and personalities that people have. I wanted to explore how this sort of diversity may have potential value as a strategic asset for organizations in the financials services industry. Accordingly, this study explores how firms in this industry actually recruit informational diversity. First, I conduct a series of interviews with recruiters, analysts, and upper management in the investment banking department to find out if informational diversity exists within departments. Subsequently, I interview recruiters, analysts, and associates in various departments to understand if informational diversity exists across different departments. The analysis shows that extensive diversity exists in financial firms across different departments. However, unfortunately, I also find out that very limited communication exists across departments. From the study, I conclude that the value associated with informational diversity may be low in financial services firms. Hence, I decide to explore firms in different industries that I think value diversity to see if I could find some positive models. The study demonstrates that Toyota, Google, and Proctor & Gamble all emphasize the importance of encouraging communication between departments. It seems to be that through this communication, new ideas and approaches emerge. Thus, this study recommends that the financial services industry might benefit from processes that allow the industry to recruit and then strategically use informational diversity. The study is a *sense making* study that analyzes texts to identify how people in a certain situation make sense of what they and others are doing.

I. Introduction

Over the past decades, firms in the U.S. have continued efforts to increase diversity in the workplace and numerous studies have considered the impact of diversity on firm performance. The National Organizations Survey (NOS), for example, reviewed diversity in 506 United States-based for-profit businesses between 1996 and 1997. Cedric Herring, a professor of sociology at the University of Illinois, concluded that measures of a firm's racial diversity are positively correlated with firms' average sales revenues, number of customers, market share, and profitability.[1] Some of this effect may have been related to firm size, however, with larger firms having more diversity. He found, for example, that the companies reporting the highest levels of racial diversity brought in nearly 15 times more sales revenue on average than those with the lowest levels of racial diversity. Moreover, organizations with the lowest rates of gender diversity had average sales revenues of $45.2 million, compared with $644.3 million for businesses with the most gender diversity.

In stark contrast, Harvard political scientist Robert Putnam, in his research *E Pluribus Unum: Diversity and Community in the Twenty-first Century,* discovered that diversity has a devastating short- and medium-term influence on the social capital, association fabric, trust, and neighborliness that create and sustain communities. Based on detailed interviews with nearly 30,000 people across America, Putnam found that, other things being equal, more community diversity correlates with less trust both between and also within ethic groups. He claims that the greater the diversity in a community, the fewer people who vote and the less they volunteer, the less they give to charity and the less they work on community projects. In the most diverse communities, neighbors trust one another only about half as much as they do in the most homogenous settings. For example, in diverse San Francisco and Los Angeles, Putnam discovered that about 30 percent of people say that they trust

[1] Amble, Bryan. (2006, August 17). Management-Issues. Retrieved February 3, 2009 from the World Wide Web: <http://www.management-issues.com/2006/8/24/research/more-diversity-brings-increased-profitabilty.asp>.

their neighbors a lot. In ethnically homogeneous communities in the Dakotas, in contrast, the figure is 70 to 80 percent.[2]

Applying these ideas to the workplace, Putnam's findings imply that diversity may lead to loss of trust that in turn may inhibit employees from sharing ideas amongst themselves. More generally, one finds that the arguments for and against diversity are all credible. Hence there are many controversies surrounding the adoption of and support for firms' diversity policies. On one hand, diversity and differences could be beneficial if they lead to solutions that have eluded people with similar backgrounds pursuing the same approaches. On the other hand, diversity can also make people uncomfortable, because it reduces trusts and so prevents people from working effectively together. For diversity to contribute, it seems to demand a dynamic and tolerant give-and-take environment and it is unclear that this is always consistent with other corporate policies.

The focus of most diversity studies to date has been on race, gender, and sexual orientation. However, I believe that diversity defined in terms of only race, gender, and sexual orientation is very narrow. In this paper, I'll refer to this type of diversity as *social category diversity*. The United States has in place strict laws restricting discrimination based on race, gender, and sexual orientation and serious legal consequences follow from such discriminatory behavior by organizations. That is, legally, organizations must respect and accept social category diversity. In my study, I wanted to look beyond social category diversity, however, and explore diversity in terms of the different characteristics, personalities, and ideas that people have and how this sort of diversity may have potential value as a strategic asset for organizations within the financial services industry.

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[2] Jonas, Michael. (2007, August 5). The Boston Globe. Retrieved February 5, 2009. from the World Wide Web: <http://boston.com/news/globe/ideas/articles/2007/08/04/the_downside_of_diversity/>.

II. The Meaning of Diversity in this Study

This study began by examining firm recruiting plans and how they depict diversity.[3] In their recruiting and promoting processes, many organizations claim they hire and promote people based on who is the *most qualified* without any regard to race, color, religion, gender, national origin or sexual orientation.[4] Most, if not all formal recruitment plans in large firms include a section on diversity and equal employment opportunity that makes this sort of claim. Many pages also describe how it is the responsibility of managers and recruiters to prevent social category discrimination from occurring within the firm. Examples include statements like the following: "Review policies and procedures, and recommend changes as necessary to ensure nondiscriminatory effect or intent" and "Review qualifications of all employees under their supervision to ensure that women and minorities are given full opportunities for promotions, transfers, and training." That is, most recruitment plans focus heavily on social category diversity and elaborate on the different categories - race, color, religion, gender, national origin and sexual orientation – in order to assure that it does not occur.

Unfortunately, the plan does not usually use the same categorical detail to explain what the *most qualified persons* may mean in terms of diverse employee talents, characteristics, abilities and personalities. To find out what these companies mean by *most qualified persons,* I undertook five interviews with professionals from the financial services industry. I asked these people what sorts of people their organization looked for when they recruited. I considered the *most qualified persons* to be the "types" of people these interviewees said their firms wished to hire.

To help identify different "types" of people in terms of diversity, this study borrows from the work of Jehn and her paper, "Why Difference Makes a Difference: A Field Study of Diversity,

[3] In this paper, the words, "Company," "Firm," and "Organization" are used interchangeably.
[4] Director of Human Resources. "The University of Texas System Administration." 2008.

Conflict and Performance in Workgroups." In her research, Jehn discusses *informational diversity* as consisting of differences in knowledge bases, in skills or in perspectives. She says that informational diversity helps organizations generate different opinions on how to solve specific tasks; and that the various opinions that can be posed by a diverse group facilitate creativity and problem-solving abilities, which ultimately leads to high-quality group solutions.[5] I decided to focus on informational diversity in this study, as defined by Jehn (1999) and to consider its impact on the financial services industry. Accordingly, this study explores how firms actually recruit informational diversity.

III. Diversity Research

Thousands of students from many of the most renowned universities in the world seek work in the financial services industry. To begin I wanted to check on how in general, students from such universities see the financial services industry. Hence, I surveyed a random sample of 50 students at 5 different schools in 3 different countries in February and March, 2009. Students surveyed were in a variety of majors including premed, prelaw, business, math, and IT. I interviewed 10 students from each major and each school. The schools were Harvard, the London School of Economics, the University of Hong Kong, Columbia and NYU.[6] In the survey, I asked students to rank the following industries from 1–5 in terms of prestige: financial services, law, medicine, music, and technology. According to the surveys, though most of the students were not preparing to go into the financial services industry, the majority answered that they would like to get offered a job in this industry. Specifically, I asked the students in which industries they would like to get a job offer and 27 students - 54% of the students surveyed - ranked financial services as number 1. In addition, 11 students answered 1 for law, 7 students answered 1 for medicine, and 5 answered 1 for technology

[5] Jehn, K. A., G. B. Northcraft, and M. A. Neale, 1999. Why Differences Make a Difference: A Field Study of Diversity, Conflict and Performance in Workgroups," Administrative Science Quarterly, 44, 741–763.
[6] Survey on the attractiveness of the financial services industry conducted with undergraduate students at Harvard, London School of Economics, University of Hong Kong, Columbia, and NYU.

and music combined. The 27 students who ranked the financial services industry first included mostly students studying business and prelaw. However, it also included students studying math and IT, which at first I found surprising. I concluded that despite the economic turmoil surrounding the financial services industry, the finance industry is still attractive to students in top universities around the world.

In later interviews, human resource professionals told me that the financial services industry attracts students from various types of majors as many believe that an intelligent person will be able to quickly pick up the technical knowledge needed to be an analyst. Moreover, I also found out in later interviews that different departments within a financial service firm have different skill needs and so, for example, certain departments recruit employees with exceptional communication skills while others recruit employees who have outstanding technical abilities. Ultimately, then, and given the variety of specialist departments in the financial service industry, the wealth of talent located in the industry is very likely tremendous.

Though the finance industry seems to be respected by students at outstanding universities as a prestigious industry, the analysts who actually work in the industry and who I talked with often does not feel they have the freedom they want to freely utilize their intellect. More specifically, many say that the tasks they do become repetitive after only a few months, and this deters the analysts from further utilizing their skills and abilities, what Jehn calls their *informational diversity*. When I asked an analyst about his ability to use his various skills, he replied, “I hate this job. Anyone can do this job. I am only in it for the money.” Another analyst said, “I’m spending my analyst years here so I can jump to a venture capital firm that would allow me to think more.” My reading of the analysts was that they worked in the industry for three reasons – money, stability, and to find a good exit opportunity.

I believe that informational diversity is not only useful in workgroup settings within the same department, but also across different departments, especially in large organizations.[7] In the financial services industry, the organizations include bulge-bracket investment banks, such as Morgan Stanley, Goldman Sachs, and Bank of America. Accordingly, I will in this study explore how diversity is valued, incorporated, and used in these bulge-bracket financial services institutions in particular departments. Then, the study will explore how diversity is valued across departments by upper management and the implications of these findings. In the process, I refer to five different interviews I conducted with various professionals at all industry levels. I will also refer to the literature that highlights and confirms some of my key takeaways from the interviews. Based on the findings, I will offer insights on the ways in which the financial services institutions can explore opportunities and mitigate risk by suitably utilizing cross-departmental informational diversity.

IV. Methodology

My thesis study is basically an account of my exploration through doing interviews of how diversity is valued in the finance industry. I formulated questions for the initial set of interviews and then, as the answers became clear, I developed new questions for a new set of interviews. I selected the new questions and then the interviewees as I progressed since the answers I received were difficult to predict and often surprised me.

To gain a sense of how diversity is seen, valued, and recruited into bulge-bracket financial services institutions, I believed it would be best to interview the human resources department first. Human resources and the recruiters therein primarily recruit all of the firm's analyst and associates. Hence, I believed that they would have a clear understanding of how *informational diversity* is valued

[7] In this paper, information diversity that exists across departments within an organization will be discussed as cross-departmental informational diversity.

and brought into the organization. However, since the human resources department at one institution might not reflect the practices used at another institution, I interviewed three firms to get a better sense of the general situation. Then, I interviewed the analysts who were members of recruitment committees. In the bulge-bracket financial services institutions, this committee has considerable say in the recruitment process. I purposely interviewed analysts I knew personally to avoid receiving stereotypical information and to be able to ask more pointed questions as I was surprised by what I heard.

The interview order was determined by the information I received over time and from my previous interviews. I would choose my next interviewees based on what I believed the study needed to explore next. After interviewing members of recruitment committees, for example, I interviewed the upper management in the investment banking department. I did this because I wanted to find out whether a management team might have a different view of the value of informational diversity than the analysts or members of the human resources department. Then, to examine *cross-departmental informational diversity*, I interviewed human resource departments that focus on Information Systems and Private Client Management. I believed that the human resources departments would look for informational diversity in their candidates in order to facilitate communication across departments and, if this proved true, this interview would portray how and what cross-departmental informational diversity exists within a large bulge-bracket financial services institution. I then interviewed analysts and associates working with Private Client Management and Information Systems. Through this interview, I wished to show the existence of cross-departmental informational diversity first-hand and to discover if and how information diversity, is translated or transferred across departments.

The answers the interviewees gave will be documented first. My analysis of the answers will then follow. Similar interviews will also be group together for analysis to develop a more general and cohesive picture. Proceeding in this way, I was able to obtain systematic answers and ultimately to gain insights into how diversity is valued in the industry. On the other hand, the problem with this method was that there is no check on my interpretations. Despite reporting what I think I heard to the best of my ability, therefore, I could have made mistakes

V. Interviews: Human Resources, Recruitment Committee, and Upper Management in IBD

i. First Interview: Human Resources[8]

The interview was designed to discover how informational diversity is recruited to the bulge-bracket financial services firms, specifically focusing on one department – investment banking. The following questions were used to determine the informational diversity that the human resources department looks for in candidates: 1. What qualities and characteristics do you look for in a new candidate? 2. Which sections of the resume do you consider as most important? Could you go over how you would look over a candidate's resume? and 3. How do you make sure that diversity is well-respected within your firm?

1) *What qualities and characteristics do you look for in a new candidate?*

We ultimately look for candidates who demonstrate a good balance of personal and technical skills. To do so, we examine whether candidates have great communication skills, organizational skills, and an eagerness to learn. They must demonstrate their interest in the financial services industry through both their resume and their cover letters. Also, being able to work well in team situations is critical. Candidates must be able to demonstrate leadership, but they must also show us that he or she listens to others in group settings.

[8] Interview on the recruitment of diversity with recruiters at bulge-bracket financial services firms

2) Which sections of the resume are the most important? Could you go over how you look over a candidate's resume?

We first look at the candidate's grade point average because a lot of times G.P.A. determines whether the candidate is intelligent and hard working. If a candidate's G.P.A. record is below our minimum grade point average, we rarely look further beyond this section. Then, we look for candidates' work experience, especially for NYU Stern and Columbia students because they live in New York and have the opportunity to work. Thus, if NYU Stern or Columbia students did not work, we quickly conclude that the candidates did not try hard enough. Also, we see if the candidates' work experience consistently portrays his or her interest in the financial services industry. If the candidates' previous experiences were solely in other industries, we look at their cover letters to see if they clearly state the reason for moving to financial services. Lastly, we glance over our candidates' school activities to see if they were involved in leadership positions at any clubs. We in financial services firms like to see students that take initiative. Moreover, having leadership positions in a school translates into the candidate knowing and being respected by numerous underclassmen from the school. Therefore, if a candidate was able to obtain a leadership position at their respective schools' prominent organizations, we believe that our initial due diligence has already been completed for us. Also, the future candidates from those schools will associate our firm with upperclassmen they respect, which is also a great boost to our company's image with the next generation of students.

3) How do you make sure that diversity is well-respected within the firm?

We have equal employment opportunity policies in place. The firm does not discriminate based on color, national origin, sexual orientation or gender. We have also won many awards regarding our diversity policies and have put in place multiple programs so that we provide everyone, regardless of race, gender, or sexual orientation, equal opportunity when they work here.

ii. Analysis of the First Interview

As shown in the interview, bulge-bracket financial services firms have a well-structured recruiting procedure. The human resources department follows certain guidelines every year that exactly determine which candidate is qualified or unqualified. Hence, the amount of informational diversity that is admitted within one department, investment banking in this case, is very limited. In fact, the insistence that the candidate must consistently show a desire to work in financial services effectively eliminates most of the diversity that might otherwise be available through recruiting. That is due to the recruitment process, every candidate, although racially and sexually diverse, ultimately possesses similar qualities – a high G.P.A, work, and experience in leadership position, etc – that the particular department values. "The New Institutionalism in Organization Analysis" argues that historical factors shape institutions and limit the range of options open to decision makers.[9] The human resource professionals at these bulge-bracket financial services firms, by simply following and staying consistent with historical recruitment guidelines, effectively limit the amount of informational diversity permitted to enter existing departments.

The next interviews were conducted with analysts who are members of the recruitment committee at the same bulge-bracket financial services firms. The primary purpose of the interview was to examine whether the steps taken by the recruitment committee involve issues not considered by the human resource professionals and so may increase informational diversity within the department. I personally know these analysts and so I think they painted an honest picture of the situation for me.

[9] Powell, W. and DiMaggio, P. (1991). The New Institutionalism in Organizational Analysis. Chicago and London. The University of Chicago Press. 4.

iii. Second Interview: Recruitment Committee[10]

The interviews were conducted casually and in each case, I asked the same three questions:.

1) *What qualities and characteristics do you look for in a new candidate?*

We look for candidates who can do the work we require and is also eager to learn. The management here expects a lot from you from the start. We look for people who are intelligent and who take initiative. Since the technical skills necessary for this job are quickly taught in the training session held in the first month, the candidate must be able to quickly pick up this information and then apply it to their work right away.

2) *Which sections of the resume are the most important? Could you go over how you look over a candidate's resume?*

Before looking at anything, we look at the name of the candidate first and see if we know them. The actual recruiting process is quite random and so if we know a candidate, most likely we will choose them because we know them. Obviously, we cannot initially select candidates that do not have great G.P.A., work experience and leadership skills. However, out of those who do, we try to select candidates who we know already. Also, if they are participating in organizations that we were part of during our college years, that is a huge plus because that makes us more likely to recruit them. Also, we look for candidates that we met at recruitment events and who we remember was enthusiastic about the job and the firm. Those candidates usually send us few emails after the recruitment event, which helps us remember their names.

3) *How do you make sure that diversity is well-respected within the firm?*

We believe that bulge-bracket firms have more racial, gender, and sexual diversity than smaller firms because if a recruiter is in a particular racial, gender, or sexual category, they are more likely to pick another person in that category. The bulge-bracket firms have more diversity in their recruitment

[10] Interview on recruitment of diversity with the recruitment committee at bulge-bracket financial services firms

staffs and this is why they recruit more diversity. When a large firm recruiter initially recruits a person, say of a different race, he or she is more likely to choose someone in his or her race in the next round of recruiting. Although it is not specifically written out in the recruitment plan, we know employees involved in recruiting tend to look for people who share a similar background and who initially they feel more familiar with.

The familiarity issue goes hand-in-hand with the issue that we encountered in the interview with human resource professionals. Since people with similar knowledge are in the same department due to the strict recruitment guidelines used by human resources, those people will be more likely to choose others who they feel more familiar with. The people who the existing employees of a particular department are more familiar with do not, however, bring informational diversity into the department. If this is the method that is primarily used in organizations to recruit new people, it is difficult to see how structure is being used to implement diversity at these financial institutions. Until now, however, only analysts and recruiters have been interviewed to find out the firms' approach and recruit informational diversity. The next interviews were conducted with two directors who were able to provide a more upper level perspective on the value of informational diversity.

iv. Third Interview: Upper Management[11]

In this interview, only the third question was asked:

3) How do you make sure that diversity is well-respected within the firm?

When asked this question, the directors' responses clearly indicated that they had a bigger picture in mind than either the human resource professionals or the departmental members. They first started by talking about the global economy and how more deals and transactions are taking place in the

[11] Interview on recruitment of diversity with the upper management at financial services institutions

international arena and how at this level, social category diversity is important. In fact, the management that runs international corporations is also very diverse according to almost any criteria imaginable but social category diversity can be critical because people are usually keener to work with others of their own race. They said this tends to happen more when firms operate in different countries. For example, a firm in South Korea that is run by Korean management will be more likely work with another financial institution if a Korean person is present on the deal team. Therefore, diversity is not only affected internally by selections made by the recruiters and the committee that select new hires, but also it is affected externally by the company's clients. The two directors were further asked about diversity regarding abilities, skills, and talents of individuals. They replied that although different talents are critical, the particular business requires certain kind of skills. Therefore, they said that although different employees might have varying interests, they probably have similar skills and abilities in that their position in a firm is a part of a particular team charged with a particular task.

v. Analysis of the First Three Interviews

For the recruiters, diversity is defined by the guidelines they are directed to follow. Specifically, they must look for candidates who have a certain grade point average, and who have work and leadership experience; and they must not discriminate against anyone based on their gender, sexuality or race. Hence, the human resources recruitment process is shaped by historical evaluation criteria that limit the range of options that recruiters might otherwise consider (North 1988). On the other hand and despite the policy admonitions, diversity is approached from a biased view by recruiters and in the recruitment committee as analysts usually choose the candidates they feel familiar towards. Ethnic recruits like ethnic, gender recruits like gender, religion recruits like religion.

However, diversity is approached differently by upper management. Directors view diversity as being needed within a firm because of the global nature of existing and potential clients. In this way, the three groups that have the leading say in recruiting a candidate to a financial institution all have different perspectives on diversity and how it impacts recruiting. Although websites and advertisements of all bulge-bracket financial services institutions depict a policy whereby they all claim to respect diversity, the reality of what actually seems to occur suggests that this espoused policy is only partly implemented and may in fact be impossible to implement. Recruitment at these firms is also ultimately unstructured depending on the particular recruiter and thus it probably cannot be used to turn diversity into a valuable firm asset. To develop valuable firms assets based on diversity, recruiters would have to understand the needs of management and the recruitment committee would have to recognize the guidelines given recruiters, the way recruiters actually tend to choose, and also the needs of the management.

The first three interviews, however, have a particular limitation that makes conclusions about how firms approach diversity suspect. Only recruiters, the recruitment committee, and directors from the investment banking department were interviewed. There are many other departments, such as Information Systems, Private Client Management, and Alternative Investments within a bulge-bracket firm and no interviews have been done in these areas. Therefore, the next set of interviews is with two recruiters located in new departments - Information Systems and Private Client Management.

VI. Interviews: Information Systems and Private Client Management

<u>i. Fourth Interview: Recruiters from Information Systems and Private Client Management</u>[12]

The same questions were asked to the two recruiters. The answer of one recruiter is followed by the answers of the other to make the differences easily visible.

1) *What qualities and characteristics do you look for in a new candidate – Information Systems?*

We look for candidates with great technical skills. They need to know certain programming languages, depending on which group he or she is applying to join within information systems. Leadership experience and club activities are also somewhat important. However, leadership skills and club activities are not nearly as important as technical skills.

1) *What qualities and characteristics do you look for in a new candidate – Private Client?*

The resumes that ultimately get selected do have a few distinguishing characteristics. First, candidates must illustrate that they have great written and verbal communication skills. Moreover, we also see if the candidate has an interest in the equity markets and has any sort of prior portfolio management experience.

2) *Which sections of the resume are the most important? Could you go over how you look over a candidate's resume – Information Systems?*

We first see if the candidate has our required technical abilities and how they got them. Then, we look for certain characteristics such as indicators of leadership and time management skills. However, as we have seen so many resumes now, it only takes us a few seconds to look over and assess a resume. Candidates must have a good grade point average and relevant experiences working in technology as well. Since we only spend a few seconds on each resume, they must have these characteristics we are looking for. Otherwise, we move to the next.

[12] Interview on recruitment of diversity with the recruiters from Information Systems and Private Client Management

2) *Which sections of the resume are the most important? Could you go over how you look over a candidate's resume – Private Client?*

We look over resumes to see if the candidate shows particular interests in the equity markets. This could be simply following the markets through various publications such as the Wall Street Journal and the Economist for students who are not studying business. However, for students who are studying business, especially Stern students, we look to see if he or she had prior work experiences that show us his or her interest in the markets. The candidate must also have good communication skills. We think they demonstrate this through previous work experiences and leadership experiences. The candidates' grade point average is also very important.

<u>ii. Analysis of the Fourth Interview</u>

The findings in the fourth interview provided the study with a better perspective on the kind of diversity present at bulge-bracket firms in the financial services industry. Although the first three interviews suggested that there is no diversity within departments, this interview showed that diversity exists across departments within a financial services institution. Diversity across different departments exists because each department seeks individuals with specific skills and characteristics. Hence, in order to see if this diversity recruited to specific departments also acts as a strategic asset for the total financial services institutions, I needed to find out the extent of the communication across departments. Thus, I decided to interview employees from two different departments – Information Systems and Private Client Management – to examine this interdepartmental communication.

iii. Fifth Interview: Interview with analysts from Information Systems and Private Client Management[13]

The purpose of this interview was to find out about communication across departments. Thus, I asked the employees in the two different departments when is the last time they talked to anyone from the other departments.

1) *Do you have daily interactions from employees in the Information Systems department? If not, how often do you talk to people in other departments – Private Client Management?*

Honestly, I have never spoken to anyone from the Information Systems department. We are not in the same building so it's difficult to meet. Sometimes, traders need to meet people at Information Systems to talk about the improvements to be made to the trading platform. However, I heard that this is a painful process because they simply do not understand each other. I am almost positive that my colleagues do not talk to employees in Information Systems. It is not like we don't like each other but there is simply really no reason to meet. We just do different things.

2) *Do you have daily interactions from employees in the Private Client Management department? If not, how often do you talk to people in other departments – Information Systems?*

That is an interesting question. I have heard of the department, but I haven't met anyone working there. I know a couple people in other departments, but I meet them only as and when it is required. There are meetings, once or every few days, when we go to find out what people in the front office need. These meetings are very inefficient though. The front office really doesn't understand why we take a long time to develop or upgrade a platform. They do not understand how much times goes into our operations. Hence, these meetings usually do not develop into making lunch occasions.

[13] Interview on recruitment of diversity with the analysts and associates from Information Systems and Private Client Management

iv. Analysis of the Fifth Interview

If this is typical, this interview shows that there is almost no communication across departments within an investment bank. Hence, even though there is diversity across departments, I realized that it is not being used as a strategic asset for the firm as a whole at all. The various departments in bulge-bracket financial institutions constitute isolated silos and the silo effect is that there is no communication or even a discernable common goal across the departments. Each is a sovereign unit with their own knowledge and understandings. Marcel Cote, in his article *A Matter of Trust and Respect* writes that the symptoms of the silo effect are easy to recognize: lack of cooperation, internal competition and breakdown in communication. He concludes that silos reduce efficiency. He says that silos are most evident in large diversified firms when the silo effect spreads throughout and across business units.[14] Walter W. Powell criticizes the silo organization in his book, "The New Institutionalism in Organizational Analysis." He says specifically that silo organizations are epiphenomenal, merely the sum of their individual level properties (Powell 1991). Knocking down these barriers can contribute to value creation; making way for the sharing of services, and kills across units and through comparisons and assessments from different points of view, can encourage improved and better practices. Cote believes that barriers between business units within the same company are harmful and should be eliminated (Cote 2002).

After discovering that bulge-bracket financial institutions seem to be silo organizations that fail to use the employees diversity contained in their different departments, I decided to study cases where organizations encourage communication amongst different departments. I also examine another illustrative case where Google and Proctor & Gamble switch employees to further develop their respective businesses as an example of firms that value diversity and want it to contribute

[14] Cote, Marcel. (2002, March). CA Magazine. Retrieved March 17, 2009 from the World Wide Web: < http://www.camagazine.com/index.cfm/ci_id/6798/la_id/1.htm>.

value. From these case studies, I wanted to identify the benefits of encouraging communications across departments, and thereby how sharing diversity may be able to establish a process with the potential to create value.

VII. Case Study

i. Toyota Motors

Unlike the bulge-bracket financial institutions studied above, Toyota employs an intensive horizontal communication system.[15] Employing a "Unity in Diversity" slogan, Toyota realized very early on that different specialty departments need to talk to one another. Toyota believed that extraordinary ideas emerge when different groups of people (departments in this case) talk to one another. The book, The Toyota Product Development System by Jeffrey K. Liker portrays Toyota's emphasis on communication. Liker writes:

> In Toyota's culture, communication is the "grease" that lubricates the engine. It is impossible to have a relationship of mutual trust without effective means of communicating with each other, whether this is a relationship between two people or at TMMK with 7,400 employees. Communication is the basis for trust and trust is the basis for open communication (Liker 2007).

In addition, Liker describes that there is an entire section of the administration dedicated to corporate communications: they are in every plant and major unit, such as headquarters, the Toyota Technical center, and Toyota Motor Finance. They are responsible for the internal communications of the organization (Liker 2007). This process encourages communication within and across departments and prevents communication errors from happening.

[15] Morgan, J. and Liker, J. (2006, March 25). The Toyota Product Development System. (1st ed.). Productivity Press.

Moreover, when a new design is to be created, Toyota implements a discussion process where employees from different department come together. This discussion process prevents communication errors from happening as all employees understand the goals they are trying to achieve and the means to get to those goals. The result of improved communication across departments is clear. The company develops products in much less time with many few hours of engineering, products that cost much less to manufacture and that had many fewer defects as reported by customers. In the banks, in contrast, people have different views but they do not know what other departments are doing and they feel there are many misunderstandings, e.g. with the information technology people. They do not try to understand each other and they do not know what the goals of the different departments are or how they are going about achieving them.

ii. Google and Proctor & Gamble

Google and Proctor & Gamble are two companies that could not be more different from one another yet every year, they swap employees. The companies team up in order to learn more about what makes the other tick (Tapscott 2008). In other words, each values and wants to learn about how the other thinks, how they do things, what sorts of perspective they have, how they work together, how they build on ideas from one another, etc. Both place high value on informational diversity. The primary purpose of the swap is to provide employees an opportunity to learn the skills they do not have. For instance, Google employees are very innovative in the online technology space. However, they are less developed in television advertising or non-online product design such as detergent and shampoo bottles. On the other hand, Proctor & Gamble has expertise in the latter – television advertising and non-online product development. As the Wall Street Journal notes,

> Closer ties are crucial to both sides. P&G, the biggest advertising spender in the world, is waking up to the reality that the next generation of laundry-detergent, toilet-paper and skin-

cream buyers now spends more time online than watching TV. Google craves a bigger slice of P&G's $8.7 billion annual ad pie as its own revenue growth slows.

From the swap, both firms gained benefits that they could not have gotten by remaining inside of their own company. Examples of the benefits that Google and Proctor & Gamble have received are described in the Wall Street Journal article[16]:

> As the two companies started working together, the gulf between them quickly became apparent. In April, when actress Salma Hayek unveiled an ambitious promotion for P&G's Pampers brand, the Google team was stunned to learn that Pampers hadn't invited any "motherhood" bloggers — women who run popular Web sites about child-rearing — to attend the press conference. "Where are the bloggers?" asked a Google staffer in disbelief, according to one person present […] For their part, P&G employees gasped in surprise during a Tide brand meeting when a Google job-swapper apparently didn't realize that Tide's signature orange-colored packaging is a key part of the brand's image.

Hence, P&G learned about a new world in a new medium – motherhood bloggers – to use to effectively target customers. Similarly, Google learned about P&G products' long-lasting brand image; the image that Google currently has and needs to preserve for the long-term.

iii. Analysis of Toyota, Google, and Proctor & Gamble

Both Toyota and Google understand the importance of encouraging communication across different knowledge bases. At Toyota, various knowledge bases, also known as diversity, exists across many departments. Toyota has a system where employees from different departments come together and discuss the company's new ventures, how they can be implemented and what will be

[16] Bryon, Ellen. (2008, November 19). The Wall Street Journal. Retrieved February 19, 2009 from the World Wide Web: <http://online.wsj.com/article/SB122705787917439625.html>.

required. At Google, the knowledge base is limited to technical and creative abilities. Therefore, Google partners with Proctor & Gamble to utilize P&G's different knowledge base, diversity that is not present at Google. Both companies understand the value of diversity. By promoting communications across diverse knowledge bases, Toyota, Google, and Proctor & Gamble are able to use diversity as a strategic asset. It is a strategic asset because it a) makes what their own organization does more valuable or more efficient and b) it makes what their own organizations does more valuable and effective for other organizations.

VIII. The Elemental Structures of Organization Fields

Unlike the three organizations, Toyota, Google and Proctor & Gamble studied above, interviews with members of financial service institutions seem to put less emphasis on promoting communication across departments. While the financial service institutions seem to recruit for particular areas, the importance of coordinating and possibly exploiting the different knowledge bases contained in different areas do not seem to be a high priority. In fact, I discovered that the financial services industry seems to use and rely on institutional approaches to their day-to-day operations. While this ensures predictable activity, it does not ensure flexibility, innovation or enable change. More specifically, to describe how organizations become institutionalized, research has identified three structural pillars – the organization's cognitive, normative, and regulative structures (Scott 1987).

<u>i. Cognitive Structures in the Financial Services Industry</u>

Dunbar and Nair (2009) write:

> Cognitive structures represent particular worldviews that people use to constitute reality and attribute meaning to ongoing events (Scott, 1995). They include beliefs (Sproull, 1981), ideologies (Beyer, 1981) and perceptual filters (Starbuck, Greve and Hedberg, 178; Weick,

> 1995). As a particular worldview is institutionalized within a specific firm, most organization members will have a shared understanding of the situations the organization faces, what it tries to do in these situations and how it tries to respond to situations (Douglas, 1986). With a shared worldview, organizational members also interpret situational information and direct firm action in similar ways (Boulding, 1956; Weick, 1969).

As observed in the interviews, cognitive structure exists in the financial services industry and guides its recruitment process. That is, all of the recruiters within a specific department had a "particular worldview that [they] use to constitute reality" (Dunbar and Nair, 2009). These worldviews form the guidelines that recruiters follow in reviewing candidates' resumes. These guidelines have been present in these bulge-bracket financial services firms for many years and no one interviewed mentioned any expectation of change. However, institutionalized cognitive structures in a particular organization field can simultaneously downplay alternative cognitive structures – a way of seeing also becomes a way of not seeing (Dunbar 2009). For instance, many groups in the investment banking department have been eliminated due to the financial crisis. As firms start to recruit new people in to the department in the following years, they must reevaluate their recruitment method so it does not become inferior and obsolete.

<u>ii. Normative Structures in the Financial Services Industry</u>

Dunbar and Nair (2009) discuss how "Normative structures define behavior by introducing prescriptive, evaluative and obligatory elements that members should aspire towards (Scott, 1995). Thus, norms determine legitimate goals (Such as pursuit of profits) and behaviors (such as frequency of product updates) within a field". The interviews conducted in this study showed that norms are important in the financial service institutions. The recruiters all have specific ways of critiquing resumes, and to do so, they introduce "prescriptive, evaluative and obligatory elements that [candidates] should aspire towards" Moreover, each department –Investment banking, Information Systems, and Private Client Management – has in addition its own unique way of selecting candidates. Candidates must have the necessary characteristics to join a particular division, for example, and these prescriptions intentionally limit the diversity contained within each department. In this way, institutionalized normative structure determine the rank and reputation for some candidates is sufficient to gain entry while it prevents others with different abilities from gaining entry

iii. Regulatory Structures in the Financial Services Industry

Regulatory structure relates to the coordination process. For example, Information Systems does not find out about what Private Client is doing.

Dunbar and Nair (2009) say:

> The third pillar, regulative structures constrain behavior through rule-setting, monitoring and sanctioning activities within an organizational field (Scott, 1995). Regulatory agencies within fields set rules that are intended to direct and guide member behavior, and rule breakers are sanctioned through formal or informal mechanisms (Greenwood, Suddaby & Hinnings, 2002).

The regulative structures also apply to the financial service recruitment process. The recruitment process sets up barriers stating the qualifications necessary. This structure constrains behavior through monitoring and sanctioning departmental activities. It also prevents candidates with different abilities from gaining entry to each department. In sum, the recruitment process ensures departmental continuity; the candidate is not considered if he or she ventures outside of this barrier.

IX. Implications to the Financial Services Industry

The study provides many findings that can be implied to the financial services industry. One of the main factors that contributed to today's breakdown of the banking industry is that many parts of the organization claimed they did not know what other parts of the organization was doing even as some parts of the bank were taking very risky actions. For example in response to the financial crisis that started in 2007, Martin Sullivan, a previous executive at the American International Group, said that he was not fully aware of the activities that were going on in his own firm. As such, various departments at once-highly-respected financial institutions pointed fingers at one another regarding who is responsible for the problems that their organizations were suffering. For example, many sellers of various financial instruments did not know the correct value of the financial products they were selling. The instruments were often times developed within their firm by the quantitative research analysts but the information about how to assess the value of the product and its risk was not transferred clearly to the sellers. Thus, the lack of communication across departments ultimately hurt these financial service institutions.

To resolve this lack of communication, I believe that changes must be made to their recruitment process and communication processes. The financial services industry is dominated by a particular set of institutionalized cognitive, normative, and regulatory structures that tend to promote stability but not flexibility or change. Hence, the social reality in that field is over-determined and has become taken for granted. Despite the banking crisis that started in 2007, the bulge-bracket financial institutions have made very few changes to their recruitment process. Moreover, the communication across departments has gotten very little attention and remains weak. Dunbar and Nair (2009) write:

> As environmental changes are dismissed or ignored (Christensen, 1997) by most incumbents, possibilities open up for institutional entrepreneurs (DiMaggio, 1988) to advocate alternative approaches and structures within a field (Fligstein, 1997). Typically, adherents to institutionalized approaches view new proposals as deviant, marginal, idiosyncratic or irrelevant (Christensen, 1997). Yet as an institutional entrepreneur can persuade members of an organizational field to explore and test out a new approach, a *reciprocal typification* process can be mobilized as members explore new assumptions leading to new ways of organization. Over time these approaches can be honed and clarified into a new and recognizable worldview with complementary expectation and regulatory structures differing from those dominant in the field (Hasselbladh and Kallinkos, 2000; Hoffman, 1999).

The interviews performed in this study strongly suggest that financial service institutions use institutionalized approaches. Moreover, the case studies of Toyota, Google, and Proctor & Gamble suggest that companies can benefit if they do not stick solely to established, institutionalized approaches but "explore and test out a new approach […] as members explore new assumptions leading to new ways of organization" (Dunbar 2009).

As shown in the interviews, the financial firms do not have structured, organized processes to use diversity and so they do not recruit diversity. Furthermore, communication across departments is generally not happening, and thus, diverse views are not valued across departments in bulge-bracket financial institutions. Today, diversity, whether random or structured, exists in a financial services institution across departments that could be utilized. In a crisis, firms often need new ways of doing things and to do this, they need to draw on the informational diversity that is contained within them. To the extent that diverse views can generate new ways of doing things and banks are seeking such ideas, a process that allows the financial services industry to strategically use and then recruit diversity needs to be developed.

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