

The Power of Diversity, Equity and Inclusion in Business

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Diversity, equity, and inclusion (“DE&I”) initiatives are an essential part of the fiber of any company. By embracing and implementing DE&I values at the organizational level, businesses have an opportunity to foster an inclusive culture and promote diversity of thought to achieve their best strategic business goals.

Recently, regulatory agencies throughout the financial industry have turned their attention to DE&I initiatives. In 2020, the Securities and Exchange Commission released its first Diversity and Inclusion Strategic Plan¹ that provided a framework for the agency’s overall commitment to DE&I, including outreach to underserved and under-represented communities through education and empowerment. These evolutions have left business leaders asking what is on the horizon when it comes to DE&I, what might be required from a regulatory standpoint, and what to consider as an overarching business strategy to help achieve growth and new opportunities.

In an ever-changing world, DE&I initiatives are both invaluable and necessary. Having diverse representation throughout your business is beneficial as it enriches companies internally, empowers leaders, and serves the public interest for the greater good. Inclusion fosters an environment of belonging that welcomes all voices and creates a more positive culture. This in turn helps support and empower employees, who have a shared goal of creating meaningful results and celebrating each other’s successes.

This article will discuss the importance of diversity and why business leaders need to be intentional in taking action to increase inclusion and welcome differing perspectives. We provide practical guidance when it comes to developing diversity, equity, and inclusion policies and processes for senior management teams and at the firm level.

Recent SEC Guidance

In its July 7, 2021 *Report and Recommendations on Diversity and Inclusion in the Asset Management Industry*,² the U.S. Securities and Exchange Commission’s Asset Management Advisory Committee (“AMAC”)’s Subcommittee on Diversity and Inclusion studied DE&I in the financial industry. Based on this, they found that active discrimination exists, particularly among minority and women-owned firms. This has led to the following four broad recommendations set forth by the AMAC.

1. *Enhanced Disclosures Recommended* – AMAC recommended that the SEC require enhanced disclosure in SEC filings (particularly, Form ADV and Form N-1A) by investment advisers and funds to provide transparency of diversity within a firm on issues of gender and racial diversity in the workplace.
2. *Issue Commission or Staff Guidance to Fiduciaries Selecting Asset Managers* – AMAC recommended that DE&I should be evaluated as part of the due diligence process for the selection of asset managers.
3. *Consider the Pay-to-Play Universe; SEC Staff Should Study of the Influence of Political Contributions on Asset Allocation in the Institutional Market* – AMAC recommended that the SEC Staff conduct a study of how contributions made by market participants are used by

1. See Diversity and Inclusion Strategic Plan, Fiscal Years 2020-2022, available at https://www.sec.gov/files/2020_Diversity_and_Inclusion_Strategic_Plan.pdf.

2. See SEC Asset Management Advisory Committee – Subcommittee on Diversity and Inclusion Recommendations for Consideration by the AMAC, July 7, 2021, available at <https://www.sec.gov/files/spotlight/amac/amac-report-recommendations-diversity-inclusion-asset-management-industry.pdf>.

PACs to influence non-diverse asset manager selection and how the pay-to-play industry practices have evolved over the last decade.

4. *Develop Procedures for Managing Reports of Discriminatory Practices* – AMAC recommended establishing a centralized mechanism for cataloging and maintaining records relating to discriminatory practices in the securities industry and publishing resources for victims of discriminatory practices.

Notably, on October 13, 2022, the SEC issued an FAQ relating to an investment adviser’s consideration of DE&I factors when selecting or recommending other investment advisers.³ The SEC addressed this important issue by stating that yes, DE&I can be one of a variety of factors, so long as the adviser has a reasonable belief that the advice it provides is in the best interest of the client, consistent with the client’s objectives.⁴

The guidance provided within these publications demonstrates the SEC’s commitment to DE&I and importantly helps to identify actions which investment advisers and funds could take to advance their DE&I initiatives.

Start by Developing a DE&I Budget and Committee

When evaluating DE&I, it is prudent for company leaders to make a commitment to DE&I by setting a budget and developing a DE&I working committee. Start by seeking professional guidance to help identify and evaluate DE&I solutions. Next, outline the steps the organization will take to make DE&I part of the firm’s culture. Implement policies and procedures that promote workplace equality for all. Notate how the firm will disclose its DE&I protocols. For example, in the event the adviser selects third- party asset managers to manage a portion of the client’s assets, develop policies to address how the firm will evaluate those managers’ DE&I practices.

When hiring a professional to assist with DE&I, consider whether that vendor is equally focused on building a diverse and inclusive workplace and makes DE&I issues a priority.

Whether at the point of hire or around the table when discussing key business initiatives, it is important to include and foster diverse perspectives.

Culture of Inclusion

In every industry and at all levels of a company, there is an opportunity to set the tone to “do the right thing.” Organizations can empower their leaders and make more room at the table to help all employees feel supported and valued.

To promote a culture of inclusion, it is not enough to “check a box” by hiring diverse talent. Rather, companies need to promote a culture of inclusion, of embracing ideas from all team members who have various life and professional experiences, and helping people from underrepresented backgrounds feel like they belong. Through that diversity of thought, creative ideas will flow and through collaboration, and better deliverables and productivity will flourish.

3. Staff FAQ Relating to Investment Adviser Consideration of DEI Factors (Oct. 13, 2022) available at <https://www.sec.gov/tm/staff-faq-relating-investment-adviser-consideration-dei-factors>.

4. *Id.* See also [Commission Interpretation Regarding Standard of Conduct for Investment Advisers](#), Investment Advisers Act Release No. 5248, 84 FR 33669, at 33673 (June 5, 2019).

Conclusion

DE&I requires time, effort, and commitment. It is not just about policies; it is about actions of listening to unique perspectives, embracing diversity of thought, including perspectives of all team members, and developing trust through an inclusive culture of belonging.

With the new year underway, as we collectively honor the customs and history of diverse people and cultures, and continue to celebrate our unique differences, it is important that businesses and company leaders analyze the equity of systems and structures. In aligning organizational goals for 2023, be proactive in making a commitment to review DE&I initiatives, and create a comprehensive strategic plan. It is time that we take action through more equitable business decisions that implement best practices to ensure overall fairness in the workplace for all. ■