Minority Vulnerability in Privileged Occupations: Why Do African American Financial Advisers Earn Less than Whites in a Large Financial Services Firm?

By
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Building on recent work on contemporary forms of bias in meritocratic personnel systems, the author assesses sources of racial disadvantage in an output-based pay-for-performance system for compensating financial advisers in a large financial services firm. Using data from expert reports submitted in racial discrimination litigation, the author shows how racial differences in access to white wealth, limits on African Americans' full participation in broker teams, racialized approaches to multicultural marketing, and diffuse lines of authority for diversity and nondiscrimination created racial barriers that were sustained and amplified by a cumulative advantage system for allocating productivity-enhancing resources. The author concludes with a discussion of management strategies for minimizing minority vulnerability in privileged professions and the challenges faced when the sources of bias are neither unconscious nor unintended but are instead located at least in part in racially segregated social relations and power differences among professionals who hold formally equivalent positions in a company's job structure.

Keywords: meritocracy; racial bias; cumulative advantage; opportunity hoarding; racialized jobs; accountability structures; discrimination

The Significance of Race in Privileged Occupations

In a recent essay published in *Daedalus*, William Julius Wilson (2011) reflected on the hundreds of published studies undertaken to test the provocative thesis of his landmark book *The Declining Significance of Race* (1980). The essay defended his claim that changes in politics

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and the economy during and immediately following the civil rights era of the 1960s mainly benefited middle-class African Americans and that hardly any of the consequences of profound institutional changes of that era accrued to blacks who compose the overwhelming majority of the urban poor. But in the essay he also conceded that his optimistic assessment of continuing income gains of younger well-educated African Americans and declining racial disparities in socioeconomic attainments was wrong. Reviewing quantitative studies of black/white earnings inequality, he noted that the expansion of the racial gap in earnings coincided with both a decline in public support for affirmative action and a retreat from antidiscrimination enforcement by government agencies. In light of these findings, Wilson (2011) acknowledged that, were he writing the book today, he "would place greater emphasis not only on the role of the public sector in accounting for black occupational mobility, but also on the importance of sustained public support for anti-discrimination programs, including affirmative action, to ensure that the gains continue or, at the least, are not reversed" (p. 63).

In *The Declining Significance of Race* and related works, William Julius Wilson attributed gains of highly educated African Americans since the mid-1960s to the expansion of the service sector of the economy, increased opportunities in the public sector, and the impact of affirmative action and other antidiscrimination efforts launched during the civil rights era. He was mostly silent on the nature of opportunities and barriers faced by African Americans employed in the private corporate sector. His essay and other recent writings do not address the issue in any depth, but his revised stance is at least consistent with the conclusions of a large body of research on the precariousness of the socioeconomic advances of the African American middle class. Important research by Sharon Collins and other sociologists shows that African Americans in mid- to upper-level corporate positions tend to be channeled into jobs dealing with minority concerns and constituencies with limited opportunities for further advancement (Collins 1997, 2005; Spalter-Roth and Deitch 1999). A series of studies by George Wilson and colleagues indicate that their careers are often undermined by layoff decisions rooted in cognitive bias but legitimated in terms of meritocratic ideologies of efficiency and business necessity (G. Wilson and Roscigno 2010; G. Wilson and McBrier 2005). Synthesizing this line of empirical studies with conceptual models of social closure, cognitive bias, and statistical discrimination, George Wilson developed his "minority vulnerability thesis" as a framework for understanding racial disparities in career stability in mid- to upper-level jobs. In a succinct statement of his thesis as applied to job layoffs from "upper-tier" occupations, G. Wilson and McBrier write,

> Studies comprising the minority vulnerability thesis document how employers in work settings characterized by meritocratic ideologies make layoff decisions that reinforce existing patterns of racial exclusion. Accordingly, race-based patterns of layoffs are a manifestation of "modern racial prejudice," which is characterized as situational, ostensibly nonracial, and institutional in nature. In general, the minority vulnerability thesis posits that dynamics ranging from perceived need to conform to existing norms of racial

> exclusion in order to maintain a stable workforce and steady customer/client base to cognitive distortions inherent in "self-serving attributional bias" and "statistical discrimination" arising from stereotypes result in layoffs that are not discriminatory in intent but serve to disproportionately exclude racial minorities from top-level positions. (2005, 304)

The thesis also maintains "that at privileged levels of the American occupational structure African Americans' placement in racially delineated jobs and the constraints on their ability to demonstrate the 'right stuff' for favorable performance evaluations result in a set of race-specific determinants of layoffs" (p. 304). While developed to account for racial disparities in layoffs, the minority vulnerability thesis should apply in the same way to access to top-level positions, pay, and other career outcomes for African Americans in white-dominated corporate settings.

Assessing the Minority Vulnerability Thesis Applied to Financial Advisers in the Financial Services Industry

In this article, I assess whether and how the minority vulnerability thesis applies to earnings disparities by race in the financial securities industry—specifically, to the experience of African American stockbrokers (now usually referred to as "financial consultants" or "financial advisers") in the brokerage division of one of the country's largest financial services firms. It is a substantively interesting case for several reasons. First, it is an occupation with an output-based pay-for-performance system—compensation is determined by a fixed mathematical formula applied to the commissions flowing to the firm from the business that brokers do with their clients. On one hand, compared to other lucrative jobs in financial services, such as investment banking or branch management, individuals concerned about racial bias in subjective evaluations of their contributions might perceive that they will be evaluated more fairly in an area of the business in which pay is seemingly determined solely by objective measures (Roth 2004, 630–31). On the other hand, an important recent line of research and theorizing suggests that it is precisely this kind of meritocratic evaluation system that is vulnerable to contemporary forms of racial and gender bias (G. Wilson and Roscigno 2010; Castilla 2008; Castilla and Benard 2010). As Castilla and Benard note, "Meritocracy as a cultural value can serve as an 'environmental trigger' or be part of a 'tool kit' of habits that unleashes individual cognitive biases" (2010, 544).

Second, the provision of brokerage and financial services typically requires a high level of trust between broker and client, which can reinforce homophily in client preferences. Stated bluntly, all else equal, affluent white clients of a financial services firm may be more comfortable with and prefer to do business with a white financial adviser than with an African American. Relatedly, because there is substantially more wealth in the white community than in the African American community (Oliver and Shapiro 2006) and because social networks tend to be highly segregated by race (McPherson, Smith-Lovin, and Brashears 2006), African American stockbrokers who "build their book" by tapping into those networks may be at a disadvantage relative to their white counterparts. Should these prove to be significant factors creating disadvantages to earnings parity between African American and white financial advisers, it would raise difficult questions about how policies and practices inside the firm reproduce or counter institutionalized racism in the larger society.

Third, while the minority vulnerability thesis was developed to understand the precariousness of minorities in upper-tier jobs generally, specific mechanisms can and do vary by organizational context. As Stainback, Tomaskovic-Devey, and Skaggs observe (2010, 242), an adequate organizational perspective on inequality needs to be "built at the intersection of (a) organizational structure, logic, and practice; (b) the relative power of actors within workplaces; and (c) the organization's institutional and competitive environment." The case of African American stockbrokers moves the study of minorities in positions of privilege out of the realm of management (the focus of almost all extant research) to one of highly compensated professionals. And in particular, in the brokers' world, considerable power resides in the hands of brokers' most successful coworkers. Indeed, the "rainmaker" brokers who work alongside them may have as much, if not more, influence over the circumstances of their employment as do the managers who occupy formal positions of authority above them in the organizational hierarchy. As a result, this is a case in which processes of social closure and opportunity hoarding by coworkers of formally equal status are likely to be particularly visible, providing an opportunity to bring empirical evidence to bear on processes that are often inaccessible in studies of persons of color in the higher ranks of large corporations.

Below, I first describe the organizational setting and data on which my analysis is based and the methods used to analyze the data. Then I describe the company's compensation system and the pattern of earnings disparities between African American and white brokers. I then present my analysis of the factors that account for the pattern of racial disparity in earnings at this large financial services firm and conclude with implications for managerial interventions to reduce bias in privileged occupations.

Data and Methods

The data for my case study come from the publicly available expert witness reports generated in employment discrimination litigation against a large financial services firm. I served as an expert for the plaintiffs in the class certification stage of the litigation, analyzing company materials to determine whether there were systematic features of the company's policies and practices that created barriers to career advancement for African Americans relative to whites employed as stockbrokers at the company. At this company brokers have the official title of "financial adviser"; throughout I use that term, "FA," and "broker" interchangeably.

In preparing my initial expert report, I had access to deposition testimony given in 2006 and 2007 by the company's managers and executives, who were responsible for designing, implementing, and overseeing the company's personnel policies and practices, and by those who make personnel decisions affecting the careers of the company's employees. Among them were the company's CEO and the top executives responsible for the company's brokerage division, for human resources, and for diversity and equal employment opportunity. I also had access to hundreds of thousands of pages of documents relating to the company's personnel practices from 2001 through the first quarter of 2007; these documents were indexed and provided to me in computer-searchable format. For my initial report, I also had access to the statistical report prepared by the labor economists retained by the plaintiffs. All quotes from and citations of deposition testimony and company documents that appear in this article, as well as all statistics reported here, also appear in one of the publicly available expert reports. Confidentiality restrictions prohibit me from citing or quoting from other case materials that do not appear in the public record.

The company submitted expert reports from eight individuals: a labor economist, a sociologist who presented a report on racial disparities in wealth and social networks, a sociologist who addressed some technical sampling issues, an industrial psychologist, a diversity consultant, a marketing specialist, and a psychologist and a sociologist who opined on the methods used in my report. Three of those reports are not public, but the ones most relevant to the issues addressed in this article are public.

To do my analysis, I first reviewed the testimony of executives designated by the company to testify on its behalf about its compensation system, EEO and diversity practices, and the like, as well as documents describing those policies and practices.[1] I then reviewed testimony from other company managers ("fact witnesses") who had knowledge of the company's policies and practices based on their personal experiences and observations as employees of the firm. As central concepts and themes emerged from this review, I conducted automated searches of the document database for key words and phrases.[2] Next, I returned to the database of manager depositions, doing a similar search across deposition transcripts for key words and phrases, further refining concepts and themes. These searches were repeated again once the statistical results of the plaintiffs' statistical experts were made available to me; in this stage of the analysis, I focused specifically on evaluating potential explanations for patterns of statistical disparities in compensation by race. I followed a similar procedure upon receiving the reports of the defendant's experts—first reading the reports and the deposition testimony of the experts, then searching the databases of testimony by company managers and company documents to refine my analysis.

This case study is not simply an exercise in inductive "grounded theory" in which themes emerge from the data unguided by prior theorization, hypotheses, and conceptualization (Martin and Turner 1986; Charmaz 2006). The litigation context imposes a structure not just on the form of the data (e.g., sworn testimony, official documents, expert reports, and the like) but also on the narrative themes embedded in the testimony of each side's witnesses. As in any lawsuit, each side had its own "theories of the case." For example, the plaintiffs maintained that a "success breeds success" compensation system amplified the impact of racial bias in the course of financial advisers' careers, while the company maintained that African Americans entering the industry faced challenges in accessing networks of wealthy individuals and thus suffered earnings disadvantages despite being treated the same as whites. These themes shaped questions posed to witnesses in depositions, and they were the focus of expert reports submitted by each side. I view this as a strength of the data and of the case study, because the legal issues at stake overlap with the questions of central interest to sociologists that I described above. While I take into account that deposition testimony by company employees and by experts takes place within an adversarial process, I also note that it is given under oath and subject to cross-examination (and in the case of experts, subject to rebuttal reports and testimony). The potential bias due to self-serving statements is not unique to research based on data generated by litigation; any reactive research method, from qualitative approaches such as participant observation to quantitative survey research, must take into account the possibility of biases due to social desirability concerns and similar processes (Nielsen, Myrick, and Weinberg 2011).

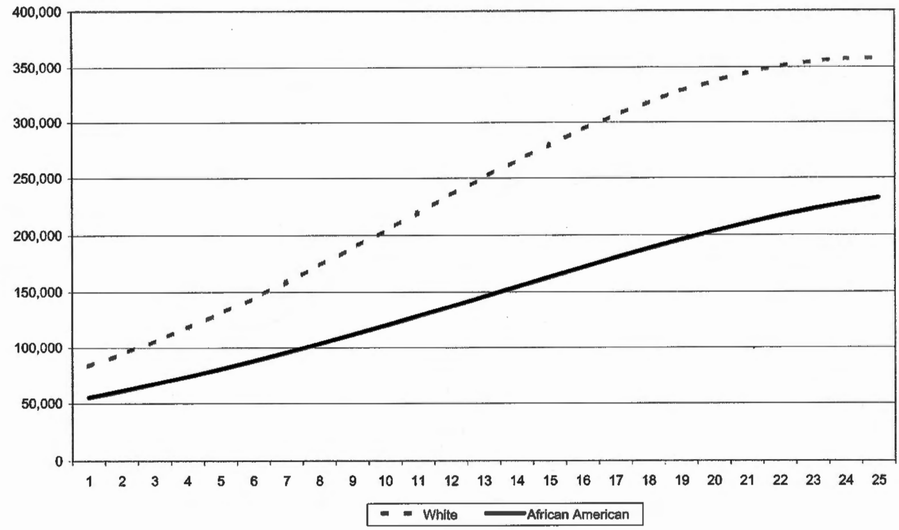
Throughout the article I refer to the firm as "Grand Financial" ("GF"), instead of its real name. This is not done to keep the name of the company anonymous; it is identified in the references to expert reports cited herein. I do so because the focus of this article is on substantive sociological issues relating to the minority vulnerability thesis, not whether this particular company should be held liable for systematic and unlawful discrimination.

Grand Financial's Compensation System and Patterns of Racial Disparities in Earnings

From 2001 through 2006, African American financial advisers at Grand Financial earned on average approximately one-third to 40 percent less than their white counterparts, with the size of the disparity depending on years of experience as a financial adviser in the industry. The pattern for 2006, based on a (log) earnings regression analysis with linear and quadratic controls for experience, is reported in Figure 1, and the pattern is virtually identical in each of the prior years (Madden and Vekker 2008).

Similar to all large brokerage firms, GF has a commission-based pay system for FAs. FAs' pay is linked to "production credits" or "production"—the payout earned on the fees generated by client transactions. The specific factors in the mathematical formula for commission and their weighting is adjusted from year

FIGURE 1
Earnings by Race and Years in Industry



SOURCE: Madden and Vekker (2008).

to year, but, consistently across years FAs were compensated by the amount of business they generated from their retail and institutional clients.

Especially important for the analysis reported here is that for any given level of industry experience, the payout rate on production increases with the FA's level of production. In addition, for a variety of training programs, resources, and opportunities, eligibility is based on an FA's production. As a result, those who become the highest producers and are paid on production at the highest rate also have the greatest capacity to improve their effectiveness as a result of the company's support. In short, compensation is awarded according to a cumulative advantage system, and as a result, factors that produce even small disparities between individuals have a cumulative impact and generate growing disparities over time (Merton 1988; DiPrete and Eirich 2006).

What Accounts for the Pattern of Black/White Disparities in Earnings at Grand Financial?

Cumulative advantage, "supply side" differences, and earnings disparities

A cumulative advantage system is not inherently discriminatory, so long as disparities are attributable to individual differences in productivity and have not emerged as a result of differential, discriminatory treatment by the organization. On the other hand, when organizational policies and practices give one group an advantage over the other, even if it is just a mild benefit or "tailwind" favoring the advantaged group, small discriminatory disparities grow into large ones. Furthermore, any racial differences in the skills or other personal attributes affecting a broker's productivity (and thus compensation) that exist prior to employment at the company will be magnified during the course of the brokers' careers in a cumulative advantage system.

GF executives testified at length about the skills required to be a successful FA, about their knowledge regarding whether African Americans hired by the company had a deficiency in relevant skills, and about their understanding of the reasons for the disparities by race in production credits and earnings. There was widespread agreement that technical and relationship-building skills are viewed as key to becoming a successful FA, with the latter becoming increasingly important as the industry has moved toward an emphasis on financial planning and away from revenues generated from trading (Bielby 2008, 14). The industrial psychologist retained by GF testified that the traits needed to succeed financially as an FA include having an "entrepreneurial spirit" and job-related experience, along with the ability to gain the trust of potential clients, take risks, and face rejection. He also emphasized that FAs "be able to interact well with other people," "possess strong oral communication skills," and "be able to listen actively and respond appropriately to verbal and non-verbal cues" (Outtz 2008, 12–17; Bielby 2009, 12). Overall, there appeared to be a consensus among those who testified on behalf of the company that these skills and personality traits do not vary by race in any significant way in the company's FA workforce (Bielby 2008, 14–15; 2009, 12).

If human capital differences between African American and white FAs are negligible, might there be differences by race in social capital? There are, of course, substantial differences in wealth between African American and white households (Oliver and Shapiro 2006), which reflect a legacy of institutionalized racism, contemporary discrimination in housing and credit markets, and racial differences in types of investments and returns (Conley 2001; Keister 2004). As a result, for any successful stockbroker, a majority of retail clients will almost certainly be from white households. The idea that there was a cost to African American FAs in accessing social networks of wealthy individuals was a strong theme running through the testimony of company officials. For example, the CEO of GF from 2003 to 2007 (who happens to be African American) testified that it was his belief that because of the challenge of "crossing cultural boundaries," it was more difficult for an African American FA to generate commissions than for an FA who is not African American (Bielby 2008, 15).[3] Also, based on interviews with 111 successful white FAs, the company's industrial psychology expert asserted that relying on social networks and personal referrals was an important mechanism used by brokers to develop their business early in their careers (Bielby 2009, 3–4, 7–9).

If it is indeed the case that African American FAs are disadvantaged by prehire deficits in social capital, which are at least indirectly due to societal racial discrimination, they are likely to be somewhat less successful at the very start of their careers with the company. And since the cumulative advantage principle applies to the allocation of many productivity-enhancing resources, beginning with broker training and continuing throughout their careers with the company, small to modest differences in earnings by race early on will become magnified over time (Bielby 2009, 4). They are also likely to affect the ability of African American FAs to join broker teams, an issue I address in the following section.

Social isolation, access to broker teams, and opportunity hoarding

African Americans constitute about 2 percent of those employed as FAs or FA trainees at GF, and excluding trainees the figure is 1.3 percent to 1.4 percent in each year from 2001 through 2006 (Saad 2008, 52–53; Bielby 2009, 8–9). More than 85 percent of the company's offices had no African American FAs. In 2006, only 97 of GF's offices employed African American FAs; none were employed at the other 578 offices. And among those offices that did employ African Americans as FAs in that year, most employed just one African American. At year-end 2006, 69 offices employed one African American FA, another 18 offices employed two, and just 10 offices employed three or more African Americans. Similar patterns hold for the five prior years (Bielby 2008, 5–6). In short, African American FAs and FA trainees at the company were literally few and far between. Less than a fourth of the company's offices hired any African American FAs over the period from 2001 through 2006. A newly hired African American trainee was unlikely to have another African American trainee peer, and he or she was likely to be hired in an office that had no African American FAs or at most token African American representation. And if an African American FA was working in an office that employed African Americans in other positions, they were four times more likely to be in service positions than in management roles (in 2006, 6.7 percent of the company's U.S. workforce was African American, including 13.3 percent of those in service jobs and 3.3 percent of those categorized as "officials and managers" [Bielby 2008, 7–12]).

Social science research shows that African Americans and other persons of color in predominantly white work settings receive less support in the form of mentorship and professional development and are more likely to be socially isolated and excluded from informal workplace social networks than their white peers (Cox and Nkomo 1991; Ibarra 1995; Mehra, Kidruff, and Brass 1998; James 2000; Bacharach, Bamberger, and Vashdi 2005). This had important consequences for African American participation in broker teams at GF. Teams are a kind of partnership among FAs, and they were actively promoted by the company. GF had formal teaming policies and a corporate department for supporting teams; the percentage of FAs on teams increased from 20 percent in 2000 to more than 40 percent for each year from 2003 through 2006. Under a team arrangement, multiple FAs pooled at least a third of their production under a single pool number, with a prearranged percentage split of the production being allocated to the individual team. Teams could range from simple 50/50 partnerships between a pair of FAs to a

TABLE 1
Racial Disparities in Participation on Broker Teams

	Percentage of Financial Advisers (FAs) on Multiple-FA Teams	
Year	Non–African American FAs	African American FAs
2000	20.4	4.8
2001	30.5	6.7
2002	35.8	14.1
2003	41.2	20.3
2004	41.9	16.8
2005	41.7	12.6
2006	41.6	11.6

SOURCE: Bielby (2008, 23).

larger and more structured arrangement in which a team head oversaw multiple FAs who covered particular clients and specialties. Internal company documents showed that brokers who were part of teams were more successful than those working alone, especially for FAs who were in the early years of their careers with the company. The executive responsible for managing the FA workforce testified that among the benefits experienced by an FA from being on a team were improvements in client service, client acquisition, production, assets under management, and "lifestyle advantage" (coverage by another team member when the FA is away from the office [Bielby 2008, 19–22]).

African Americans participated on teams at GF at a much lower rate than did other FAs. For example, in 2006, just 11.6 percent of African American FAs were on broker teams, compared to 41.6 percent of non–African American FAs (see Table 1). The social science research cited above is useful for understanding factors contributing to African Americans' consistently low participation on teams. If African Americans tend to be isolated and excluded from informal social networks, and if, through the operation of cumulative advantage mechanisms, African American FAs are generating fewer production credits than non-African Americans and are perceived to be less productive, they are less likely to be invited to join established teams. This is especially likely to be true for an African American FA if the existing and newly formed teams in his or her office consist exclusively of FAs who are not African Americans. And, of course, this is true by definition for the many African American FAs employed in offices with no other African Americans in those positions.

Racial isolation in an organizational context in which the dominant group forms tight social networks that have control over resources creates what sociologist Charles Tilly defines as "opportunity hoarding" (1998, 2003). He describes the term as follows:

> If members of a network acquire access to a resource that is valuable, renewable, subject to monopoly, supportive of network activities, and enhanced by the network's modus operandi, network members regularly hoard access to the resource, creating beliefs and practices that sustain their control. If that network is categorically bounded, opportunity hoarding thereby contributes to the maintenance of categorical inequality. (1998, 154)

Applied to GF, teams represent the network, inherited accounts (accounts of departing FAs that are distributed to team members who stay with the firm) represent the renewable resource that is supportive of the network, and race is the categorical boundary.

The transfer of accounts to fellow team members by FAs who are leaving the firm is an important mechanism of opportunity hoarding. Formally, every account is an asset of the firm, not of the FA who services it, but substantively, successful FAs often assert and transfer ownership rights to their accounts when they anticipate leaving the firm. As part of the settlement of class-action gender discrimination litigation in 1998, the firm implemented a formal National Accounts Distribution Policy that was designed to limit discretion and in-group favoritism in the distribution of accounts. In addition to specifying the criteria for eligibility to receive account distributions and for ranking eligible FAs within an office, the policies in place for each year specified the circumstances in which managers had discretion to depart from the ranking system (Bielby 2008, 26–28).

The policies in place from 2001 through 2006 put African American FAs at a disadvantage in a number of ways. For example, the policies made it possible for remaining members of a team to inherit the accounts of a departing member, regardless of their rankings on the criteria established by the policy. Indeed, the policy implemented in 2000 states that management has discretion to give preference to team members, based on the premise that they are more familiar with a client than are other FAs. Because African American FAs are substantially less likely than other FAs to be on teams, GF's policy and practice regarding account distribution had a disparate impact on African Americans. In one internal company document from 2006, a senior vice president expressed concern that $3.5 billion in assets were transferred FA-to-FA outside the redistribution policy specified by the company's ranking system. And because inherited accounts allow FAs to qualify for other resources—including additional inherited accounts—this disadvantage to FAs locked out from this kind of "regifting" is cumulative (Bielby 2008, 28–32).

Multicultural marketing and racialized jobs

In fall 2001, GF's brokerage division launched its multicultural marketing function, and from its inception it was expected to "partner" with diversity efforts throughout the firm. In March 2003, the company's CEO announced that the head of that function would "assume responsibility for coordinating diversity activities throughout the firm" (Bielby 2008, 36–38). Race/identity matching was an explicit principle in selecting the heads of each of the multicultural marketing groups: an African American was selected to head the African American group, a South Asian to head the South Asian group, and so on. The head of the multicultural marketing function testified that race-matching was used in part because "communities are usually more likely to embrace one of their own" (Bielby 2008, 39).

The assignment of minority professionals to racialized jobs is sometimes part of an explicit diversity strategy, what management scholars have called the "access-and-legitimacy" paradigm in which "organizations have pushed for access to—and legitimacy with—a more diverse clientele by matching the demographics of the organization to those of critical consumer or constituent groups" (Thomas and Ely 1996, 83). In other words, the minority employee provides the organization with both access to and legitimacy with a minority constituency. However, strategies like this can create barriers to career advancement for minority employees. Management scholars David Thomas and Robin Ely note that while the strategy can lead to increases in diversity in some instances, it is "perhaps more notable for its limitations," especially being "too quick to push staff with niche capabilities into differentiated pigeonholes without trying to understand what those capabilities really are and how they could be integrated into the company's mainstream work" (Thomas and Ely 1996, 83). Consistent with the research of Sharon Collins (1997), Thomas and Ely add that the access-and-legitimacy approach can lead to disaffection among minority employees, who feel exploited when they see their opportunities limited to niche markets, especially if the company later redirects its focus away from the niche area, thereby undermining opportunities for minorities to be successful outside their niche (84–85).

The merging of diversity and multicultural marketing functions did indeed lead to the perception among African American FAs at GF that they were being "pigeonholed" into racialized jobs. For example, in fall 2005, the company conducted a research study of brokers and managers who participated actively in servicing the African American market. Among the findings in a November 2005 internal company report titled "A Qualitative Research Study of the African American Market among GF FAs and GF Managers" is the following:

> Advisors and managers criticized always trying to fit an African American client with an African American advisor, especially when an advisor leaves the business. Because of the high turnover of African American advisors, this often results in a client being paired with 2 or 3 advisors just because they are African Americans. Ultimately, this "shuffling" results in the client becoming frustrated and requesting a white advisor, because they feel they will provide a more stable relationship.

Overall, African American FAs received mixed messages from the company, with resources devoted to racialized approaches to multicultural marketing on one hand and occasional emphasis on the importance of having a (racially) "diversified book" on the other (Bielby 2008, 38–39).

Racialization of the FA position was also institutionalized through the company's "virtual teams" initiative in 2003. In a virtual team, FAs in different offices work together on a specific client relationship. These arrangements existed throughout the FA workforce as a way of building on complementary skills that existed among FAs in different offices in the same region. However, when applied to the company's African American multicultural marketing efforts, the virtual team concept was used in a way that likely reinforced the typecasting of African American FAs.

The presence of African Americans on these teams was viewed as a way of gaining access to and legitimacy in communities of color. This rationale was stated explicitly in company documents, as in this example, from a document prepared for the July 2005 African American Financial Advisor Symposium:

> We believe it is paramount that diverse FA teams are able to access key and influential local organizations that are tied in with the key business and business owners. By positioning the firm as corporate members of these "key" organizations and associations, diverse FA teams gain access to these groups that might otherwise be difficult to penetrate. By "branding" [the company] at annual recognition dinners, symposiums and events AAFA teams become recognized as leaders in their communities.

And from the same document: "Diverse FA teams . . . raise the profile of [GF] in diverse communities that previously have been under penetrated but represent significant business opportunities." One of the benefits of virtual teams as part of multicultural marketing, according to this document, is that diverse virtual teams can bring business from "nontraditional markets (e.g. athletes, entertainers, casino operators, et al.)" (Bielby 2008, 40–41).

In short, GF saw its African American FA workforce as central to its effort to penetrate minority markets, and it linked that racialized marketing effort to its company-wide diversity policy. As suggested by research on the topic, this approach led to racialized jobs and constrained opportunities for African Americans, and the company's policies and practices along these lines were perceived as such by African American FAs.

Ambiguous and diffuse lines of authority regarding nondiscrimination

As research by Frank Dobbin and Alexandra Kalev has shown, diversity training programs and similar workplace interventions typically have little impact on discriminatory workplace barriers and often do more harm than good (Kalev, Dobbin, and Kelly 2006; Dobbin 2009). Their research on the rate at which women and persons of color move into management shows that "structures that embed accountability, authority, and expertise (affirmative action plans, diversity committees and taskforces, diversity managers and departments)" are the most effective way to address discriminatory barriers (Kalev, Dobbin and Kelly 2006, 611). Related research by Lauren Edelman demonstrates that changes made in response to litigation or Equal Employment Opportunity Commission (EEOC) regulatory enforcement sometimes have measurable impacts on reducing discriminatory barriers, but often they are just "window dressing," adopted mainly because they create the appearance of compliance with the law (Edelman 1992). As she notes, "Organizations may strategically seek to create compliance structures merely as symbolic gestures by 'decoupling' those structures from core organizational activities. Organizations may, for example, create affirmative action officer positions but give the officer little or no autonomy or authority or create grievance procedures that are hard to access and known to provide little relief" (Edelman 2005, 345–46).

Prior to the settlement of a high-profile gender discrimination lawsuit in 1998, GF, similar to other large firms in the industry, had little in the way of accountability structures related to diversity and nondiscrimination. The company did little in the way of monitoring disparities by gender and race in the career outcomes among its brokers and managers, and accountability for equal employment opportunity was minimal. As part of the settlement, the company agreed to abandon mandatory arbitration in bias cases, enhance and extend its diversity programs, and establish firmwide guidelines for distribution of the accounts of departing FAs. In the wake of the settlement, the company adopted a range of diversity-related programs and initiatives on both a company-wide basis and within its brokerage division, including diversity advisory boards and offices, FA training and mentorship programs, diversity training for managers, minority symposia, focus groups, surveys, exit interviews, and diversity "dashboards" and similar tools and reports for tracking disparities by gender and minority status of FAs (Bielby 2008, 54).

These programs and initiatives differed in their sponsorship, resources, focus, continuity, and duration, but what is common to all is that they were implemented in a context of ambiguous, unstable, and diffuse structures of responsibility and authority. For example, according to the company's 2003 Affirmative Action Plan, the company's CEO had overall responsibility for affirmative action results, with responsibility and accountability at the corporate level delegated to the senior vice president of human resources. In a statement that same year, the CEO proclaimed that besides him and the top human resources executive, responsibility for diversity was to be shared by all members of the executive team (Bielby 2008, 55–56). Yet the individual who was the company's vice chair and head of its brokerage division testified in 2007 that he did not know if the company had an affirmative action plan, and other senior executives gave similar testimony. The person who headed the human resources function for the brokerage division for two years starting in 2003 testified that she had never seen an affirmative action plan, had never viewed an underutilization report, and had no responsibility for doing so. She and the head of the multicultural marketing function had conflicting views about whether the multicultural marketing function had been assigned and had assumed responsibility for issues relating to the diversity of the FA workforce. In March 2003, the company distributed to all employees an announcement that the multicultural marketing function would "continue to identify recruitment, retention and development programs for diverse professionals"; but the function's head testified that at the time she felt she didn't have the mandate, support, or structure to take on that responsibility (Bielby 2008, 55–59).

Throughout 2005 and 2006, the company was still grappling with the issue of whether "ownership" for diversity programs should be "nested down in the business" or be centralized within the multicultural marketing function (or elsewhere). In June 2006, around the same time that stories appeared in the *Wall Street Journal* and *New York Times* about the race discrimination litigation, the company announced the establishment of an Office of Diversity in its brokerage division (Bielby 2008, 59–64). A "Diversity Strategy Update" memo, issued by that office in fall 2006, noted that due to "the large decentralized nature of [the brokerage division], senior management determined that in order to increase our effectiveness, we needed to create a centralized function with the appropriate infrastructure to drive our diversity strategy and address the unique challenges that exist in our business" (Bielby 2008, 64). By early 2007, although the Office of Diversity was still in its formative stages, internal documents indicate that it was developing a template for designing and implementing meaningful and effective accountability structures. Unfortunately, the documents and testimony available to me through the race discrimination litigation end as of April 2007, and the company was acquired by one of the country's largest banks shortly after the financial crisis of October 2008 and no longer exists as an independent corporate entity. As a result, it is impossible to know whether accountability structures could have and would have been implemented in a way that overcame the ambiguous, diffuse, and decoupled lines of responsibility and authority for diversity and equal employment opportunity that have characterized the company's brokerage division for more than a decade and whether those interventions would have any measurable impact on the cumulative advantage system that created racial disparities in earnings between African American and white brokers.

Discussion: African American Vulnerability in the Financial Services Sector

On its surface, the output-based, pay-for-performance system used to compensate financial advisers in the brokerage divisions of large financial services firms would seem to approach the ideal of a pure meritocracy in which the factors influencing pay are objective and transparent, with little room for the kind of discretion and subjectivity that often leads to bias against persons of color (Bielby 2007). But the analysis of how that system worked at GF shows that a quarter-century after the publication of *The Declining Significance of Race* (W. J. Wilson 1980), highly educated African Americans occupying some of the most lucrative jobs in the financial services industry faced barriers to achieving earnings parity with their white counterparts, encountered those barriers early in their careers, and found themselves falling further behind over the course of their careers. This pattern is consistent with recent research by Heywood and Parent (2009), whose study, using Panel Study of Income Dynamics data, shows that for individuals compensated in performance pay systems, the black/white difference in earnings is greatest at the upper end of the earnings distribution, whereas the opposite is true in other kinds of pay systems. The GF case reveals the mechanisms through which this comes about in an output-based performance pay system. First, differential access to white wealth alone in the context of a cumulative advantage system for allocating productivity-enhancing resources would be sufficient to generate this pattern. Second, simply the belief by branch managers that newly recruited African American FAs would have difficulty building a book because of racially segregated social networks, coupled with a racialized approach to multicultural marketing, would be sufficient to generate this pattern, even in the absence of any racial disparity in access to wealth. Third, white FAs who share this belief, or who believe simply that all else being equal their wealthiest white clients have a preference for working with white advisers over African American advisers, have an incentive to avoid bringing African American advisers onto their teams. The kind of opportunity hoarding that is facilitated by team membership only adds to the pressures toward homophily and social closure.

Finally, as noted above, compared to time-based compensation, output-based performance pay is usually viewed as inherently meritocratic, rendering bias invisible to all but those who perceive that they are being treated unfairly. Performance-based pay and the meritocracy that accompanies it are not simply technical features of a compensation system; meritocracy can also be a cultural framework. As Light, Roscigno, and Kalev note, “Formal meritocratic procedures and rhetoric can become an institutionalized cloak for ongoing ascriptive bias—a legitimating discourse, where managers, employers, and judges exchange symbols of meritocracy for equality. . . . When formal procedures are in place, managers (and judges) are more apt to believe the structure is unbiased and that unequal outcomes therefore reflect differences in merit” (2011, 43). The results reported here show one way that racialized practices become embedded in a performance pay system and how cumulative advantage and social closure processes can generate what Castilla and Benard (2010) have defined (and experimentally validated) as the “paradox of meritocracy effect.”

Conclusion: Lessons for Management

African Americans who seek to work as financial advisers may in fact encounter obstacles to acquiring wealthy clients that are not faced by their white counterparts. But if they do, legally and ethically companies do not have the option to deny employment to African Americans because of the racial preferences of their customers. To avoid the pattern of racial disparities in earnings observed at GF, firms need to proactively manage the distribution of productivity-enhancing resources so as to avoid reproducing institutionalized racism from the outside and perpetuating sources of racial bias arising from the inside. For example, at GF, prior to litigation there was no awareness or acknowledgment of potential racial bias arising from the team formation process. Company executives at GF steadfastly maintained that the process by which teams were formed was analogous to the formation of marriages among consenting adults and that it was not the company policy to force “arranged marriages” (Bielby 2008, 24). Yet at the same time, it took a hands-off, racially neutral approach to teams, the company actively managed the racial composition of business units and positions dealing with minority markets. The cultural frame of meritocracy provided a rationale to the former and the rhetoric of diversity legitimated the latter. Had both aspects of the company’s human resource management of its FA workforce been subject to the oversight and authority of an accountability structure tasked with ensuring racial equity and nondiscrimination, the link between these two practices and the racialized nature and consequences of each could have been identified and remedied, with the company accepting responsibility for desegregating broker teams while developing and disseminating a rationale for multicultural marketing not based on the typecasting of its broker workforce.

The case of stockbrokers in the financial services industry also suggests that “unconscious” or “implicit” bias may play only a minor role in creating and sustaining minority vulnerability in privileged occupations. While cognitive bias figures into the kind of typecasting that channels African Americans into roles dealing with minority markets (Jost et al. 2009; Bielby 2007), the maintenance of categorical inequality through opportunity hoarding (e.g., through the gifting of accounts to team members) is a deliberate form of collective action intended to maintain the privileged position of successful white brokers. As a result, the introduction of formal procedures that limit discretion and subjectivity are likely to be of limited efficacy, because they will be viewed (perhaps accurately) as a threat to the power of those who benefit from the status quo. At GF, this was visible in the form of active resistance by some of the company’s most successful FAs to changes in the formal account distribution policies that were introduced specifically to direct more accounts to women and minorities (Bielby 2008, 67–69). Adequate interventions require not only monitoring and oversight to ensure effective implementation but also recognition that they are altering relational aspects of work that are embedded in hierarchical structures of power (Light, Roscigno, and Kalev 2011). And in the case of the financial services industry, the challenge is likely to be even more formidable because the source of power of successful white brokers is not in visible formal authority, which is amenable to restructuring of lines of authority and responsibility, but instead in patterns of social relations among individuals with formally equivalent positions. Moreover, top company executives are likely to believe both the rhetoric of meritocracy that legitimizes existing arrangements and fear that alienating brokers with the most clout will damage the firm because those brokers can leave for a competing firm and take their accounts with them.

Finally, industry executives should recognize that African American financial advisers are not naïve regarding the realities of race in the financial services industry; nor do they enter their careers expecting to have a marginalized status due to the challenges of “crossing cultural boundaries.” As documented by Karyn Lacy and others, many middle-class African Americans successfully engage in forms of “boundary work,” moving with relative ease between the cultural milieu of white-dominated corporate environments and segregated social spaces outside of the workplace (Lacy 2004; Lamont and Fleming 2005; Thomas and Gabarro 1999). FAs have considerable autonomy in choosing methods and techniques for client development, and they can and do choose those that work best for themselves (Outtz 2008, 18–20). By recognizing, encouraging, and supporting diversity in approaches to building a book at career entry, companies can actively support methods that that have proven successful for African Americans, rather than assuming that from the start African American FAs face nearly insurmountable barriers to applying their talents as effectively as do their white peers.

In sum, the case study of GF shows how the minority vulnerability thesis applies to African Americans in a privileged profession and offers insights on how to establish racial parity in an industry that relies on an output-based performance pay system. The merit-based rhetoric of such systems legitimates arrangements that structurally advantage whites over African Americans. A racialized approach to multicultural marketing is race-conscious in ways that disadvantage African Americans, and human resources systems that fail to assess the structural sources of that bias are race-neutral in name only, allowing the vulnerabilities faced by African Americans to persist and grow over time. Diversity programs and accountability structures need to be built on a premise that not all racial bias is simply cognitive, unconscious, and unintentional, and that effective interventions will require addressing head-on sources of resistance that are embedded in racially segregated social relations and power differences among professionals who are formally identical in their locations in the firm's job structure.

Notes

1. Under Federal Rules of Civil Procedure Rule 30(b)(6), a party to a lawsuit can request that a corporation testify on a specific issue, and the corporation designates an individual knowledgeable on that issue to testify on its behalf. The 30(b)(6) deponent's testimony represents the knowledge of the corporation. In contrast, the testimony of a "fact witness" represents that individual's personal knowledge of facts relevant to the case.

2. Documents were made available to me in the form of a LexisNexis Concordance database, which includes a software package that allows for sophisticated Boolean searches.

3. In support of this proposition, the company offered an expert report by sociologist Roberto Fernandez, who presented an analysis of data from the Survey of Income and Program Participation, documenting racial disparities in wealth, and from the General Social Survey, documenting racial segregation in social networks (Fernandez 2008; Bielby 2009, 3–6). The company also submitted the report of a labor economist who conducted a spatial analysis purporting to show that African American FAs were much less likely than whites to do business with clients who live in wealthy white neighborhoods, although the findings of that report were vigorously disputed by the plaintiffs' experts (Saad 2008, 23–27; Bielby 2009, 3–5, 15; Madden and Vekker 2009, 26–34).

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