Promoting Diversity, Equity and Inclusion in the Global Financial Sector

[1]Promise Oluwatosin OYEBOLA, [2]Wahab Tobi ANJORIN, [3]Rukayat Omowumi BALOGUN, [4]Taoheed Wale MOJEED, [5]Sunday Olaiya GBOLAHAN, [6]Moses Iyanuoluwa ENIADE, [7]Temitope Emmanuel OLUWASANU

[1]Oyebolafiyinfoluwa4@gmail.com, [2]Anjorintobi02@gmail.com, [3]Rukky2k2@gmail.com, [4]Taoheed.mojeed@gmail.com, [5]Sunnygee2@yahoo.com, [6]moseseniade@gmail.com, [7]oluwasanutemitope@gmail.com

[1,2,3,4,5,6,7]University of Ibadan

Abstract

Diversity, Equity and Inclusion plays a vital role in shaping the financial sector of a given society or organisation by promoting creativity, expanding the pool of talent, strengthening decisionmaking, and increasing profitability by offering more inclusive goods and services. This paper highlights what Diversity, Equity and Inclusion is, the component of DEI, its significance in the finance world and the positive impact it has in the present world including ways to promote and embrace it. Also, the study review ways on how the finance sector can be improved through DEI. The study is backed up with the Signaling Theory which helps explain how a firm's announcements about its commitment to Diversity, Equity, and Inclusion (DEI) can act as signals to investors and the public. The study concluded that finance necessities DEI because diverse talent attracts more diverse clients and that attracts more diverse talent which is necessary in equipping young diverse people with the knowledge to make better choices and it was suggested among others that an inclusive culture should be cultivated and workplace practices should be audited to ensure that DEI is accepted at every stage of an employee's career.

Keywords: Diversity, Equity, Inclusion, Finance

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Introduction

Diversity, Equity and Inclusion in the world of finance entails the method used investing in companies that clearly place a high priority on DEI as well as for developing a more diverse workforce and equitable procedures within financial institutions. Putting DEI projects into practice has been demonstrated to enhance financial performance, innovation, and decision-making, making it an essential part of the industry's long-term success.

This study will review the following subheadings:

- DEI and its Component
- Significance of DEI in the financial sector

- Ways to promote DEI in the global financial sector
- Signaling Theory
- Methodology
- Conclusion
- Suggestions

Diversity, Equity and Inclusion and its Component

Diversity, Equity and Inclusion refers to efforts that support the representation and involvement of various groups of people. It often includes factors like age, gender, race, ethnicity, ability, religion, culture, and sexual orientation (Barney & Rosencrance, 2023). Diversity helps in bringing different people together while equity ensures that everyone succeeds regardless of their approaches and inclusion makes both efficient by making everyone believe they are a part of that gathering. For instance, if diversity is inviting people to a party, and equity is ensuring everyone has the right shoes to dance, then inclusion is making sure everyone feels comfortable dancing and is included in the celebration. Monisha & Erika, 2016 defined diversity as the differences among people and these differences include the traits that make one individual or group distinct while equity means treating everyone fairly, it also entails giving access, opportunities, and support while working to remove obstacles that have kept some groups from taking part fully and inclusion involves creating spaces where any individual or group feels welcome, respected, supported, and valued so they can participate completely.

Figure 1: Diversity, Equity and Inclusion

According to Emma (2023) in his study, DEI entails five key elements to make it effective in any sector including the workplace and they are education and training managerial involvement, internal diversity partnership, mentoring and sponsorship, then diverse recruiting practices which should be embraced by all financial sectors in order to create a future where diversity isn't just an idea, but a real success story and in order to prevent potential problems, companies need to focus on long-term efforts, rather than prioritise long-term efforts, rather than expect overnight results, Just as Rome wasn't created overnight, neither is organizational development. DEI is a strategic necessity that stimulates growth and innovation.

An organization that prioritizes diversity, equity, and inclusion creates an environment that respects and values individual differences across various dimensions. Inclusive organizations also promote cultures that reduce bias and recognize systemic inequities. If these issues are ignored, they can disadvantage certain individuals. This is not just a human resources issue; it is a strategic issue. These efforts should be evident in the organization's mission, vision, and values. They should also be part of strategic plans and communicated throughout the organization. It is important for companies, especially financial organizations, to invest time, resources, and effort to improve their inclusive environment (Martha & ProInspire, 2016). The four main building blocks also known as components of a DEI approach are their foundation: A Holistic Approach; Personalized Evidence-Based Solutions to meet your requirements; Buy-in From Leadership; Clear Internal Ownership & Accountability according to Peoplism, 2023

Figure 2: Components of Diversity, Equity and Inclusion

Because DEI promotes innovation, improves decision-making, and helps banks better understand and serve their diverse customer base, it is essential for all financial sectors. Good DEI procedures can lower turnover costs, draw in top talent, and enhance regulatory compliance. Along with highlighting how DEI initiatives can improve customer service, client relationships, and overall business success, they also stress the importance of inclusive hiring, training, and promotion processes (Smith, 2024)

Significance of DEI in the Financial Sector

DEI's impact on the financial sector is significant, as it can drive innovation and profitability, enhance decision-making and customer insight, attract and retain top talent from diverse industries, and ensure equitable financial access and services for underserved communities. By adhering to DEI principles, a company can enhance its reputation, encourage employee engagement, reduce turnover, and mitigate risk. By utilizing DEI, the financial industry can evaluate and compare their current performance and allow measurement among all businesses in the field and beyond, analyze progress and focus on areas with time. This will help firms understand people better within their organisation and it also makes it possible for firms to incorporate data into their systems. Employee engagement surveys to identify distinctions in emotional attitudes among those who exhibit or promote certain behaviors and those who do not identify with a specific diversity category. DEI also helps firms to pool data into other people/customer/supplier process reporting in search of areas that can be enhanced and uncover hidden strengths also elucidate inclusion barriers, such as the need to comprehend certain concepts such as failures in talent progression (UK Finance Working Paper, 2021)

DEI's mission is to establish a workplace that promotes diversity and equality. The benefits of DEI cuts across the financial sector, as banks can benefit from its ability to understand and serve their diverse customer base. The adoption of DEI practices can result in compliance with regulations, recruitment of top talent, and cost reduction. Hence the benefits of this approach. They highlight the need for comprehensive hiring, training and promotion procedures while saying that DEI programs are able to enhance customer experience through better working relationships with clients and greater success in businesses. According to Smith (2024), Committing to Diversity, Equity and Inclusion in any financial sector allows financial firms to harness a wider coverage of talent and attract as well as retain qualified personnel in the competitive labor market. In view of this, the UK Finance sector highlights that good diversity and inclusion practices promote healthy cultures, sound risk management, and facilitate better decision-making.

Ways to Promote DEI in the Global Financial Sector

Diversity, Equity and Inclusion is an extremely important issue in banking and finance. As companies continue increasing efforts to promote inclusion from within, this impacts the way an organisation's finance sector set goal is handled. Diversity, equity and inclusion (DEI) in the workspace can be achieved by an organisation employing a diverse team of people that reflect the way in which society exists and operates (UK Finance,2025)

According to UK Finance (2025), the lack of diversity, equity, and inclusion in the workplace is obviously a problem that financial services organizations need to address more. While pledging support for greater diversity and representation is often the first step to implementing an effective program, transformative change can only occur when the pledge matches the investment in

resources, training, transparency, and accountability. A provider can improve its DEI by identifying the requirements. By gaining an understanding of the company and its methods of working, an organization can evaluate its current efforts. Securing "buy-in" from stakeholders and leadership is crucial.

Financial firms must put the organization's vision into action after they have reached an agreement on it, then implement training for all teams, encouraging secure environments and fruitful communication. Businesses should assess and track diversity and engagement after developing and implementing a strategy and making sure it is ingrained in your approach. Although indicators can vary from company to company, they should demonstrate an improvement annually. More impartial, open, and inclusive talent evaluations can help businesses enhance their resourcing strategy. They need to think about starting a sponsorship program to help underrepresented coworkers advance in their careers.

Financial services firms must monitor the gender pay gap closely and address the differential promotion rates from entry level to manager if they hope to achieve gender diversity. Companies should take steps to educate and train managers on how to give emotional support for their colleagues, scheduling regular check-ins and creating a secure venue for honest conversations about well-being. Successful hiring requires flexibility and agility, and businesses that are unable to adjust to the always changing workforce will have a harder time luring top people.

Financial firms must ensure that its employees have equal opportunity to advance, contribute to the company's accomplishments, success, and expansion, and have the same influence on the business as their peers in order to advance Diversity, Equity, and Inclusion (DEI). Employers' diversity, equity, and inclusion policies are now important factors in deciding whether or not to work for a company. Businesses that value and accept people from all backgrounds contribute to a more productive workplace. Talent will be attracted and retained with the support of a welldefined program. DEI programs have been demonstrated to boost revenue and profit in addition to moral and ethical issues. Leaders must, however, keep a careful eye on these initiatives and pay particular attention to any shift in the percentage. Employee retention will rise when businesses adopt a DEI culture, which will boost overall output.

To sum up, financial institutions must include it in all discussions and hold each other and themselves responsible for the actions that promote diversity, equity and inclusion.

Signaling Theory

One of the prominent theories that can serve as the basis for promoting diversity, equity and inclusion in the global financial sector is the Signaling Theory (ST). It explains how people communicate unobservable attributes to others through observable signals in circumstances of information asymmetry and was originally developed by Michael Spence in the setting of labor markets.

When one party (the signaler) has more information than the other (the receiver), the signaler uses signals to convey reliable information about unobservable attributes, situations where two parties have asymmetric information and are involved in a market interaction are addressed by signaling theory. Despite having its roots in information economics, this theory is still applied in management, entrepreneurship, and marketing and as demonstrated in financial markets with dividend announcements or in hiring, a signal needs to be expensive, visible, and hard to copy in

order for the recipient to be able to discern between high- and low-quality senders and make more informed judgments.

The understanding of the role of the signal receiver's ideas regarding the connection between signals and performance is a key feature of signaling theory. These views drive the signalers' selfselection into or out of a specific market in addition to influencing their signaling decisions (Spence 1973). Only when signalers generate signals that signal receivers find relevant can they reap the benefits of signaling (Gulati and Higgins 2003; Drover, Wood, and Corbett 2018). Signal receivers place greater value on signals that are not only informative but also costly (in terms of money, time, and/or effort) because most signals can be modified and used selectively to influence the receiver's decisions. This is because they are less likely to be manipulated by the signal sender (Spence 1973). Nevertheless, in instances where signalers disseminate deceptive signals, signal receivers progressively develop the capacity to disregard such communications. This phenomenon occurs as signal receivers' perceptions are adjusted through mechanisms of market information feedback. Within this framework, certain signals that were previously regarded as informative may subsequently be classified as uninformative, owing to their lack of correlation with performance metrics or their failure to differentiate between high-quality and low-quality signalers (Spence

1973). The interrelationships among the primary components of signaling theory are illustrated in Figure 3

Figure 3: Signalling Theory (ST)

Signaling theory has demonstrated considerable relevance across the domain of entrepreneurial financing. It has been utilized to examine diverse modalities of equity and debt financing for ventures that span a broad spectrum of their developmental stages (Connelly et al. 2011). Specifically, within the context of early-stage equity investment, entrepreneurs or firms (signalers) transmit information regarding latent, unobservable attributes and intentions via signals directed towards investors (receivers), who subsequently interpret and incorporate this information into their decision-making frameworks. In the context of new venture investment, signals serve to convey insights about the prospective (non-)performance of the nascent venture (quality signals) and potential risks arising from the entrepreneur's conduct (intent signals).

The risk of signal manipulation by low-quality prospects is the largest risk that both investors and high-quality prospects must deal with (Akerlof 1970). Because many of the signals that investors must rely on are unclear, reasonably priced, and simple to copy, this risk is increased in early-stage financing (Momtaz 2021). Investors engage in screening procedures and may even pool resources pertinent to assessing investment options in order to reduce this risk during the reinvestment phase (Bellavitis, Kamuriwo, and Hommel 2019; Zacharakis and Shepherd 2007). Signaling, which can distinguish high-quality prospects from their low-quality counterparts, is encouraged by investors' screening efforts (Bellavitis, Kamuriwo, and Hommel 2019). This is due to the fact that higherquality businesses can afford to give investors more trustworthy and informative signals that are hard for lower-quality ventures to imitate (Valliere 2011). As entrepreneurs progress through the investment process which may include company proposals, pitches, meetings, and negotiations investors' screening criteria shift (Fried andHisrich 1994; Paul, Whittam, and Wyper 2007). Additionally, the institutional environment, market characteristics, and contextual factors like investor networks, syndicates, and platforms (Bernstein, Korteweg, and Laws 2017; Carpentier

and Suret 2015; Gregson, Mann, and Harrison 2013) all have an impact on them (Bellavitis, Kamuriwo, andHommel 2019; Bertoni, D'Adda, and Grilli 2016).

On the basis of signaling theory, firms utilize ESG disclosures to let the market know that they are dedicated to sustainability and ethical business practices. By demonstrating that the organization prioritizes diversity and can implement strong governance procedures, diverse boards can increase the trustworthiness of these signals (Kılıç and Kuzey, 2018; Buitendag et al., 2017). In this regard, having a diverse mix of genders and ethnicities on boards is considered as a good way to show stakeholders and investors that the company is innovative and dedicated to fulfilling changing social demands for sustainability. When both parties have an information asymmetry, one party (the sender) must choose which information (the signal) to communicate to the other party (the receiver) (Connelly et al., 2011). This is the core of signaling theory (Drover 2018; Spence, 1973). "Activities or attributes of individuals in a market which, by design or accident, alter the beliefs of, or convey information to, other individuals in the market" are specifically defined as signals (Spence, 1974).

The number of research that use signaling theory to explain early-stage equity funding success has increased. Most of this research concentrated on calculating the empirical influence of signals thought to be connected to the firm's chances of success in fundraising in the future. Regretfully, the notion has been used somewhat loosely in a large portion of the studies on signaling to earlystage stock investors. In order to increase the theoretical rigor of research based on signaling theory, Bergh et al. (2014) contended that it would be necessary to clearly identify the signalers, receivers, signal with corresponding unobserved quality, and specifics of the signaling context. Researchers should also explain how the signals under study differentiate between low- and highquality prospects and characterize the pertinent features of the signals. The signaling literature in entrepreneurship has become more fragmented and has not developed theoretically as a result of the absence of a comprehensive, cohesive conceptual framework for signaling to early-stage equity investors. Despite being a suitable theoretical framework for explaining investor decisions and entrepreneurs' success in obtaining early external finance, signaling theory is therefore still neglected (Drover, Wood, & Corbett 2018). More lucidity on the application of signaling theory to early-stage equity investing research can facilitate additional exploration and potentially avert stagnation in the signaling theory-based entrepreneurship literature.

In this analysis, we concentrate on signaling to Venture Capitalists and Angel Investors, the two most significant external early-stage funding sources for initiatives with strong growth potential (De Clercq et al. 2006). Despite having different sources of funding, these two investor groups offer both monetary and non-monetary contributions and collaborate closely with entrepreneurs to optimize the venture's growth potential (Bessière, Stéphany, & Wirtz, 2020; Drover et al., 2017; Cohen, 2013). The decision-making process, investment amount, and stage of the projects in which Angel Investors invest have become more like those of Venture Capitalists with the emergence of angel groups (Mason, Botelho, & Harrison 2019). Due to the increased financial capability of angel groups (Mason, Botelho, and Harrison 2019), angel investors are becoming a more viable option to venture capitalists as a source of funding (Hellmann, Schure, & Vo 2021). Despite reported differences in the average size of investment, stage of investment, style of governance, and range of investment motives and goals (e.g., Bellavitis et al. 2016; Sommer 2002; Sapienza 2006; Johnson & Sohl 2012), empirical research has frequently analyzed these two groups of investors as a homogeneous group of outside equity investors due to their many similarities and

interrelatedness (e.g., Epure and Guasch 2020; Meuleman and De Maeseneire 2012; Söderblom et al. 2015).

A helpful foundation for comprehending why some entrepreneurs is successful in securing earlystage equity funding while others are not is provided by signaling theory. Despite its applicability to this specific research subject, signaling theory is still neglected, even if the number of studies employing it to explain success in securing early-stage equity financing is growing. The comparatively small number of studies that specifically mention signaling theory serves as evidence for this. Here is a summary of the literature's key advantages and disadvantages as of right now. Researchers using signaling theory in the context of early-stage stock investing have primarily concentrated on determining the empirical scale of signaling effects, according to reviewed papers. They have investigated the impact of different venture and founder-level signals, with a focus on the signaling function of affiliations and endorsement relationships, previous debt and equity funding, the founder's human capital, and patents. Research on the efficacy of patent signaling is still equivocal, raising the possibility that the signaling environment and/or the traits of signalers and signal recipients may have a moderating influence. Research has revealed the influence of investors' occupational backgrounds on investment decisions, and signaling theory has been used to explain the choices made by venture capitalists and angel investors.

The moderating influence of indices has also been the subject of recent research (Alsos and Ljunggren 2017; Yang, Kher, & Newbert 2020), which has shed some light on prejudice in earlystage stock investing. Furthermore, the focus of signaling study has expanded over time from objective signals (such as credentials and technology) to include subjective signals that can be communicated through both verbal and nonverbal means (Anglin et al. 2018). This broadening of the focus has challenged the notion that the cost of signals determines their effectiveness and offered insightful information (Nagy et al. 2012). Crucially, recent advances in research acknowledge that signals conveyed to early-stage equity investors are frequently unclear and untrustworthy (Plummer, Allison, & Connelly 2016), making it challenging to distinguish between high- and low-quality new ventures. Further, the body of research on investor decision-making, which relies on fully compensatory decision models, acknowledges that investors are not rational actors (Maxwell & Lévesque 2014). Furthermore, rather than evaluating signals individually, investors typically conduct comprehensive assessments of new venture funding prospects since they are constantly exposed to bundles of signals regarding new enterprises (Huang 2018).

The environment (context) in which signaling takes place is not highlighted in a large portion of the material currently available on signaling to early-stage equity investors. Industry, investment phase, investor syndication, investment platforms, investor density (i.e., the number of investors in the market), and geographic region are examples of environmental factors. The second significant flaw in the reviewed literature is that, despite the fact that entrepreneurial teams are recognized as one of the most crucial factors for venture investors, research has not yet looked at founding team signaling by taking team composition into account (Higashide & Birley 2002).

In view of this, only studies that were published in prestigious journals for finance, management, and entrepreneurship were included in this assessment of the literature, which might have skewed the results of our investigation (Kunisch et al. 2018). Nonetheless, this method allowed for a more comprehensive assessment that might have made a bigger contribution to the field's growth (Post et al. 2020). However, the reproducibility of this search and selection procedure was noted (Aguinis & Solarino 2019). Future studies of the current state of knowledge may alter the classifications assigned to each component of signaling theory. Crucially, because signaling is

heavily influenced by the type of investor and the stage of the business, these findings cannot be applied to alternative equity financing methods like crowdsourcing, government subsidies, or laterstage private equity investments (Colombo 2021; Ko & McKelvie 2018).

Methodology

This paper is based on the review of available literature on Diversity, Equity and Inclusion in the financial sector focusing majorly on ways to promote it and secondary data were collected from studies conducted in relevant fields.

Conclusion

In conclusion, the shifting demographics of the country are making it a necessity to attract and retain diverse talent. Second, diverse talent brings a rich variety of experiences that lead to increased innovation and favorable business outcomes. Last, research has found that diversity begets diversity, meaning that diverse talent attracts more diverse clients and that attracts more diverse talent. Therefore once people grasp the fundamentals of how money functions, they also need to recognize the complexity of financial issues to appreciate the importance of financial services professionals. Financial literacy not only equips young individuals with essential skills but also positions them as potential future professionals and clients.

Suggestions

The Financial Services sector faces an emerging talent shortage, and focusing on Diversity, Equity & Inclusion (DEI) could play a key role in addressing this issue therefore the study suggests that:

Companies should integrate DEI data into their business strategy, factor diversity metrics into their leadership meetings, annual reports, and their strategic planning discussions because companies that weave inclusivity into their core operations experience stronger business performance, increased innovation, and greater workforce engagement.

Organisations should align the DEI goals with their core objectives by ensuring that diversity and innovative efforts support talent management, market expansion, customer retention and the image of the organisation.

DEI should be processed to align with business performance metrics in order to encourage financial growth and long-term sustainability.

Industry leaders as well as competitors should be sampled by conducting industry benchmarking in order to identify efficient DEI strategies and also design strategies appropriately.

Strategic partnership should be encouraged by collaborating with policy makers, advocacy groups, and industry leaders to maintain oneness with evolving DEI practices because collective action strengthens the foundation for sustainable inclusion efforts.

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