

The Boston Entrepreneurs' Network

The Business Imperative of Diversity & Inclusion: How Diversity Helps Startups?

E. Macey Russell

December 17, 2019

OBSERVATIONS:

Intersection of Diversity and Business, 2020 and Beyond

Issues to Consider

- What is “diversity” v. “workplace” diversity?
- Is there really a sound business case for diversity?
- Do I need to understand the benefits of diversity to be successful as a start-up?
- Do businesses strategically use “diversity and inclusion” to their advantage?

OBSERVATIONS:

Intersection of Diversity and Business, 2020 and Beyond

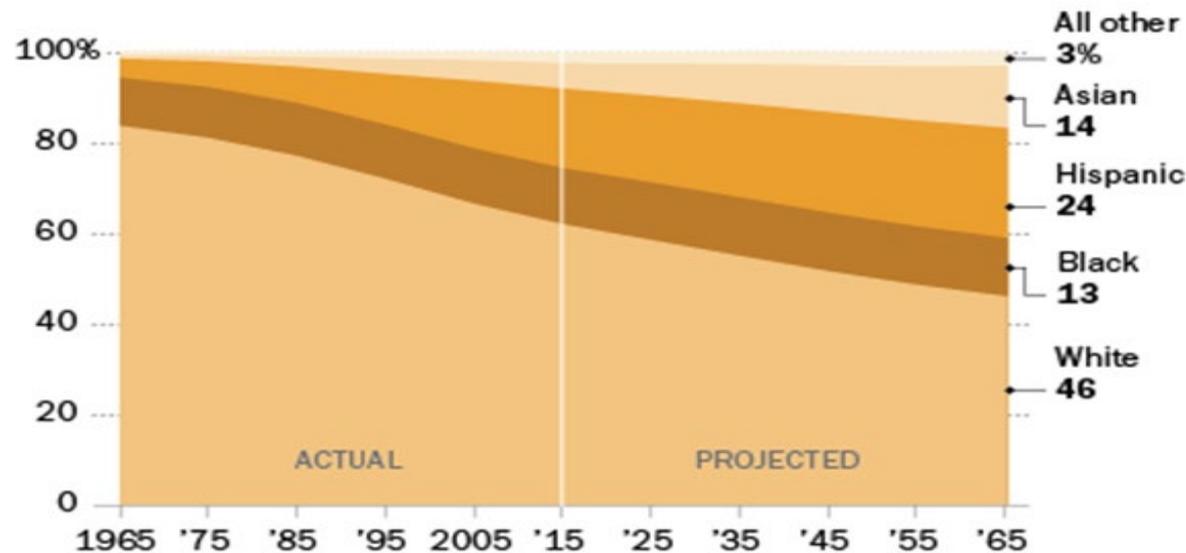
Issues to Consider

- Why do I need to learn about implicit or unconscious bias when I am not prejudice and treat everyone the same?
 - What does bias of any kind have to do with my company's offering of products and services?
- Why do I need a diverse workforce when I only want to hire the “most qualified people?”
- Do majority owned businesses and minority/women owned businesses view differently the importance of diversity and inclusion?

PREPARATION: Is Your Organization Ready For Change?

The changing face of America, 1965–2065

% of the total population



Note: Whites, blacks and Asians include only single-race non-Hispanics; Asians include Pacific Islanders. Hispanics can be of any race.

Source: Pew Research Center 2015 report, "Modern Immigration Wave Brings 59 Million to US, Driving Population Growth and Change Through 2065"

PEW RESEARCH CENTER

PREPARATION: Understanding the Definition of Diversity

- Today's definition of "**diversity**" is broad and inclusive, representing Native Americans, African Americans and Blacks, Asian Pacific Americans, Hispanics and Latinos, disadvantaged Caucasians, women, disabled persons, and LGBT individuals.*
- Definition of **workforce diversity** includes "national origin, language, race, color, disability, ethnicity, gender, age, religion, sexual orientation, gender identity, socioeconomic status, veteran status, and family structures." **

*See, e.g., U.S. OFFICE OF PERSONNEL MANAGEMENT, OFFICE OF DIVERSITY AND INCLUSION, GOVERNMENT-WIDE DIVERSITY AND INCLUSION STRATEGIC PLAN 2011 5 (2011).

** <http://www.opm.gov/policy-data-oversight/diversity-and-inclusion/reports/governmentwidedistrategicplan.pdf>

PREPARATION: Understanding Differences

Don't Make Blanket Assumptions: We Are Not All Alike

- **Not all African Americans are alike** (African American, Cape Verdean, Jamaican, West African, Haitian).
- **Not all Asian Americans are alike** (Chinese, Japanese, Korean, Philipino, Vietnamese, Cambodian).
- **Not all Hispanics are alike** (Columbian, Costa Rican, Cuban, Dominican, Mexican, Puerto Rican, Salvadoran, Venezuelan).
- **Language:** There are 118 different languages spoken in Boston, Massachusetts, including: Spanish, Portuguese, French Creole, Russian, Greek, Swahili, Finnish, Banta, and Cushite.

PREPARATION: Understanding Our Bias

White business leaders thought they were doing a good job with diversity effectiveness, the evidence suggested otherwise:

- Lack of candor a key culprit in the 2013 “*Study on White Men Leading Through Diversity & Inclusion.*”^{*} Compiled results of anonymous surveys of about 700 leaders at eight major companies.
- Asked to rate the diversity effectiveness among white male leaders in their companies, **45 percent of white men gave a positive rating.**
- **Among women and people of color, only 21 percent agreed.**
- **Wide gaps** were also **found** in the perception of white men’s abilities to coach and improve the performance of diverse employees (**33 points difference**); build strong, diverse teams (**36 points**); promote diverse talent on merit (**36 points**); and include diverse voices in decision making (**40 points**).
- ^{*} <http://www.whitemensleadershipstudy.com/pdf/WMLS%20Results%20Report.pdf>

PREPARATION: Understanding Our Bias – Words Matter

What you say to others can be misinterpreted as insults and invalidations.

- Micro-insults: Verbal and nonverbal communications that subtly convey rudeness and insensitivity and demean a person's racial heritage or identity.
 - An example is an **employee who asks a colleague of color how she got her job or into a certain college**, implying she may have landed it through an affirmative action or quota system.
- Micro-invalidations: Communications that subtly exclude, negate or nullify the thoughts, feelings or experiential reality of a person of color.
 - For instance, **white people often ask Asian-Americans where they were born**, conveying the message that they are perpetual foreigners in their own land.”*

* See Tori DeAngelis, *Unmasking 'racial micro aggressions*, *American Psychological Association*, 2009, Vol 40, No. 2, p. 42, <http://www.apa.org/monitor/2009/02/microaggression.aspx>

PREPARATION: Reduce Bias and Improve Business Skills

Benefits of Improving Your Social and Emotional Intelligence Skills

- There is no quick fix to our implicit and unconsciousness biases.
- Implicit and unconscious bias training suggests you can reduce the bias impact by being aware of personal biases and finding ways to understand the perspective of people in that bias group.
- **Social intelligence (“SI”)** is generally defined as the “ability to understand and manage people,” and **emotional intelligence (“EI”)** is a subset of social intelligence which specifically refers to one’s capacity to monitor feelings and emotions (both your own and those of others) and use to guide one’s actions and thoughts.*
- Improving your social and emotional skills can aid in reducing biases.

*Jonathan Middleborough & Lucy Butterworth, Emotional Intelligence: What Can Learned Lawyers Learn From the Less Learned. (2013), www.huronconsultinggroup.com

PREPARATION: Reduce Bias and Improve Business Skills

Benefits of Improving Social and Emotional Intelligence Skills

Emotional intelligence:

- *El arguably accounts for as much as 80 percent of an individual's workplace success, more than raw intelligence and expertise combined.**
- Studies at Harvard and elsewhere have shown that high IQ does not necessarily translate into high productivity, *while the ability to “get along with people” has been found to be more critical than intelligence*, decisiveness or job expertise in achieving bottom-line results. This indicates that emotionally intelligent partners will be among your strongest performers.
- Create your bias tipping points

*Jonathan Middleborough & Lucy Butterworth, Emotional Intelligence: What Can Learned Lawyers Learn From the Less Learned. (2013), www.huronconsultinggroup.com

PREPARATION:

Understanding The Business Case for Diversity is Real

Complete Agreement: Deloitte, McKinsey, and PwC all have published reports concluding that companies with higher percentages of women and minorities make better and more informed decisions, and are more profitable.

- Deloitte:
 - “*The diversity and inclusion revolution: Eight powerful truths*” Deloitte Review, issue 22, January 22, 2018

- McKinsey & Company:
 - “*Delivering through Diversity,*” January 2018

- PwC:
 - Real Diversity 2017, “No holding back: Breaking down the barriers to diversity”

PREPARATION: The Business Case For Diversity

Deloitte: *“The diversity and inclusion revolution”* 2018

Eight Powerful Truths*:

1. Diversity of thinking is the new frontier
2. Diversity without inclusion is not enough
3. Inclusive leaders cast a long shadow
4. Middle managers matter
5. Rewire the system to rewire behaviors
6. Tangible goals make ambitions real
7. Match the inside and the outside
8. Perform a culture reset, not a tick-the-box program

* (“... this document presents eight powerful truths about diversity and inclusion. It is the culmination of our work with approximately 50 organizations around the world, representing a footprint of more than 1 million employees.”)

<https://www2.deloitte.com/us/en/insights/deloitte-review/issue-22/diversity-and-inclusion-at-work-eight-powerful-truths.html>

PREPARATION: The Business Case, McKinsey & Company *“Delivering Through Diversity” 2018*

Key Points - Executive Summary*:

- *“The relationship between diversity and business performance persists.* The statistically significant correlation between a more diverse leadership team and financial outperformance demonstrated three years ago continues to hold true on an updated, enlarged, and global data set.”* (emphasis added)
- “Leadership roles matter. *Companies in the top-quartile for gender diversity on executive teams were 21% more likely to outperform on profitability and 27% more likely to have superior value creation.* The highest-performing companies on both profitability and diversity had more women in line (i.e., typically revenue-generating) roles than in staff roles on their executive teams.” *(emphasis added)

* https://www.mckinsey.com/~media/McKinsey/Business%20Functions/Organization/Our%20Insights/Delivering%20through%20diversity/Delivering-through-diversity_full-report.ashx

PREPARATION: The Business Case, McKinsey & Company
“Delivering Through Diversity” 2018

Key Points - Executive Summary: cont.

- *Top-team ethnic and cultural diversity is correlated with profitability.* . . . we found that companies with the most ethnically diverse executive teams—not only with respect to absolute representation but also of variety or mix of ethnicities —are 33 percent more likely to outperform their peers on profitability.” (emphasis added)
- “The new analysis expands on our 2015 report, Why diversity matters, by drawing on an enlarged *data set of more than 1,000 companies covering 12 countries*, measuring not only profitability . . . but also longer-term value creation (or economic profit), . . .”. (emphasis added)

PREPARATION: The Business Case - PwC 2017 Report
“No Holding Back – Breaking Down the Diversity Barriers”

“The business case for diversity and inclusion has never been more compelling.”*

- Magnet for Talent:
 - *“In a survey of more than 10,000 millennials (people born between 1980 and 1995), over 80% said that an employer’s policy on diversity, equality and workforce inclusion is an important factor when deciding whether or not to work for them.”* (emphasis added)

- Boosting the Bottom Line:
 - *“More than 80% of the CEOs whose organizations have a diversity and inclusion strategy believe it has enhanced business performance.* Specific benefits include bringing in people with the fresh ideas and experiences needed to foster innovation. Your workforce would also better reflect, understand and engage with the increasingly diverse set of clients you serve.” (emphasis added)

* <https://www.pwc.co.uk/human-resource-services/assets/documents/real-diversity-2017-no-holding-back.pdf>

WHY IT MATTERS: Private Equity Firms Are Beginning to Care About Diversity – “The Bottom Line”

Carlyle *Making Diversity a Priority, 2019*

- “At Carlyle, we believe that diverse teams and experiences bring tremendous value to our firm and the investment management industry.”
- “We recognize that we will ultimately have more success with a team that not only is diverse, but one that values that diversity and leverages it as a competitive advantage.” <https://www.carlyle.com/corporate-overview/diversity-inclusion>

Bloomberg *Private equity firms say recruiting women is now a top priority., 2018*

- “Private equity firms have come under increasing pressure from investors, who are pushing for more diversity following sexual harassment and gender bias claims that have come to the forefront in almost every industry.”

<https://www.bloomberg.com/news/articles/2018-11-16/private-equity-firms-say-recruiting-women-is-now-a-top-priority>

WHY IT MATTERS: Private Equity Firms Are Beginning to Care About Diversity – “The Bottom Line”

Will Private Equity's Diversity Problem Improve as Clients Grow?

Kirkland and Ellis, August 22, 2019

- “PricewaterhouseCoopers expects that the assets under management in the private equity industry will more than double from \$4.7 trillion in 2016 to \$10.2 trillion by 2025. And with the increase in money managed has come an increase in head count. Blackstone, for example, employs more than 250 private equity professionals.”*
- “At the biggest funds, that growth has come with diversity infrastructure—inclusion executives, diversity plans. Many believe the discussion around private equity diversity will only grow with expansion of the industry.”*

* <https://www.kirkland.com/news/in-the-news/2019/08/will-private-equity-diversity-problem-improve>

WHY IT MATTERS: Private Equity Firms Are Beginning to Care About Diversity – “The Bottom Line”

Want 20% Higher Returns? Do This. March 6, 2019, Amanda Cantrell

- “Private equity and venture capital firms with better gender balance in their senior investment teams perform better — a lot better — than more homogenous ones.”*
- “Funds with gender-balanced senior investment teams have generated investment returns that were 10 to 20 percent higher than those with a majority of male or female leaders, according to the study released Thursday by the International Finance Corporation, a member of the World Bank Group . . .”*
- “The study also analyzed the portfolio companies receiving funding from private equity and venture capital firms and found that companies with gender-diverse leadership teams outperformed their less-diverse counterparts by 25 percent. The report defined gender-balanced leadership teams as those composed of at least 30 percent of the opposite gender.”*

* <https://www.institutionalinvestor.com/article/b1df7fg0bq3jfv/Want-20-Higher>Returns-Do-This>

WHY IT MATTERS:

Intersection of Business Objectives and Diversity

Business Observations – Marketing and Management

- Marketing:
 - What is the market for your products and services?
 - What are the key demographics and what is your competitive advantage? Do you have diverse customers?
 - Do you have clients with diverse employees in charge of purchasing?
 - Is the marketing of your products and services free of bias content based race, ethnicity, gender, or sexual orientation?

- Management:
 - What are demographics of your workplace at each level of the organization: Board, C-Suite, middle management, office support, sales force
 - How do you process and use information generated from diverse groups in your organization?

WHY IT MATTERS:

Intersection of Business Objectives and Diversity

Business Observations - Raising Capital as a Start-Up:

- You don't have a track record yet (chicken and egg dance)
- We tend to invest in people we know (chicken dance again)
- We have strict investment guidelines (passive aggressive answer: no)
- Do you have a story to tell potential investors to overcome barriers?
 - How does diversity provide your company a competitive advantage?
 - Are you offering investors a company with significant growth potential that includes a diversity and inclusion strategy?
 - Can you turn a disadvantage as start-up into an advantage with D&I?

WHY IT MATTERS:

Intersection of Business Objectives and Diversity

Business Observations – Management:

- How do you manage systemic barriers to grow your business internally and externally (marketplace)
- Board Development: Do you have leaders that can help you with D&I knowledge/expertise gaps?
- Understanding the skill sets of founders:
 - What is needed to grow the business?
 - Investment firms will ask the question – are you prepared to answer?

WHY IT MATTERS:

Intersection of Business Objectives and Diversity

Business Observations – Management:

- Hiring processes (sourcing, interviews, retention) and need for more specialized employees as business grows. Why would someone want to work for your company? Is D&I part of your culture?
- Scaling the business model: when are you ready to scale, how quickly can you, and should you scale?
 - Is diversity and inclusion part of the plan?
 - Diverse businesses tend to be more successful

WHY IT MATTERS:

Intersection of Business Objectives and Diversity

Legal Observations:

- Don't take shortcuts – be compliant with all laws, statutes, and regulations
 - Minority and Women owned certifications - No silent partners with actual control and majority ownership
 - Timely file each year all State and Federal tax returns
- Comply with all securities laws for raising debt or equity
- Clearly outline all factual assumptions in your business plan, and make all material disclosures
- Appropriately protect all trade secrets, intellectual property, proprietary and confidential information with well-drafted non-disclosure and confidentiality agreements
- Know your investors and their sources of funding: conduct the appropriate due diligence

Concluding Observations

- Prepare Your Organization for Change
- Understand That You Will Make Mistakes, Everyone Does
- Focus on What You Can Do Today
- Always Think About Where You Want to Be Tomorrow
- Embrace Diversity and Inclusion as a “Value Added”
- If You Need Help, Don’t Be Afraid to Ask