

The Competitive Advantage of Racial Equity

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FSG and PolicyLink are working on developing practical guidance for companies on how to do this work. If you or your corporation are interested in learning more, please contact Lalitha Vaidyanathan at lalitha.vaidyanathan@fsg.org.

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INTRODUCTION

Corporate America is missing out on one of the biggest opportunities of our time for driving innovation and growth: creating business value by advancing racial equity.^a

It is unusual to view racial equity as a source of corporate competitive advantage. Yet, FSG and PolicyLink, in a 6-month research study, found evidence that a growing number of companies known for their hard-nosed approach to business—such as Gap Inc., PayPal, and Cigna—have found new sources of growth and profit by driving equitable outcomes for employees, customers, and communities of color.

Racial inequity is the result of structural racism that is embedded in our historical, political, cultural, social, and economic systems and institutions.¹ It works cumulatively and produces vastly adverse outcomes for people of color in areas such as health, wealth, career, education, infrastructure, and civic participation (see *“What is racial equity, and why should business care?”* pages 6-7). Consider for example America’s enormous racial wealth gap: The median net worth of White households is 13 times that of Black households and 10 times that of Latino households. This discrepancy in wealth is attributable not only to differences in educational and career opportunities but also to discriminatory post-WWII government mortgage policies that intentionally locked generations of Blacks and Latinos out of the housing market, the primary source of wealth for America’s White middle class. The persistent impact of this disparity, combined with other inequities such as underperforming schools, poor access to public transit, predatory lending, and deeply disproportionate impact of our criminal justice system have ultimately excluded people of color from productive engagement in our society.

At the same time, there is a dramatic demographic shift approaching that many corporate leaders do not consider. An earlier major demographic milestone was reached in America in 2012: The majority of babies born across the country were Black, Latino,

^a Racial equity is defined as just and fair inclusion into a society in which all people, immaterial of their race or ethnicity, can participate, prosper, and reach their full potential.

Asian, multiracial, or another race/ethnicity other than non-Hispanic White. Currently, states such as California, Texas, Arizona, and Hawaii, as well as many major cities such as Dallas, Texas, and Durham, North Carolina, are already majority people of color. By 2019, a majority of youths under 18 will be of color, and by 2030 a majority of young workers will be people of color. A mere 10 years later, we will be a majority people-of-color nation. This is a dramatic shift for an America that was 80 percent White as recently as the 1980s.

Together, these forces—rising diversity amidst persistent racial economic exclusion—form the core challenge that America’s businesses must address to compete in today’s economy, and tomorrow’s. The potential gains are tremendous: Data in the National Equity Atlas show that our national GDP could be 14 percent or \$2 trillion higher, if the wage disparity between White employees and employees of color was eliminated. The buying power of Black and Latino people has consistently risen since 1990, and by 2018 is estimated to be \$1.3 trillion and \$1.6 trillion respectively.² Thirty years ago, our economy could find sources of growth even as it marginalized the people of color who made up a smaller share of our customers, employees, and suppliers. Can it continue to grow in the same ways when people of color become the majority? We think not.

For companies, a focus on racial equity is critical in order to innovate, to create products and services that serve a more diverse consumer base, and to cultivate a strong workforce. Communities of color can open up new markets by providing a significant consumer base for existing businesses and by innovating new enterprises. Research shows that more diverse teams are better able to solve problems and that companies with more diverse workforces have higher revenues, more customers, and greater market shares. Advancing racial equity does not mean that everyone will be treated the same, nor that everyone will achieve the same level of success. It does, however, require that we create the conditions to fully and fairly include everyone so that all employees, customers, and suppliers have the opportunity to reach their full potential. Doing so requires business leaders to re-invent every aspect of their business models to take into account the different circumstances, preferences, and needs of people of color, who will soon be the majority in our country.

The potential gains of advancing racial equity are tremendous: The buying power of Black and Latino people has consistently risen since 1990, and by 2018 is estimated to be \$1.3 trillion and \$1.6 trillion respectively. Also, the U.S. GDP could be 14 percent or \$2 trillion higher, if the wage disparity between White employees and employees of color was eliminated.

Companies have a critical role to play in meeting this challenge. As Professor Michael Porter and Mark Kramer wrote in their 2011 *Harvard Business Review* article “Creating Shared Value,” “Not all profit is equal. Profits involving a social purpose represent a higher form of capitalism—one that will enable society to advance more rapidly while allowing companies to grow even more. The result is a positive cycle of company and community prosperity, which leads to profits that endure.”³ It is precisely this cycle of community prosperity and corporate success that is at the core of shared value strategies to advance racial equity.

Our research showed that opportunities to create shared value by promoting racial equity occur at every point along a company’s value chain—from hiring, training, and advancing employees, to procurement, product design, and marketing, even including the company’s ownership and governance structure and its lobbying and philanthropy. As Porter and Kramer defined the concept, companies can create shared value at three levels. Each of these three levels offers opportunities to improve a company’s economic performance by advancing racial equity:

1 Reconceiving products and markets

Better serving existing markets, or accessing new ones by developing innovative products and services that reduce inequities and meet the needs of people of color

2 Redefining productivity in the value chain

Reducing cost, increasing quality, and improving productivity through a company’s operations by advancing racial equity

3 Strengthening the business context

Nurturing a reliable base of skilled human capital and external suppliers, increasing consumer demand, and improving the regulatory framework by creating opportunities for communities of color

We found a growing number of companies across industries such as financial services, healthcare, and retail are making firm strides in this direction, and these examples are included in the next three sections of this paper. While these companies may not always have started out with the intention of addressing racial equity per se, focusing instead on selling to lower-income populations or reducing employee turnover, they created substantial benefits for people of color while simultaneously improving their own bottom line. The examples that follow, therefore, suggest the potential for even greater economic value creation when companies intentionally focus on advancing racial equity.

Summary: How companies have advanced racial equity while creating business value

Reconceiving products and markets

Better serving existing markets, or accessing new ones by developing innovative products and services that reduce inequities and meet the needs of people of color.

PayPal PayPal's Working Capital (PPWC) loan uses alternative forms of credit assessment and thus eliminates factors traditionally influenced by race. To date, PPWC has disbursed \$3 billion to 115,000 customers. 25 percent of its loans were in credit-starved counties that are predominantly communities of color.

Regions Bank Regions Bank designed the Now Banking suite of products for underbanked and unbanked consumers, many of whom are people of color, so they could cash checks with minimal fees and no minimum account balance. One in five Now Banking customers opens a checking account, creating a new pipeline of long-term customers.

Brown's Super Stores (ShopRite operator) ShopRite operator Brown's Super Stores found a profitable market expansion opportunity by establishing grocery stores in Philadelphia-area food deserts, where predominantly low-income people of color live. The company offered customized food items and complementary services that were lacking, such as health clinics. The company's seven stores generate \$250 million in revenues and serves 250,000 people.

Redefining productivity in the value chain

Reducing cost, increasing quality, and improving productivity through a company's operations by advancing racial equity.

Gap Inc. Gap Inc. created a talent pipeline with double the average retention rates by providing a skills training course and a 10-week internship program through the This Way Ahead program. Ninety-eight percent of participants are people of color.

Cascade Engineering Cascade Engineering's Welfare to Career program has decreased turnover from 65 percent to 5 percent by providing wrap-around services to employees previously on welfare. Half of these employees are people of color.

Kaiser Permanente Kaiser Permanente analyzed data and found significant disparities in hypertension rates between Whites and Blacks—it then designed a suite of culturally responsive care strategies that reduced the gap from 6.3 percent to 2.8 percent and significantly reduced operating costs.

Strengthening the business context

Nurturing a reliable base of skilled human capital and external suppliers, increasing consumer demand, and improving the regulatory framework by creating opportunities for communities of color

Prudential Prudential used its lobbying arm to work with a coalition of organizations to pass a legislation that helps small businesses enroll eligible workers in retirement plans, thus increasing access to retirement savings for people of color while creating a new market for Prudential and its industry.

Symantec Symantec used its corporate foundation to launch the Symantec Cyber Career Connection, a program that trains and places youth—predominantly people of color—in cybersecurity careers. Symantec plans to scale the program nationally in order to create a more diverse workforce for the entire cybersecurity industry.

WHAT IS RACIAL EQUITY,

Wealth



White households have **13 times** the wealth of Black households and **10 times** that of Latino households.^{4,5}

Latino and Black families lost **66 percent and 53 percent of their wealth**, respectively, during the recent recessions; Whites lost 16 percent.⁶

Thirty-one percent of Blacks and 29 percent of Latinos are unbanked or underbanked, compared to only 19 percent of Whites.⁷

Health



The infant mortality rate for infants of Black mothers is 11 per 1,000 live births, **double that of Whites**.⁸

Black men and women face 40 percent and 57 percent **higher hypertension** rates than White men and women.⁹

Twenty-five percent of Latino children aged 6–11 are considered obese compared to 11 percent of White children.¹⁰

Career



2017 **unemployment rates for Blacks and Latinos was 8 percent and 6 percent** respectively, compared to 4 percent for Whites.^{11,12}

Among full-time workers aged 25–64, **32 percent of Latino workers and 22 percent of Black workers are “working poor”** and earn below 200 percent of poverty, compared to about 10 percent of White workers.¹³

Blacks are **21 percent less likely to receive a call back** for an interview than Whites, even with the same credentials.^{14,15}

Fewer than **15 percent of board seats in Fortune 500 companies** were held by people of color in 2016.¹⁶

Racial equity is defined as just and fair inclusion into a society in which all people can participate, prosper, and reach their full potential.¹⁷ Said another way, a racially equitable society is one in which racial disparities in health, education, wealth, and other areas do not exist.

In the U.S., racial inequity is largely perpetuated by structural racism. Structural racism refers to historical and ongoing political, cultural, social, and economic policies and practices that systematically disadvantage people of color.¹⁸

Perhaps the clearest example of structural racism in America lies in how discrimination by race has been integral to the design, development, marketing, and even financing of American cities and suburbs.¹⁹ Redlining—the practice of denying credit-worthy applicants housing loans in specific neighborhoods—was sanctioned and aggressively promoted by federal mortgage programs, housing and development programs, and real estate boards. This practice was directly responsible for creating strict neighborhood boundaries that denied people of color equal access to home ownership in neighborhoods of opportunity populated by White

families, and has resulted in Whites becoming the primary home-owning class in America.²⁰ Homeownership is one of the most significant drivers of wealth in the U.S. The lack of access to homeownership accounts for most of the vast difference in wealth between races, and continues to have intergenerational effects for communities of color.²¹ The wealth gap continues to be a significant barrier to people of color’s ability to pay for college or start a business.^{22,23} Because the racial composition of a neighborhood influences perceptions of safety, residential desirability, and the local economy, structural racism has thus resulted in a vicious cycle that perpetuates low market values and poor quality schools in neighborhoods of color, and denies those neighborhoods proximity to desirable jobs that lead to stable careers.²⁴

Racial discrimination unfortunately continues to be perpetuated even today by private sector companies. In 2009, a federal judge found that Wells Fargo gave three times more subprime loans to Blacks than “similarly situated white borrowers” in the four-year period from 2004 to 2008.²⁵ A recent report on mortgage lending and race found that Black residents in the Twin Cities earning over

AND WHY SHOULD BUSINESS CARE?

K-12 Education



Black children are **suspended from preschool at twice the rate** of White children.²⁶

The **racial gap in middle-school performance remains significant in impoverished urban areas**—in Washington, D.C., 8 percent of Black eighth-graders are proficient in math, compared to 80 percent of White eighth-graders.^{27,28}

The 87 percent high-school graduation rate for Whites in 2014 was **14 percent higher than the rate for Blacks**.²⁹

Whites today are more than **twice as likely as Latinos to have a college degree**.³⁰

Infrastructure



People of color predominantly live in **poorer neighborhoods**—even Black families earning \$100,000 or more are more likely to live in poorer neighborhoods than White households making less than \$25,000.³¹

Since 2000, **the number of jobs near the typical neighborhood worker has declined** by 17 percent for Latinos, 14 percent for Blacks, and 6 percent for Whites.³²

Blacks and Latinos suffer a **pedestrian death rate that is 60 percent and 43 percent higher** than that of Whites.³³

Only 7 percent of White households don't own a car, compared to 24 percent Black and 17 percent Latino households.³⁴

Justice/Civic



At current rates, **one in every three Black males born today can expect to go to prison at some point in his life**, compared to one in every six Latino males and one in every seventeen White males.³⁵

Blacks who are convicted of murder are about **50 percent more likely to be innocent** than other convicted murderers.³⁶

Approximately **60 percent of those imprisoned are people of color**.³⁷ In New Jersey, for every one White person incarcerated there are 12 Black people incarcerated.³⁸

Seventeen states have implemented **voting restrictions** since the 2012 presidential election,³⁹ which has suppressed voter turnout among Latinos, Blacks, and mixed-race Americans.⁴⁰

\$150,000 were twice as likely to be denied a home loan than Whites earning below \$40,000.⁴¹ Although redlining is illegal, discriminatory lending practices based on race continue to prevail.^{42,43}

Structural racism results in vastly inequitable outcomes for people of color in wealth, health, career, K–12 education, infrastructure, and civic engagement, as shown above.

The compounding effect of the above inequities is particularly alarming. For example, poor access to infrastructure such as transportation and health-promoting built environments (e.g., walking paths or playgrounds) has significant effects on the health of communities of color. Contact with the criminal justice system excludes people of color from voting and the workplace, thereby eroding civic participation, career, income, and wealth-building opportunities.

It is important to recognize that other forms of discrimination based on gender, disability, sexual orientation, and immigration status can also have a compounding effect on racial inequity. For example, lesbian, gay, and bisexual individuals who are people of color are subject

to micro-aggressions associated with both racism and heterosexism. However, we have chosen to focus primarily on race because we believe that race is one of the most powerful determinants of equity, and by targeting a vulnerable group that most needs support, we create the circumstances for all groups to benefit.⁴⁴

The focus of this paper is to highlight how corporate America can find new sources of innovation and business growth by more deeply understanding and addressing these inequities. In particular, our research looked for areas of racial inequity where companies are best positioned to create business value—and found that these areas lie within the areas of health, wealth, and career. Corporations are less well-positioned to create shared value by influencing inequities in infrastructure, K–12 education, justice, and civic participation, as these are areas influenced mostly by the public sector through policy and legislation. However, a company could influence these areas through their voice, public policy, and philanthropy. Given the interconnected nature of these issues, leading companies also uncover promising business opportunities hidden within them.

RECONCEIVING PRODUCTS AND MARKETS

Changing demographics are causing the buying power of people of color to increase much more quickly than that of White Americans. By 2018, the buying power of Black and Latino consumers alone is estimated to be \$3 trillion, amounting to 19.4 percent of the U.S. consumer market.⁴⁵ Yet people of color encounter numerous barriers to full participation as consumers in the U.S. economy. Even the most basic human needs, such as access to healthy foods, are often inaccessible to inner-city populations. Twenty-nine million Americans, predominantly people of color, live in “food deserts” that have limited access to fresh fruit and vegetables.

**Brown's Super Stores
(Shoprite operator)**

*\$250 million in revenue
by serving food deserts*

ShopRite operator Brown's Super Stores, part of the \$15.7 billion Wakefern Food Corporation, has found profitable expansion opportunities by filling this gap. The company's seven stores generate nearly \$250 million in revenues by providing fresh food to 250,000 people in Philadelphia-area food deserts. The company had to go beyond the traditional mindset of most grocery stores that avoided low-income communities because they deemed them to be unprofitable either due to high operating costs from poor infrastructure or assumed that these consumers have low-purchasing power. The company saw that while grocery stores in richer neighborhoods prioritize customer experience, in low-income areas, that are predominantly markets of color, grocery stores are often overly policed with locks on expensive merchandise, which was frustrating for potential consumers who want to be treated with dignity. The company found that

“Most grocery stores fled low-income communities because they deemed them to be unprofitable due to high operating costs from poor infrastructure or assumed that these consumers have low-purchasing power. But I saw a window of opportunity as an entrepreneur... Further, I also noticed that while grocery stores in richer neighborhoods prioritize customer experience, in low-income areas, that are predominantly markets of color, grocery stores are often overly policed with locks on expensive merchandise. Nobody wants to be treated that way.”

– Jeffrey Brown, CEO, Brown's Super Stores Inc.

there were lower-income consumers who were price sensitive and at the same time, wanted quality products. The company also recognized that their usual suburban stores wouldn't fit the needs of inner-city communities, so they conducted extensive research, including hosting town hall meetings with residents to design the in-store experience and cater to local tastes. Finally, when the company realized that its customers needed access to health care, it opened health clinics in the stores and trained staff to help its customers enroll in Medicare and Medicaid, resulting in a substantial increase in foot traffic.

PayPal found another underserved market in the working capital needs of small businesses. Almost a third of small businesses are owned by people of color, yet these businesses tend to be smaller and less profitable than White-owned firms, with lower credit scores and less collateral that limits their access to credit, which further restricts their growth. Even when credit is available, business owners of color pay 30 percent higher interest rates than their White counterparts.⁴⁶

PayPal Working Capital (PPWC) is an alternative lending service that assesses credit risk on PayPal sales history and processing volume instead of on business or personal credit scores or the availability of collateral. Approvals are instant, and the borrower pays a fixed fee instead of interest. Repayments are based on a percentage of future PayPal transactions, so the debt service automatically declines if sales are slow. Since 2013, PPWC has disbursed more than \$3 billion in loans to 115,000 businesses in the U.S., the U.K., and Australia. Customers have been highly enthusiastic, as reflected in consistently high net promoter scores. And PPWC loans have unlocked dramatic opportunities for economic growth in underserved communities: 25 percent of PayPal Working Capital loans were disbursed in credit-starved counties that experienced a loss of 10 or more bank branches during the Great Recession. Not surprisingly, banking deserts predominantly affect communities of color. Further, year-over-year sales of PPWC borrowers grew 22 percent compared to peer businesses, which grew only 2 percent.⁴⁷

Another example in the financial services sector is **Regions Bank**, a \$122 billion U.S. bank operating primarily in the South and Midwest that wanted to expand its market. The bank zeroed in on the \$141 billion market of unbanked people in the U.S. This market, consisting disproportionately of people of color, was poorly served by existing financial services and almost completely ignored by the bank's competitors. Regions conducted detailed market research to understand the needs and attitudes of this unserved population, and discovered that 30 percent of individuals in its service territory—more than one million households—had resorted to predatory non-bank financing within the preceding 90 days for loans that the bank could have profitably provided at significantly lower costs.

PayPal

Provides \$3 billion in loans to small businesses

Regions Bank

New approach to banking opens \$141b market

“If you look at the number of people out there who do not believe that they are bankable or are unfamiliar with the banking system, there is a market there. They are paying too much for what they are getting. So the question is, can you provide products that are profitable to the bank, and meet their needs, so you can take someone out of that predatory environment.”

– Leroy Abrahams, Area President, Regions Bank

The profitability drivers of traditional banks are fundamentally at odds with any business model that aims to serve people of color from low-income communities. Traditionally, banks have based their business models on high account balances, low utilization of in-person services, and low underwriting costs. Regions Bank, however, grew its market by taking a different approach, designing a new suite of highly affordable checking and savings accounts with minimal fees, no minimum balances, incentives to save, and a flexible line of credit secured by a savings account. As these new consumers become comfortable with basic services, Regions helps them navigate to more complex products, such as home mortgages, business loans, and retirement savings.⁴⁸ Regions has seen that one out of five customers transitions from basic check cashing to opening up a checking account in just 12 months, and to more advanced products in two to three years.⁴⁹

Regions Bank is not alone in pursuing this market. In fact, serving the unbanked has become a major growth opportunity: more than \$12.7 billion in investment poured into technology-based financial services for the unbanked in 2016 alone, of which approximately half is estimated to be in products specifically designed for the underserved.^{50,51,52} Incubators like the Financial Solutions Lab—led by JPMorgan and the Center for Financial Services Innovation—are intentionally investing in fintech startups that address the needs of people of color.⁵³ **Oportun** is one such company. It provides high-quality, small-dollar loans to Latino consumers with little or no credit history. It has tailored its distribution network and customer experience to the needs of this segment with branches in Latino supermarkets and bilingual staff.⁵⁴ It has also reported payments to credit bureaus to help customers build their credit histories.⁵⁵ Since 2006, it has disbursed over \$3 billion in loans to one million customers.⁵⁶

Oportun

*Disbursed \$3 billion
in loans to Latinos
with little credit history*

DBL Partners

*Invests in companies
which reduce inequities*

Finally, **DBL Partners**, a double bottom line venture capital firm, found a new set of investment opportunities by focusing on early-stage companies that create products that also address societal needs. For example, DBL invested in the Muse, an online platform that has served over 50 million people, predominantly those of color, to advance in their careers. DBL has also invested in successful portfolio companies in clean tech,

sustainable products, and health care that has ultimately created 30,000 new jobs, many filled by people of color.⁵⁷ At the same time, DBL is also performing in the top decile of venture capital firms, providing a 24 percent annual return to its investors.⁵⁸

Regions Bank, ShopRite operator Brown's Super Stores, PPWC, Oportun, and DBL provide just a few examples of the potential for new products, services, and investments that meet the overlooked needs of people of color. These companies advance racial equity by offering access to basic needs such as fresh food, working capital, and financial services that most White communities take for granted. In each case, these companies succeeded by identifying a market opportunity that competitors missed and by designing their offerings to overcome pervasive barriers that rendered conventional business models inaccessible to people of color. Enterprising companies will find many more such opportunities once corporate leaders recognize the importance and distinctive needs of these rapidly growing markets.

REDEFINING PRODUCTIVITY IN THE VALUE CHAIN

People of color have been excluded from full participation in our economy not only as customers, but as employees as well. While unemployment levels have fallen across the United States in the years since the Great Recession, the unemployment rate for Blacks remains at 7.1 percent, double the rate for Whites even when their education levels are the same.⁵⁹ And among those who are employed, people of color are disproportionately trapped in low-wage jobs with high turnover and few prospects for advancement. In retail, for example, Black workers make up 11 percent of the labor workforce, but only 6 percent of the managers.⁶⁰

Employee turnover represents a substantial cost to large employers, especially in retail, food service, and hospitality, where annual turnover rates can reach 100 percent or more. Yet much of this turnover is caused by conventional hiring, training, and HR policies that fail to take into account the challenges in transportation, child care, and financial stability that are prevalent among their entry-level employees, who are often disproportionately people of color. When employment practices are reconsidered to address these obstacles, the rate of turnover drops dramatically. **Gap Inc.**, for example, through its This Way Ahead program has shown that a career skills training course, followed by a 10-week paid internship and a mentoring program, can equip unemployed youth without a high school diploma to become successful salespeople with double the rates of retention and higher engagement scores than their peers. And ninety-eight percent of these youths are of color. Retailers in highly competitive industries, such as convenience stores, grocery, and big box, have increased productivity and efficiencies by investing in their workforce, providing stable hours, competitive wages, and job training.⁶¹

Gap Inc.

*This Way Ahead program
doubles retention rates*

Cascade Engineering

*Reduced turnover from
62 percent to 2 percent*

Cascade Engineering, a \$400 million Michigan-based manufacturer of plastic systems, developed a Welfare to Career (W2C) program that not only advances racial equity, but also addresses the projected skills gap in advanced manufacturing.^{62,63} The company recognized that former welfare recipients often lacked access to reliable transportation, stable housing, child care, short-term credit, and other support systems essential for successful job performance that most employers routinely assume to be in place. Rather

“One of the most unique things about this program is that current Gap Inc. employees volunteer with our non-profit partners and lead training workshops before the young people begin the interview process for their paid internships. Not only does this provide leadership and professional development opportunities for Gap Inc. employees to grow as managers, it also gives This Way Ahead participants a chance to build relationships with Gap Inc. employees before the high-stakes experience of an interview.”

– Abby Davisson, Director, Global Community Partnerships, Gap Inc.

than leave it up to the employees to overcome these challenges on their own, Cascade established a nonprofit called SOURCE—which includes over a dozen other local companies as members today—to offer case management and wrap-around support services to employees in need. Cascade also broadened the set of acceptable reasons for missing work to include things like caring for a sick child or parent. And when the company realized that many of its employees live from paycheck to paycheck, sometimes resorting to payday lenders in between, the company changed from biweekly to weekly payrolls. Cascade also trained its managers to understand issues of implicit bias and intergenerational poverty, which contribute to many of the barriers faced by employees on welfare. As a result of these efforts, Cascade was able to decrease turnover from 62 percent to 2 percent over a period of nine years. The turnover costs also decreased from \$3.6 million in 2000 to \$493,000 in 2008.⁶⁴ Employees in the program, almost half of whom are people of color, have become financially self-sufficient, thereby saving the state of Michigan almost \$1 million in cash assistance, food stamps, and child care vouchers.⁶⁵ Given projections that over the next decade an estimated 2 million of the 3.5 million manufacturing jobs available in this country will go unfilled, programs such as Cascade’s W2C initiative could offer solutions that help address the industry’s needs, reduce government spending, and advance racial equity in career opportunities.

Healthcare costs are another major expense for most large employers, and a portion of these costs are attributable to health inequities between White populations and people of color. When **American Express** analyzed health data for its 50,000 employees, it found that medical and pharmaceutical expenses were nearly twice as high for employees with diabetes, many of whom were people of color. In 2010, the company launched the Healthy Living Program to reach and engage employees at risk of diabetes. Working with internal groups such as the Black Employee Network and the Hispanic Origin and Latin American Network, the company hosted educational panels on diabetes and cardiovascular disease and events on healthy eating and conducted health screenings.

American Express

Improved health (and productivity) of employees

The program successfully reduced blood pressure, body-mass index, and stress levels amongst at-risk employee groups, reducing healthcare costs and increasing productivity. It is estimated that, on average, every dollar spent on company wellness programs like these returns six dollars in lower medical costs and reduced absenteeism.⁶⁶ The key to efforts like Amex's Healthy Living Program is to be highly targeted in understanding differences by race and to deliver tailored and culturally appropriate solutions.

Savings from reducing racial inequities in health outcomes for those in the healthcare business can be even more dramatic. It is estimated that the economy loses an estimated \$309 billion per year from the direct and indirect costs of health disparities due to racial discrimination in the healthcare system,⁶⁷ which in turn leads to distrust and lack of engagement by people of color.⁶⁸

Kaiser Permanente

*Decreased operating costs
by reducing health disparity*

Kaiser Permanente—one of the nation's largest integrated healthcare delivery systems—has explicitly committed to eliminating disparities in health and healthcare with the expectation of better health outcomes for its customers and major cost savings for the company. The company disaggregates data by race and ethnicity to identify and reduce disparities. For example, data showed that over 65 percent of patients with hypertension in Kaiser's Gardena, California offices were Black, and that there were significant differences in hypertension control rates between White and Black patients. In response, the company adopted a suite of culturally responsive care strategies, including physician-led educational programs, a redesign of the care delivery system, and tailored communication tools. Not only did the hypertension rates for both Blacks and Whites improve, but the disparity in hypertension control rates for Blacks versus Whites dropped from 6.3 percent to 2.8 percent and the operating costs for chronic disease care management also declined.⁶⁹

In order to ensure quality care for diverse members, Kaiser has also made significant investments in a formal structure to deeply integrate cultural competency in its service delivery. Kaiser created the Institute for Culturally Competent Care (ICCC), which integrates cultural competence into their care delivery system by codifying learnings from their Centers of Excellence in Culturally Competent Care, which are regional centers that integrate cultural competence into the local healthcare delivery system. The centers focus on two or three health issues that significantly affect the local population and develop culturally relevant care management programs to positively affect health outcomes. Patients with congestive heart failure who participated in the ICCC program had lower rates of hospitalization, better health outcomes, and lowered Kaiser's operating costs.⁷⁰

Cigna, an insurance provider with \$29 billion in revenues, realized that more than 1,000 of its corporate clients had a workforce that was more than 50 percent people of color, and that these employees had serious differences in their health conditions and costs. For example, in Tennessee, Black women had a significantly lower screening rate and higher mortality rate from breast cancer than White women. Targeted and personalized messages, together with GIS mapping that identified areas without enough screening facilities, led to a significant reduction in the disparities.

If the current racial inequities continue, it will further accelerate cost increases for most major companies due to unfilled jobs, higher costs in hiring, greater turnover, lower productivity, or higher healthcare costs of employees or customers. Companies need to examine the racial inequities within their own value chain—faced by employees, suppliers or customers—and then take steps to restructure their own policies and processes to advance racial equity.

Cigna

*Improved clients' workforce
by focusing on disparities*

STRENGTHENING THE BUSINESS CONTEXT

The success of every company is affected by the competitive context in which it operates, which includes having educated and skilled workers, a reliable supplier base, strong and sustained demand from consumers, and supportive policies and regulations. Each of these dimensions is strongly affected by racial inequity.

Consider, for example, the policy environment for retirement savings plans. Nearly two-thirds of households of color do not have any retirement savings in a 401(k) or RA account, which is double the rate for Whites. This is due, in part, to the lack of workplace payroll savings plans for small businesses and hourly workers, which disproportionately affect people of color. **Prudential**, which is in the business of managing retirement plan investments, is using its lobbying arm to work with a coalition of organizations in more than 30 states to pass legislation that requires companies to enroll eligible workers in retirement plans and authorizes the creation of multi-employer plans to ease the administrative burden for small businesses. Studies show that employees are 16 times more likely to save for retirement if they have access to a workplace retirement savings plan, suggesting that such a policy change would have a dramatic impact on racial equity as well as provide a major growth opportunity for the entire industry.

Other companies are using philanthropy to promote racial equity in ways that strengthen their competitive context. The cybersecurity industry, like the rest of the technology industry, suffers from a critical shortage of skilled human capital with more than 300,000 positions unfilled. Blacks and Latinos comprise only 3 percent and 4 percent respectively of cybersecurity employees; this shows that career opportunities

Prudential

Lobbying for increased retirement plan access

“We look at all our core corporate functions—human resources, marketing, communication, and so on—as levers we can pull to advance racial equity.”

– Lata Reddy, Head, CSR, Prudential and Chair, Prudential Foundation at the 2017 Shared Value Leadership Summit

in one of the country's fastest growing and most lucrative fields are largely closed to people of color. **Symantec**, a leading cybersecurity company, used its corporate foundation to launch the Symantec Cyber Career Connection, a program that trains and places low-income youth with barriers to employment, many of whom are people of color, in cybersecurity careers through Symantec's network of customers and partners. Symantec hopes to scale this program nationally in collaboration with the rest of the industry and create a more diverse workforce for the entire cybersecurity industry.

Countless policies, practices and circumstances related to education, housing, public transit, and the criminal justice system directly or indirectly affect people of color (who are ultimately stakeholders of businesses) negatively. These are just two examples of the many opportunities that companies have to use their full range of capabilities—including lobbying and philanthropy—to address racial equity in ways that strengthen their competitive context. Companies can play a leadership role in advancing racial equity across these issues and improve their competitive context to gain profitable new markets, more efficient suppliers, and more productive employees. They must also be mindful of unintended consequences of their existing lobbying efforts that can discourage government from advancing racial equity or reinforce existing barriers.

Symantec

Trains low-income youth of color in cybersecurity careers

HOW TO BEGIN

The America of tomorrow will look fundamentally different from today's. The economic success of our nation, and our businesses, will depend on the choices we make about whether the people who are our future are able to contribute to and participate fully in our economy. Without oversimplifying this complex transformation of corporate America, three initial steps can help business leaders begin to grasp the opportunity that comes from putting racial equity at the center of business innovation and growth.

First, business leaders must develop a much deeper and more accurate understanding of why racial inequities exist.

People of color have been excluded from our economy through a long history of both intentional and unintentional bias. Structural racism—the deeply entrenched institutionalized biases and barriers that are often invisible to the majority White population—is so well concealed in the history, laws, institutions, practices, and policies that surround us every day that most corporate leaders have come to accept it as the inevitable norm. As a result, our society is filled with many false cultural narratives and assumptions about why people of color are excluded from our economy, such as, low-income consumers of color lack significant buying power.

It is true that conventional hiring and employment practices are poorly suited to the challenges that face vulnerable people of color, and that products sold on credit in suburban stores do not reach inner-city consumers, but extensive research—as well as the examples presented here—demonstrate that people of color become valuable employees and attractive customers when business practices are adjusted to address their needs, preferences, and the very real barriers they face.

Second, corporate leaders must translate understanding into action.

It is not easy for those who have never been harmed by the false narratives that conceal structural racism to recognize how it has distorted business models and markets. Business executives therefore must take a fresh look at every aspect of their business

operations—including product design and distribution, marketing and advertising practices, and hiring and personnel policies—through the lens of an experience of a person of color. For example, CEO Jeffrey Brown understood that the experience of low-income people of color in traditional grocery stores left them feeling unwelcome due to an overemphasis on policing and security. As a result, the success of ShopRite stores in these communities stemmed from a quality customer experience that was based on dignity. Similarly, Cascade’s wrap-around support system was born out of a deep understanding of the needs of vulnerable people of color transitioning into employment. American Express disaggregated its employee data by race to identify new opportunities that improve employee health and reduce costs. In the same way, all companies that have segmented their customers and analyzed their employees on numerous dimensions must explicitly disaggregate their data by race to understand the opportunities inherent in advancing racial equity. More people of color are needed in senior leadership positions to bring such perspectives into the highest levels of corporate strategy.

Business executives therefore must take a fresh look at every aspect of their business operations—including product design and distribution, marketing and advertising practices, and hiring and personnel policies—through the eyes and experience of a person of color.

Third, the CEO needs to champion racial equity—as a core business strategy—in order to inspire their staff and bring the vision to life.

Companies have become lightning rods for social issues, and they can no longer sidestep controversy by keeping quiet. Today’s CEOs have taken bold public stands and actions on issues of climate change and LGBTQIA rights. More recently, CEOs are also speaking out about the injustices of racism. Facebook and Microsoft CEOs, among others, spoke against the President’s announcement to rescind DACA. Speaking up requires moral courage. And although there isn’t hard data to prove this yet, speaking up has the potential to influence policies that shape the racial culture of the nation, which could ultimately enable society, and by extension business, to have access to talents and contributions of people of color who may otherwise be economically excluded.

While this is important, speaking out—both inside the company and in public—is not sufficient. C-suite executives must set bold, specific business goals that challenge every department and function within their organizations to re-examine conventional assumptions and practices in order to advance racial equity. Investors too must recognize that racial equity, like sustainability, is increasingly a material issue for every business in America, one that will drive future shareholder returns.⁷¹

Many thoughtful and dedicated people in companies, universities, and nonprofit organizations have worked diligently for decades to advance racial equity through employment practices, public policy, and community engagement, with far greater expertise and lived experience that we bring to this work. Our goal is to begin a new conversation that brings together corporate and community leaders to better recognize and understand their essential shared interest in the economic benefits of greater racial equity. Our nation's future depends on it.

METHODOLOGY

The analysis by FSG and PolicyLink is the result of a review of over 133 articles (grey literature and peer-reviewed articles), secondary research of over 65 companies, and interviews with over 50 individuals across 30 organizations including corporations, racial equity as well as experts in advancing equity in career, health, and wealth.

Interviewees:

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Bridge Partners
Co-Founder and Partner

Patricia Mae Doykos

Bristol-Myers Squibb Foundation
Director

Jeffrey Brown

Brown's Super Stores, Inc.
(ShopRite)
President and CEO

Mark D. Smith

California Health Care Foundation
Former CEO and Founding President

Kenyatta Brame

Cascade Engineering
Executive VP

Nancy Castillo

Center for Financial Services
Innovation (CFSI)
Director

Laura Cummings

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Senior Manager

Thea Garon

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Rachel Schneider

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Lisa Hagerman

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Lajuana Bradford
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