Strides forward on rebuilding trust and social and racial equality

MODERATOR:
Jeffrey A. Sonnenfeld, Senior Associate Dean for Leadership Studies & Lester Crown Professor, Yale School of Management

PANELISTS:
• Mellody Hobson, Co-CEO & President, Ariel Investments
• Ginni Rometty, Executive Chairman, IBM
• Darren Walker, President, Ford Foundation
• Doug Peterson, President & CEO, S&P Global
• Mike Hyter, Chief Diversity Officer, Korn Ferry
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Yale School of Management Professor Jeff Sonnenfeld led an open, timely discussion among these prominent business leaders about the state of diversity in Corporate America, why we are currently at a watershed moment in history, and the critical actions that leaders and organizations need to take.

OVERVIEW

Despite the proven benefits of diversity, for far too long corporate leaders have made statements about improving diversity but the results have fallen woefully short. The facts show a glaring lack of Black executives and board members; the results have not been in line with leaders’ words or pledges.

But important signs and actions indicate that we are at a watershed moment; this time is different. Following the events of this summer, society has finally said “enough.” Corporate leaders have realized that social unrest and economic inequality are bad for business. The financial markets, particularly institutional investors, are exerting pressure on companies. Hiring for chief diversity officers has gone through the roof. There is more leadership, a greater push for accountability and disclosure, and concrete initiatives like OneTen that aim to produce real results.

While the current reality is bad and tremendous progress is needed, there is a palpable sense that this moment truly is different and that substantial, meaningful progress will occur.

KEY TAKEAWAYS

The data and leaders’ personal experiences show unacceptable progress on diversity.

Darren Walker reiterated the business case for diversity. He said, “This is not a favor for Black people . . . this is about performance, profit, and EPS.” Yet despite overwhelming evidence showing that diversity is linked to corporate excellence, lack of diversity remains a major issue in Corporate America.

Professor Sonnenfeld shared data showing the lack of diversity in the C-suite and in board rooms.

- Among Fortune 500 companies, only 1% of CEOs are Black.
- Among companies with 100 or more employees, only 3% of CEOs are Black.
- Among boards of major public companies, only 8% of board members are Black.
- Roughly 150 companies on the S&P 500 don’t have any Black directors.
- There is currently only one Black woman who chairs the board of a Fortune 500 company (Mellody Hobson).

“The numbers do not lie,” said Mellody Hobson. “I’m very realistic about the situation that we’re in, which is very bad.” Hobson characterized Corporate America as long having had an attitude of “we’re working on it,” without showing results.

Mr. Walker asserted, “If we are to make progress, we have to name the challenge. And the challenge is that we have been unable to move from performative acts to real, sustained commitment to change because incumbency, and the privilege of incumbency, is a durable phenomenon.” Mr. Walker is most frustrated with the performative acts of leaders and CEOs—most of whom are white males. During the past year, as companies sought to respond to rising social and racial concerns, Mr. Walker heard from companies—led by white male CEOs, with no African Americans on the board or the operating committee—asking, “What do we do?” These companies, with lack of diversity, don’t have the capability or the understanding of social context they need to respond.
Comparing lack of racial diversity to her previous experiences combating lack of gender diversity, Ginni Rometty believes the only possible explanation is bias. When there are very low numbers of executives from one gender or one race—in an environment where some companies have been able to achieve far better numbers—the only explanation is unconscious or overt bias.

There is a strong sense of optimism that this moment is truly different and transformational.

After working for many years to improve diversity, Ms. Rometty saw the killing of George Floyd and other incidents this past summer as an inflection point. She said, “I hope this is a watershed moment and that progress proceeds from it.”

Ms. Hobson is optimistic because she sees unique pressures on Corporate America which have never existed before. She shared her view that the United States has entered a period of Civil Rights 3.0:

- 1.0 was the Emancipation Proclamation.
- 2.0 was the 1960s with the Civil Rights and Voting Rights Acts.
- 3.0 began in the summer of 2020.

![Image](image1.png) "Corporate America has learned very quickly that social unrest and economic inequality are bad for business." — Mellody Hobson

While 1.0 and 2.0 were about the government and policy, Civil Rights 3.0, per Hobson, has “landed on the feet of Corporate America.” Corporate America is acting in their own business interests based on the groundswell throughout society as people are saying “enough.”

Search professionals are also seeing different actions. Mike Hyter said, “Since June the level of money and pledges and the number of chief diversity officers that have been identified, placed, and promoted have been through the roof.” There has also been billions of dollars pledged by companies to various racial equity causes. What matters now is holding companies accountable to make sure their good intentions are matched by their actual accomplishments.

The financial markets are also starting to realize how important to society equity and diversity and inclusion are. Doug Peterson sees institutional investors starting to ask questions they never asked before. They want to know where their investments are going and want to know about the assets they own. With increased focus on ESG (environmental, social, governance) measures, the “S” (social) is getting increasing scrutiny.

There is also an evolution in corporate governance that is different. NASDAQ has recently issued guidelines calling on companies to have one woman and one member of an underrepresented minority on every board. The NYSE is taking a different approach but is working with companies to help them create more diverse boards.

These changes in corporate behavior, in hiring of chief diversity officers, in the financial markets, and in corporate governance were unthinkable even a short time ago.

What is necessary is translating the increased focus on racial equality into specific actions and results.

The panelists shared a series of ideas on what needs to happen to take the collective energy and spirit of this moment to drive sustainable change.

- **Authentic leadership.** In assessing the key elements to drive change, Mr. Walker stated bluntly, “Let’s be really clear, it is leadership.” And more precisely, leadership needs to come from white leaders. In commending the actions and results achieved by Ms. Rometty and Mr. Peterson in their companies, Mr. Walker noted, “This did not happen by happenstance. It happened because they made it happen because they believe in this authentically. You can’t fake this.”
STRIDES FORWARD ON REBUILDING TRUST AND SOCIAL AND RACIAL EQUALITY

Culture. Culture is the attitudes and behaviors of people in the organization, which starts with the tone set at the top. In reflecting on the culture at Starbucks, Ms. Hobson said that company founder Howard Schultz has always talked about the role and responsibility of a corporation as being more than just profits. Schultz has long wanted diversity in the boardroom and has made it part of the company’s DNA. As a result, when experiencing an unfortunate situation in Philadelphia a few years ago, the company could respond effectively based on its culture and its DNA, and due to the presence of Black executives, board members, and lawyers—all of whom had long-standing relationships with the company.

Accountability. Investors are increasingly holding companies accountable for their diversity results and boards need to hold CEOs and executives accountable. The best route to accountability is the clear metrics that are linked to compensation. Ms. Hobson expounded, “You get what you incent. Let’s be super clear. If it is a strategic imperative for the company, the CEO is held accountable and their pay directly reflects the outcome around the imperative. We’re just starting to introduce that concept when it comes to diversity, really holding people accountable financially.”

Hiring. Holding leaders accountable must be reflected in the setting and achievement of specific hiring, promotion, and retention goals. At Korn Ferry, Mr. Hyter is working to operationalize diversity and inclusion expectations throughout the entire talent life cycle, across the entire organization. He is also working with firms to help them meet their hiring needs. While firms may say they can’t find the talent they need, in most instances Mr. Hyter doesn’t buy it.

For hiring for many positions, Ms. Rometty has come to the conclusion that structural barriers have kept many Black employees from entering the talent pipeline. One issue has been that many positions have mandated a college degree, which disadvantages many Black candidates, since 80% do not have a college degree. This has prevented Black workers from gaining positions and ascending into middle management.

Yet college degrees are not truly required for many positions where they have been mandated. A shift that has taken place at IBM when hiring for many positions is a "skills-first" hiring approach. Individuals are hired if they have the necessary skills, not based on whether they have a degree. While Ms. Rometty continues to support this approach, a challenge has been scaling it.

That’s where OneTen comes in. OneTen is an initiative co-chaired by Ms. Rometty and Merck CEO Ken Frazier involving 37 major companies. It is about hiring one million Black employees over the next ten years into middle class jobs, with upward mobility. OneTen multiplies the power of existing programs without replacing them. Ms. Rometty remarked, “As companies, what we do best is give people economic opportunity . . . that’s probably the greatest thing we can do as the greatest equalizer for social justice—to not only earn a good wage but to have an upwardly mobile family.”

Purchasing. A tangible action that companies can take is to have greater diversity in whom they do business with and buy from. Right now, pointed out Ms. Hobson, Fortune 500 companies do about 2% of their spend with Black-owned businesses. They say they want that number to be 10% to 15%, which is a $1 trillion opportunity. Importantly, this spend should be in areas like professional services, financial services, and technology.
Disclosure. It is important for companies to publicly disclose their results on key ESG metrics, including diversity and inclusion metrics. While companies need to work together to get greater consistency of disclosure, even in the absence of standards, companies need to create greater transparency by disclosing.

Philanthropy. Philanthropy remains important and necessary. An example is IBM’s contribution of $100 million to historically Black colleges and universities focused on quantum skills.

However, Ms. Hobson stressed that just writing a check is not enough. She emphasized, “You cannot fix your house from without; you can only fix it from within, and it [philanthropy] doesn’t give you a pass on the issues that are plaguing our society.

“Start disclosing. Don’t wait for [ESG] standards, disclose now. Whatever you can, start getting it out there. Then we can all work together to set standards.”

Doug Peterson