

CLOSING THE DIVERSITY GAP IN SILICON VALLEY

By Erica Carlisle, Matthew Kropp, James Lowry, Michael Sherman, and Sanjay Verma

SILICON VALLEY COMPANIES RECOGNIZE the need to improve their gender and racial diversity. While they embark on a journey to solve this complex problem, they can learn from companies in other industries that have already made diversity a priority.

At Kaiser Permanente, a health care system based in Oakland and number two on the 2015 DiversityInc Top 50 Companies for Diversity list, nearly half of the company's executive team and more than one-third of its physicians are women. Nearly 60 percent of Kaiser Permanente's workforce of 175,000 are, in the words of the company, "people of color." This commitment to diversity and inclusion started at the top. CEO Bernard J. Tyson recognizes the importance of that commitment, as did his predecessor, George C. Halvorson. Kaiser Permanente is committed to providing culturally competent care for all of its patients, who collectively speak more than 160 languages. (See the sidebar "Four Questions with Kaiser Permanente's Chief Diversity Officer".)

Today, no Silicon Valley company is on DiversityInc's Top 50 list. But reinvention is in the DNA of Silicon Valley. It's time for the U.S. center of innovation and wealth creation to be a model of inclusion and diversity, too.

Diversity Is Good for Business

Diversity should be a critical component of a company's culture because it both is the right thing to do and makes business sense. Diverse companies outperform homogeneous ones. One study showed that a 1 percent increase in gender diversity correlates with a 3 percent gain in revenue, while a 1 percent increase in racial diversity correlates with a 9 percent gain in revenue. Diverse companies have better reputations—and by bringing together different points of view, they are also more innovative—than less diverse companies.¹

Diversity opens up new pools of talent for Silicon Valley as well. BCG projects that U.S. demand for computer programmers, for example, will rise 20 percent each year

FOUR QUESTIONS WITH KAISER PERMANENTE'S CHIEF DIVERSITY OFFICER

Diversity and inclusion are central to the mission of Kaiser Permanente. The managed health care organization wants its staff to reflect the diversity of the communities it serves to improve the quality of care for members. In other words, diversity and inclusion are not “nice to have” but essential elements of Kaiser Permanente’s mission.

The Boston Consulting Group recently interviewed Dr. Ronald Copeland, Kaiser Permanente’s chief diversity officer and senior vice president. Excerpts follow.

How would you describe Kaiser Permanente’s overall approach to diversity and inclusion? Are there certain elements that you see as most critical?

There are three core elements. It starts with leadership. Do the leaders have personal commitment to, and values around, diversity and inclusion? Second, there needs to be alignment with the organization’s mission and strategy. What are the core corporate values? Do they speak about equity and community impact? Third, diversity requires a compelling business case. Does diversity support your growth strategy, expand your market share by diversifying your consumer base, or enable movement into global spaces? You need to be able to show a payoff from investments in diversity. At the end of the day, this is about alignment among mission, strategy, leadership, and business and community impact.

Kaiser Permanente has a diverse workforce on the front lines and among its physicians, leadership team, and board. How have you accomplished this?

Once you have those three essentials in place, you can institute the traditional

practices required to support any strategic business objective. Are leaders being held accountable? Are there defined objectives to ensure that diversity is integrated into the main business activity and not sidelined? Are diversity metrics part of performance reviews? Is there a commitment to provide the resources needed to change the culture and bring the workforce’s knowledge, skills, and behaviors up to speed?

If you go inside the companies that get great traction and have successful business outcomes, this is what you are going to find. Diversity is hardwired into the organization.

We recruit from a variety of sources. We don’t use a cookie-cutter approach. Now that our workforce is so diverse, our employees have become our ambassadors to their communities.

What aspects of diversity and inclusion at Kaiser Permanente are you working on currently?

This is an area for continuous improvement. We are working on moving beyond the traditional demographic categories to support diversity of perspectives, life experiences, and thought, because those are what drive innovation. We have to train people how to be inclusive leaders who recognize people for being different and for being creative. We need them to go outside their comfort zones, because people tend to prefer when everyone agrees with the majority.

We have had affinity groups for a long time, but now we are asking them to advise on key marketing and sales issues, on codesigning care so it is appropriate and effective for different communities. When our workforce sees our investment, it builds goodwill and

FOUR QUESTIONS WITH KAISER PERMANENTE'S CHIEF DIVERSITY OFFICER (continued)

helps us grow our membership of patients.

What advice do you have for other organizations starting on the journey of building diversity and inclusion?

Sit down with the leaders and the board. If they don't care, you are rolling a stone uphill. If they do care, then training, talent acquisition, metrics, and everything else can be aligned. When leaders

are focused on diversity and inclusion, there is a positive feedback cycle. People look at the top of the organization to see if you are really serious about diversity and whether they should invest their talent in the topic. Once your employees are on board, your marketplace starts to notice as well. Finally, steal good ideas shamelessly and become part of networks of people who are continuing to share and learn from one another.

through 2020. (See *Code Wars: The All-Industry Competition for Software Talent*, BCG Focus, May 2014.) Silicon Valley companies will be unable to hire enough programmers to fill all available positions unless they more effectively recruit women, blacks, and Latinos.

Diversity does not just happen. Companies must make investments and demonstrate commitment, execution, and accountability to reap the benefits.

It Starts at the Top

Several Silicon Valley leaders have taken action with regard to diversity. Notably, Salesforce CEO Marc Benioff is currently reviewing compensation for all 16,000 employees to ensure pay equality, while Brian M. Krzanich, Intel's CEO, announced a \$300 million diversity initiative. This support is critical.

CEOs and senior leaders need to promote diversity in public, in the boardroom, in their day-to-day interactions with their direct reports, and with employees. They need to set an overall tone of inclusion and respect for racial and gender differences.

Without CEO support, the pressures of everyday business and the forces of inertia will overpower diversity initiatives. It should not be any surprise that, at diverse

companies, CEOs are more involved in diversity efforts—and hold their senior team accountable for diversity results—than at homogeneous companies.²

Of course, once started, diversity cannot stop at the top. Ultimately, middle managers will be responsible for building and maintaining a diverse workforce, which is why companies need to address diversity comprehensively.

Transparency Is Key

Following last year's release of diversity data, Silicon Valley companies have acknowledged that they need to do better. Women constitute 31 percent of the global workforces of 20 top West Coast tech companies, for example, and 23 percent are in technical jobs. But women make up 30 percent of the computer science, math, and statistics degree holders nationally. Within those companies' U.S. workforces, blacks hold 4 percent, and Latinos 5 percent, of the technical jobs, compared with 9 percent and 7 percent of computer science, math, and statistics degree holders nationally, respectively.³ (Blacks and Latinos each make up about 14 percent of the U.S. population.)

Executives will need to look beyond these topline numbers and conduct quantitative and qualitative analyses of their workforce

through surveys, interviews, benchmarks, focus groups, and quick pulse checks. The data should be broken down by business unit, function, and region.

The point of such a diagnosis is not to lay blame but to improve. Such data typically reveals pockets of best practices that can be replicated. The findings also may indicate places to dig further for evidence of unconscious biases in hiring, promotion, and retention practices. This level of transparency and thoroughness demonstrates commitment to employees and recruits—much more so than simply releasing raw, topline diversity statistics.

This root cause analysis allows companies to turn the page and start creating a diverse and inclusive workforce in a new way. The results should be on the dashboards of senior executives and business leaders and refreshed regularly.

Fill the Talent Pool

The existing pool of women, blacks, and Latinos with degrees in science, technology, engineering, and math is too small. Even so, Silicon Valley can do a better job of hiring those who are graduating with technical degrees. This is a business opportunity—a chance to draw from untapped pools of talent.

College Recruitment. Silicon Valley companies can improve the way they market themselves to women, blacks, and Latinos. Few companies, for example, reach out to historically black colleges and universities (HBCUs), women’s colleges, or schools such as Clemson University, which graduates the highest number of black computer scientists in the U.S. They should also double down on schools such as the California Institute of Technology, Carnegie Mellon University, and Harvey Mudd College, which award large numbers of technical degrees to women.

Apple’s pledge of more than \$40 million to the Thurgood Marshall College Fund for diversity programs is a positive step. So is Silicon Valley’s support of HBCU I.C.E.,

which sponsors career development workshops at Google and Facebook.

Silicon Valley, however, can do more. For example, through its Project View initiatives, IBM invites female and minority job applicants—more than 2,000 so far—to spend two days at the company. Almost half the participants eventually receive an employment offer.⁴

Hiring Practices. Job referrals, which are a key source of leads in Silicon Valley, tend to mirror the current employee pool rather than expand it. Similarly, interviews that focus on achieving a good fit with the company can damage the chances of women, blacks, and Latinos. The unconscious biases of the interviewers can cause them to unintentionally hire candidates who are like themselves.

These challenges can be overcome through mechanisms such as training, more inclusive recruiting pools, and blind resume screening: half of all Google employees, for example, have participated in workshops on unconscious bias, and some orchestras have achieved greater diversity by using blind auditions.

Leveraging professional associations of women, blacks, and Latinos also makes sense. IBM, for example, partners with the Society of Women Engineers, the National Society of Black Engineers, and NACME.

Diversity Makes Common Sense

Shifting demographics demand that all U.S. companies, not just those in Silicon Valley, value diversity. By about 2020, more than half of U.S. children will be members of a minority race or ethnic group. By 2044 or so, non-Hispanic whites will be in the minority.

Silicon Valley companies need to be prepared for this new world. Technology companies have a hard time holding on to the women, blacks, and Latinos they do hire. These groups report lower job satisfaction, fewer development opportunities, and higher attrition rates than men and Asian Americans.⁵

Fortunately, the workplace issues that drive employee dissatisfaction and attrition can be fixed. But companies cannot fix what they do not fully understand. This is why metrics are so important. These numbers may expose unconscious bias in decisions about promotions, development opportunities, and evaluations. Women, blacks, and Latinos, for example, generally report that they are less likely to be invited into high-potential programs or to receive the same training and development opportunities as men and whites. The numbers also may reveal a corporate culture that creates an uncomfortable work environment for women, blacks, and Latinos. In that case, company-wide training on inclusion, respect for differences, and conflict resolution may make sense.

Embrace a New Venture

Any comprehensive solution to the lack of diversity in Silicon Valley must address venture capital. Venture capital firms provide the money, mentorship, and connections that have ignited and lubricated the region's phenomenal growth. The start-ups they fund are a key source of talent for large tech companies via acquisitions, reinforcing the racial and gender profile of Silicon Valley's C-suite. There can be no solution to diversity within the Valley without the support of the venture community.

From 2001 to 2013, start-ups headed by a woman received only 3 percent of venture funding, even though it has been shown that a female presence in the executive suite increases a start-up's chance of success. Blacks make up less than 1 percent of the leadership teams of Silicon Valley start-ups. In the first half of 2010, the last period with available data, ventures headed by blacks did not receive any funding in California. The research does not reveal whether the applicants' pitches were rejected—or whether they never even got in the door.⁶

Venture investment has always been part science, part art. Investors rely on their skills in pattern recognition—also known as gut instinct—when deciding with whom to place bets. But they will need to “think

different,” in the words of Apple's famous advertising campaign, if they want to help improve diversity and inclusion in Silicon Valley.

Diversity should start at home. Venture firms with female partners are two to three times more likely to fund businesses run by women.⁷ Unfortunately, the share of venture capital partners who are women has declined from 10 percent to 6 percent over the past 15 years. Intel is trying to correct this imbalance by starting a \$125 million fund to invest in start-ups with diverse founders or executive teams.

Ultimately, investing in start-ups headed by women, blacks, or Latinos is pragmatic. Farsighted venture firms can fund profitable opportunities that their competitors unconsciously overlook.

SILICON VALLEY HAS been a wellspring of economic vitality and creativity for 50 years. If they put their minds to it, business leaders can engineer a more diverse and inclusive future and unleash an S-curve of growth that is also in the DNA of Silicon Valley.

NOTES

1. For a summary of this research, see *Diversity: Bringing the Business Case to Life*, The B Team, January 2015.
2. See *The Impact of Senior Leadership Commitment on Diversity and Inclusion*, Industrial Relations Counselors, August 2008.
3. These results were generated by comparing U.S. Census Bureau data with public diversity data from technology companies and the Anita Borg Institute.
4. *Solutions to Recruit Technical Women*, Anita Borg Institute, 2012.
5. The data comes from *The Tilted Playing Field: Hidden Bias in Information Technology Workplaces*, Level Playing Field Institute, September 2011.
6. The data comes from Bloomberg Business; CB Insights; the Diana Project, Babson College; the U.S. Small Business Administration; Dow Jones's VentureSource; and *Women at the Wheel: Do Female Executives Drive Start-Up Success?*, Dow Jones and Company, September 2012.
7. See “Does Social Proximity Enhance Business Partnerships? Theory and Evidence from Ethnicity's Role in U.S. Venture Capital,” *Management Science*, October 2014; and *Women Entrepreneurs 2014: Bridging the Gender Gap in Venture Capital*, the Diana Project, September 2014.

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