BREAKING THE MOLD

Investing in Racial Diversity in Tech

A Report for Investors
February 2017

www.openmic.org
For centuries, artists have used plaster molds to replicate sculptures. More recently, manufacturers have used rubber or plastic to create molds for countless products. A mold enables the creation of multiple replicas — a pattern is repeated, sometimes endlessly.

Breaking the Mold — the title of this paper — is an action that’s usually not taken lightly. Yet that is the proposition before the U.S. tech industry as it contemplates its workforce in the 21st century.

Across the nation, around the world, advances in technology are the drivers of innovation, opportunities and prosperity. Tech companies spur productivity, make difficult tasks easier and improve lives. They create wealth and provide fulfillment not just for those with the bright ideas, but also for the well-paid workforces that turn the entrepreneurs’ vision and prototypes into products.

Yet in a country with a population growing more diverse each day, the U.S. tech community is monochromatic, a bastion of white, male privilege. People of color largely remain shut out of the tech industry.

It cannot go on this way.
The lack of racial diversity in the tech sector is a critical problem demanding investor attention.

Technology is too important and too embedded in our lives — from classrooms and cars to homes and hospitals — to leave so many behind when it comes to doing the stimulating work that makes all things digital possible. Our future will be evermore technology-driven. Research firm Gartner Inc. estimates that the number of new devices connected to the internet will more than triple to nearly 21 billion by 2020.²

A report prepared for the 2016 World Economic Forum calls this technological ascendance “the Fourth Industrial Revolution.” Tech breakthroughs “are unleashing new economic and social dynamics that will need to be managed if the digital transformation of industries and societies are to deliver long-term and broad-based gains,” it said. “A resilient digital economy also calls for new types of leadership, governance, and behaviors.”³

The gatekeepers to power in the U.S. tech industry are almost exclusively white. The people who work for them are also disproportionately white. According to a 2016 report by Intel and Dalberg Global Development Advisors, almost two-thirds of tech workers are white.⁴

We already know that a racially diverse tech sector could translate into stronger financial performance for tech companies.

Intel and Dalberg found the tech sector “could generate an additional $300-$370Bn each year if the racial/ethnic diversity of tech companies’ workforces reflected that of the talent pool.”⁵ McKinsey & Company has reported that companies in the top quartile in terms of racial diversity are 35 percent more likely to have financial returns higher than the national median in their industry.⁶ This research complements multiple studies which conclude that gender diversity clearly improves corporate financial performance.⁷,⁸,⁹
THE FACTS:

+ Black people, Latinos and Native Americans are underrepresented in tech by 16-to-18 percentage points compared with their presence in the U.S. labor force overall.\(^\text{10}\) Black people and Latinos each comprise just 5.3 percent of the Professionals\(^\text{11}\) category in U.S. tech industry labor data.\(^\text{12}\)

+ While Asians are represented at a higher rate in the tech workforce than the private sector overall, white people are 1½ times more likely than Asians to rise to an executive rank.\(^\text{13}\)

+ Among people of color who do enter the industry, many report isolation, discrimination and toxic work environments that prompt them to take their talent else-where. People of color leave tech at more than 3.5 times the rate of white men.\(^\text{14}\)
Yet tech companies’ efforts to address the lack of racial diversity have not resulted in real change.

A growing number of U.S. tech companies have begun releasing annual updates on diversity. These releases typically are accompanied by statements promising change and describing new diversity-related efforts — to the tune of an estimated industry investment in diversity of up to $1.2 billion in the past five years, according to Intel/Dalberg. Often, investment comes in the form of money and resources poured into diversifying tech talent pipeline programs at nonprofits and universities. Many companies also have implemented staff training in unconscious bias, as well as employee affinity groups based on race, ethnicity, gender, sexuality, or physical ability — while these are all worthwhile activities, additional efforts are needed to see real change.

Because despite these efforts, racial and ethnic minorities have made scant progress over the past 15 years, securing only 1 to 2 percentage points more of the available jobs.

At the top, doors are shut to most people of color. Only 2 percent of tech executives are black and 3 percent are Latino.

Diversity is not simply about filling seats at the table. It’s also about the decisions that get made at the table. A racially diverse tech industry helps ensure that the products and services the industry produces meet the diverse needs of the millions of Americans who depend on them. It also helps companies avoid perpetuating racial bias and discrimination, which pose legal, financial and reputational risks for them.

Racial diversity is about distributing power and resources equitably, within the industry — and beyond.

If the tech industry changed its hiring and promotion practices, the entire economy could benefit. Such a shift would “serve as a catalyst for achieving racial equity” across every industry, argues CODE2040, a nonprofit that builds pathways to tech careers for black people and Latinos. In the context of a growing affluence gap in the U.S. — in three decades, the average wealth of white families has grown by 84 percent, 1.2 times the rate for Latino families and three times the rate for black families — increasing opportunities for people of color in one of the fastest-growing and highest-paying sectors is a critical step toward redistributing economic opportunity across the economy.
While there is no “quick fix,” there are opportunities for bolder interventions. Among the major recommendations discussed in this report:

+ Collecting and publicly disclosing more detailed industry data on demographics (including aggregated gender and race statistics);
+ Developing and publicly disclosing time-bound goals, with built-in accountability mechanisms;
+ Linking employee compensation and incentives to the achievement of goals, especially for senior leadership staff; and
+ Engaging white executives to make change.

There is substantial evidence that diversity leads to stronger economic gains for companies, no matter the industry. Given the digital world’s burgeoning social and economic influence, the current lack of racial diversity in the tech industry poses serious risks for investors, the tech sector and society at large. Breaking the Mold aims to give shareholders the facts they need to convince tech companies to take new approaches on racial diversity.

In addition to underlining the already well-founded business case for racial diversity, this report will review the systemic problem of racial bias in tech; the failure of existing efforts to effectively address the problem; and the powerful role of investors in holding tech companies accountable for real change.

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A NOTE ON TERMINOLOGY

What is the tech industry? What defines a tech company? Which jobs are tech jobs?

This report focuses on increasing racial diversity in both technical and non-technical jobs primarily at publicly traded information technology companies — in other words, companies involved in IT; internet software and services; communications equipment; data processing; technology distribution; and related services.

However, many high-tech companies — and many high-tech jobs — fall under a broader definition. Companies in the telecommunications, health care and utilities industries, for example, also rely greatly on technology and technical jobs.

The 2016 Diversity in High Tech report by the U.S. Equal Employment Opportunity Commission (EEOC), which is cited throughout this report, defines the high-tech sector as comprising “industries that employ a high concentration of employees in science, technology, engineering and mathematics (STEM) occupations and the production of goods and services advancing the use of electronic and computer-based production methods.” The EEOC definition considers an industry high-tech if “technology-oriented workers” account for at least one-quarter of the total jobs within the industry. The EEOC findings are based on 2014 EEO-1 reports filed by private U.S. companies within these high-tech industries.

Intel and Dalberg Global Development Advisors, whose research on the economic value of racial and gender diversity in tech is also cited throughout this report, conducted an analysis of almost 170 U.S. based tech companies and applied the results to the nearly 500 domestic-tech companies listed on the NASDAQ to estimate industry-wide economic effects of diversity on revenues, market value and operating margin. The NASDAQ Composite index includes shares of firms specializing in computer services, internet services, software and hardware manufacturing and distribution, office equipment manufacturers and distributors, semiconductors and telecommunications equipment.
RACIAL BIAS:
A SYSTEMIC PROBLEM

Racial diversity requires an explicit focus from investors and companies.

Many tech companies have begun to disclose the breakdown of their employees by gender and race. As a result, we have more than enough evidence showing that the industry is vastly and disproportionately composed of white men. Gender bias and racial bias are fundamental issues for these companies to address.

“WHILE 78 PERCENT OF COMPANIES REPORT GENDER DIVERSITY IS A TOP PRIORITY, ONLY 55 PERCENT REPORT THAT RACIAL DIVERSITY IS.”
— Women in the Workplace 2016, a report by LeanIn.Org and McKinsey & Company
The issue of inadequate racial diversity, however, often takes a back seat to discussion of inadequate gender diversity.

This report specifically focuses on increasing the representation of people of color in tech for three reasons:

- Racial diversity significantly strengthens economic outcomes for tech companies and tech investors.
- Racial diversity in the fastest-growing industry is critical to expanding economic opportunities for communities of color. Less social inequality leads to a stronger economy for all.\(^2\)
- People of color in leadership and decision making roles at all levels can help ensure that the products and services built by the tech industry: 1) meet the needs of a diverse consumer base; and 2) do not perpetuate existing forms of racial bias and discrimination, which pose legal, financial and reputational risks for companies.

A LeanIn.org/McKinsey & Company report on working women noted, “While 78 percent of companies report gender diversity is a top priority, only 55 percent report that racial diversity is.”\(^2\)

Does it have to be this way?

In a word, no.

Because racial bias is a systemic problem, it works against people of color every step of the way, from the talent pipeline to the board of directors.

Although some improvement has been made to representation in the tech pipeline\(^2\) — thanks in part to effort and expense that tech companies have devoted to opening the spigot — this improvement is not yet reflected in companies’ workforces.

In its 2016 EEOC filing, for example, Facebook reported 4 percent of its staff is Latino and 2 percent black, unchanged from a year earlier.\(^6\) Google’s workforce is 3 percent Latino and 2 percent black, also unchanged despite an increase in the percentage of the company’s new hires of color.\(^7\) Although Asians are overrepresented in tech compared with their proportion in the private sector overall — as are white people — research shows Asians remain affected by harmful workplace cultures, inaccurate stereotypes and exclusion from leadership opportunities. An Ascend Foundation study found that Asians are “severely under-represented at the executive levels.”\(^2\)
“DIVERSITY OF GENDER AND RACE IS NOT A SERIOUS FOCUS IN SILICON VALLEY. ... IF SILICON VALLEY WANTED TO SOLVE THIS ISSUE, IT WOULD BE SOLVED.”

— Shellye Archambeau, CEO, MetricStream
**Racial Diversity of U.S. Workforce at Major U.S. Tech Companies**

Source: Based on corporate filings with the U.S. EEOC and most-recent available company diversity disclosures at the time of publication (see links). Percentages are rounded.

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*Companies determine how they disclose their data. The categories above reflect commonly reported racial categories: white, black, Asian and Latino. “Other” indicates additional categories reported on by companies, including but not limited to: Native American, Native Hawaiian/Pacific Islander, Alaska Native or multiracial. Most companies do not aggregate gender and race data.

** A note on the relatively high percentage of employees of color at Amazon: According to a report on Amazon by the Institute for Local Self Reliance, “Amazon [warehouse worker] wages were an average of 15 percent below the wages for comparable positions…. These low wages disproportionately affect African-American and Latino workers, who comprise 45 percent of Amazon’s warehouse workforce, but only 8 percent of the company’s management.”

*** Apple’s retail employee base is included in its overall numbers. In 2014, Apple had about 66,000 employees in the U.S., including 30,000 U.S. retail employees. According to the company’s latest disclosure, the retail staff is more racially diverse than the staff overall. Meanwhile, the tech staff is less racially diverse than the staff overall.

**** Oracle does not publicly break out percentages of white, black or African-American, Asian, Hispanic or Latino staff employed by the company. Oracle’s disclosure states that employees include 37% minority staff and 29% women staff.
Under pressure from diversity advocates, watchdogs and investors, many tech companies have taken the critical first step of publicly disclosing the racial makeup of their staff and leadership. Beyond increasing transparency, they are striving to change company cultures, implement anti-bias training and require racially diverse candidate pools. These are important steps toward change.

More than a dozen big, publicly held tech companies now disclose annually the employee diversity data that the U.S. Equal Employment Opportunity Commission (EEOC) requires. These “EEO-1 reports” include information about the gender and race of staff, broken down by job categories delineated by the government. Notably among these well-known companies, IBM has not disclosed its EEO-1.

The table below is based on an EEOC analysis of 2014 employee demographic data from major U.S. tech-sector companies.

Workforce Diversity by Race:
U.S. Tech Sector versus All Private Sector Industries

![Bar chart showing workforce diversity by race for U.S. tech sector versus all private sector industries.]

Source: EEOC, 2014 Nationwide EEO-1 Data
Racial inequity pervades the industry’s policies and norms. People of color are promoted less and paid less.

People of color are largely excluded from leadership positions in tech. White hands remain firmly gripped on the levers of power.

For example, fewer than 1 percent of Silicon Valley executives and managers are black, according to the EEOC.

U.S. Tech Sector Executives by Race

Source: EEOC, 2014 Nationwide EEO-1 Data
Changes in the makeup of senior management lag those in the broader workforce. At Apple, 27 percent of the company’s latest U.S. hires were from underrepresented racial and ethnic groups, yet only 7 percent of the leadership is Latino and 3 percent black. Only 5 out of Apple’s top 107 executives are black, Latino, Native American or Hawaiian/Pacific Islander.

The disparity in access to leadership carries through to unequal pay across non-management positions. The American Institute for Economic Research found that in 2014 people of color were paid less than white people for the same tech jobs.

For people of color, the “right” education and credentials are no guarantee of a job. At the same time companies work to address bias in the talent pipeline, they can address bias in their own ranks.

In response to low levels of racial diversity, companies often point to the need to diversify the talent pipeline. But statistics show the pipeline isn’t the only problem.

Google, for example, has placed engineers at a handful of Historically Black Colleges and Universities (HBCUs) to teach computer science and to coach students on applying and interviewing for tech jobs. In 2015, the company donated $775,000 to CODE2040 for its work to increase representation of black people and Latinos in tech.

Yet, while black people and Latinos now earn nearly 18 percent of computer science bachelor’s degrees, they hold barely 5 percent of tech jobs. Over the past decade, black, Native American and Latino enrollment in science, technology, engineering and math (STEM) graduate programs has increased by 50 to 65 percent. Meanwhile, the EEOC reports that jobs in computer science and engineering are growing at twice the rate of national employment levels.

Tech companies must do better at hiring people of color in technical roles. At the same time, there is no justification for the lack of diversity in non-technical roles. From lawyers and public relations staff to sales and marketing employees, a range of well-paid roles are required to keep a tech company alive and well. Just as companies in the public sector overall have managed to increase diversity across a variety of job functions, there is no reason tech companies can’t do the same. For people of color, the “right” education and credentials are no guarantee of a job. At the same time companies work to address bias in the talent pipeline, they can address bias in their own ranks.
Poor retention is a big part of the problem. Stereotypes and racial bias run deep.

Women and people of color encounter negative workplace experiences far more often than their male and white counterparts.

“A LEVEL PLAYING FIELD INSTITUTE (LPFI) study of tech employees found that “white women are 1½ times more likely than white men to leave the workplace due to the cumulative effect of subtle biases. People of color, regardless of gender, leave at more than 3½ times that rate solely due to unfairness.” A separate LPFI survey found that people of color were least satisfied with their job and skill development opportunities in this sector and most likely to leave the company in the upcoming year.

“Gender and racial bias is so ubiquitous in the technology industry that it forces talented female and minority employees to leave,” says Bonnie Marcus, an executive coach for women.

Retention and job satisfaction are critical issues to address for investors seeking to diversify tech. These factors matter because the steady loss of employees of color imposes significant costs for companies. Sage HRMS, a human resources management company, cites a replacement cost to a company for replacing a midlevel employee of 1½ times the employee’s yearly salary, and four times the annual salary for a high-level or highly specialized employee.

As a result, according to LPFI, U.S. companies shell out $64 billion each year for burdensome turnover.”
Women of color face unique and additional barriers.

All women are underrepresented in the tech workforce, but black, Latina and Native American women lead this deficit.

Venture capitalist Freada Kapor Klein, partner at the Kapor Center for Social Impact, agrees: “The advancement of white women in the private sector has eclipsed that of people of color, regardless of gender. White women have been the largest beneficiaries of workplace affirmative action programs.”

Intel reported that the company reached its 2016 goal of ensuring that 45 percent of its new hires were women or underrepresented minorities. However, only 13 percent of the year’s new hires were racial or ethnic minorities, and overall representation of underrepresented people of color in the company remained at 12.3%, compared with 12.4% from the year before. Similarly, Slack Technologies, a fast-growing business collaboration software startup, disclosed that while representation of women on its staff jumped to 44 percent from 39 percent in half a year, the percentage of black staff actually dropped to 3.4 percent from 4 percent.

According to the National Center for Women & Information Technology, women hold 25 percent of all computing jobs, yet black women hold only 3 percent and Latinas 1 percent of these roles.

As a result of marginalization because of both gender and race, women of color are blocked not only from opportunities in hiring and earning promotions, but also from benefiting from the broader world of tech investing. Digital Undivided, a group working to empower women of color entrepreneurs, has found that although 80 percent of new, woman-led businesses are founded by black women and Latinas, only 0.2 percent of these projects receive venture capital (VC) funding. “[Black-women-owned] businesses generate over $44 billion a year in revenue. Yet in the tech world, investors aren’t taking a risk on startups run by black women,” Davey Alba wrote in Wired. Indeed, Intel and Dalberg report that black people and Latinos make up less than 1 percent of venture-backed tech company leaders.
The lack of racial diversity in the tech industry is a persistent problem, not a new one. Why?

According to Rev. Jesse Jackson of the Rainbow PUSH Coalition, “there’s an unbelievable amount of talent being passed over with the idea that there’s a talent crisis when, actually, there [is] an opportunity crisis.”

One explanation for the disparity between available candidates and their representation in the workforce: implicit or unconscious bias among the mostly white men who call the shots.

A 2016 report by the Silicon Valley Community Foundation on disrupting bias in tech found that “[h]idden or inherent biases mean that organizations may fail to reward workers equally, disfavoring employees who are women or from ethnic groups traditionally underrepresented in the tech sector, including Black people and Latinos.”

According to the Kirwan Institute for the Study of Race and Ethnicity, these deep-seated biases, “are activated involuntarily and without an individual’s awareness or intentional control.”

Research has demonstrated the negative impact of hidden bias in all kinds of professional contexts — especially hiring. Resumes with “typically white” names receive 50 percent more callbacks than resumes with “typically black” names. “Typically white”-named candidates who were only average in qualifications received more callbacks than highly skilled job seekers with “typically black” names.

Importantly, many companies are implementing anti-bias training to help staff identify and address unconscious racial bias in the workplace. In the past, companies working to increase diversity have often relied on “diversity trainings”, which do not necessarily include a focus on systemic bias. However, it is not clear that all diversity training works. One study found that “[p]rograms that target managerial stereotyping through education and feedback (diversity training and diversity evaluations) are not followed by increases in diversity.”

Moving forward, companies should work to assess the effectiveness of any form of training they implement for staff — whether anti-bias training or otherwise.
Hiring and promotion practices often impede potential recruits.

Facebook has begun employing the “Rooney Rule” — the National Football League requirement that at least one candidate from an underrepresented group be considered for every head coaching or senior operations position — to ensure its candidate pools are diverse. Rules alone, however, are no guarantee of change. Only one of 21 first-time NFL head coaches hired since 2012 is a person of color.

Requiring one underrepresented candidate in the hiring pool may not be enough. University of Colorado researchers, writing in the *Harvard Business Review*, found that, “When there was only one woman or minority candidate in a pool of four finalists, their odds of being hired were statistically zero.” For women candidates, there was a 79-fold increase in the odds when there were two female finalists. The odds of hiring an underrepresented candidate of color were 194 times greater when there were at least two underrepresented finalists of color.
Language in tech-sector job listings often reinforces white, male cultural norms.

One young Dartmouth student engineer, Kaya Thomas, lamented: “According to most tech companies, if I can’t pass an algorithmic challenge or if I’m not a ‘culture fit’ I don’t belong. I haven’t even started my first full-time job yet and I’m already so tired of feeling erased and mistreated by the tech industry. … What more must students of color do to make it clear that we are qualified to be in this industry?”

To break the mold of who’s considered a “good fit” for the tech sector, companies are taking steps such as:

+ Ensuring that both the hiring committee and the channels for finding candidates are diverse in terms of race, gender, class, age, location and ability.

+ Opting not to use racially or gender-coded terms like “rock star,” “startup culture,” “work hard, play hard” and “aggressive” in job postings in favor of terms such as “community,” “respect” and “adaptable.”

+ Implementing anonymous hiring tools that allow companies to screen candidates without being presented with personally identifying information such as name, graduation years, photos, etc.

+ Avoiding “whiteboard interviews,” which have been called “behavioral screening[s] in disguise.” Candidates are often asked to recall algorithms from memory and under time pressure, triggering stereotype threat for underrepresented candidates without testing actual job functions.

+ Asking every applicant the same interview questions.
Greater effort is required to retain employees of color once they’ve been hired.

Companies can do more to understand why people of color leave. CODE2040 found that black and Latino tech professionals consider leaving the industry the most when they experience a lack of social networks — with women of color and black men most likely to feel isolated or negatively affected by race in the industry.²

Mentorship is an important part of feeling supported at work, yet mentorship alone is not enough for people of color to be able to contribute to shaping the tech environment.

Employee Resource Groups (ERGs) bring employees together based on affinity around race, gender, physical ability, sexuality, nationality, and other identities. More often than not, these groups are developed for staff to connect and build networks around marginalized identities. However, systemic change requires action and participation from the dominant groups as well as those experiencing marginalization.
One reason investors should care about racial diversity is because it is good business.

Tech’s influence on the U.S. economy may outstrip even its accelerating innovations and profits.
Companies in the top quartile in terms of racial diversity are 35 percent more likely to have financial returns higher than the national median in their industry, and companies in the top quartile for gender diversity are 15 percent more likely to earn more. According to McKinsey, “racial and ethnic diversity has a stronger impact on financial performance in the United States than gender diversity, perhaps because earlier efforts to increase women’s representation in the top levels of business have already yielded positive results.”

“…THE SECTOR COULD GENERATE AN ADDITIONAL $300-$370BN EACH YEAR IF THE RACIAL/ETHNIC DIVERSITY OF TECH COMPANIES’ WORKFORCES REFLECTED THAT OF THE TALENT POOL.”

— Finding from Intel and Dalberg Global Development Advisors

The Intel/Dalberg report finds that if tech companies were racially representative, the industry could create $300 billion to $370 billion per year in additional revenue. Using diversity data from almost 170 companies, the report demonstrates the tremendous economic opportunities delivered by increased diversity in the tech sector, including several key findings for investors (see box below). (For more information on the Intel/Dalberg report methodology, click here.)
Racial diversity is about the distribution of power. Increasing racial diversity in tech does more than increase the representation of people of color. It also distributes power and resources equitably, within the industry — and beyond — for a stronger economy.

In San Francisco, tech workers pull down $145,000 a year on average, including bonuses and stock options, compared with the $75,000 non-tech, private-sector workers there make. But tech firms in the Bay Area hire underrepresented people of color at lower rates than does the rest of the private sector.

Selected findings from Intel and Dalberg’s *Decoding Diversity: The Financial and Economic Returns to Diversity in Tech*

+ “[E]very incremental percentage point in African American and Hispanic representation is linked with a three-percentage-point increase in revenues, meaning that the sector could generate an additional $300 – $370Bn each year if the racial/ethnic diversity of tech companies’ workforces reflected that of the talent pool.”

+ Tech companies in the top 10% of racial/ethnic diversity are roughly two-thirds more likely to produce higher revenues than those in the bottom 10%. Similarly, companies that lack racial/ethnic diversity are about 20% more likely to fall short of median operating margins.

+ “The estimated returns to racial/ethnic diversity could add as much as 15 – 20 percent to an early-stage startup’s valuation, providing these companies with a longer runway to test ideas, innovate, and grow.”

Source: Intel and Dalberg Global Development Advisors
Tech companies are setting the standards and rules for society. Without people of color making decisions that shape these rules, companies risk perpetuating racial bias and discrimination, which harms consumers, damages business reputation and can lower profit.

“WHEN THE LIVED EXPERIENCE OF UNDERREPRESENTED COMMUNITIES IS OMITTED FROM THE PRODUCT DEVELOPMENT CYCLE, THE USEFULNESS OF THE TECHNOLOGY BECOMES BIASED TOWARDS ONE GROUP.”

— Kapor Capital’s Founders Commitment

Craig Federighi, Apple’s senior vice president of Software Engineering, says, “We need as many perspectives as possible so we can build products that are universal.”

Yet tech companies are increasingly enmeshed in issues of racial discrimination or bias. Google has apologized after image recognition software developed for the company’s Photos application identified black people in photographs as gorillas. Airbnb has been sued for racial discrimination. In a recent survey by Jopwell, a recruitment firm focused on diversity, nearly 40 percent of black, Latino and Native American tech engineers said that they had experienced workplace bias.

At the same time, social media platforms such as Twitter, Facebook and Instagram provide a way for marginalized communities to share information and organize to call out racial injustice. But as citizens use tech platforms to capture footage of police killings of black people, for example, the role of determining how, when and whether to censor users’ content remains under the tech companies’ control.

Leslie Miley, a former Engineering Manager at Twitter, said of his time at the social media platform: “[There] were moments that caused me to question how and why a company whose product has been used as an agent of revolutionary social change did not reflect the diversity of thought, conversation, and people in its ranks.”
“MANY VCS DON’T SEEM TO CARE ABOUT THE PROBLEMS THEY CREATE, HOW FOUNDERS PERCEIVE THEM, AND THE LACK OF DIVERSITY IN FUNDING PRACTICES.”

— Ellen Pao, Investment Executive and Co-Founder, Project Include

Kapor Capital, an Oakland, Calif., VC firm, with a commitment to workforce diversity and to leveraging technology to address urgent social needs, offers a trenchant diagnosis of the problem. “Today the tech industry does not look like America, and that has a significant influence on the types of products and services that get created,” its Founders’ Commitment states. “When the lived experience of underrepresented communities is omitted from the product development cycle, the usefulness of the technology becomes biased towards one group.”

Despite all the evidence demonstrating its benefits, many tech investors don’t prioritize company diversity in their funding decisions.

What does investor commitment to racial diversity look like now?

More than half of investors in startups ranked “founder commitment to a diverse team as the least of their concerns when considering [whether] to invest,” according to a 2016 survey by LinkedIn. Forty-three percent of white male investors surveyed believed that the media spends “too much time talking about [diversity],” and 64 percent of white male investors think the tech industry faces “the same challenges as the broader workforce,” despite the fact that the tech industry actually fares worse on diversity than the private sector generally.

“Many VCs don’t seem to care about the problems they create, how founders perceive them, and the lack of diversity in funding practices,” says Ellen Pao, an investment executive and a co-founder of Project Include.

Although three out of four investors say their VC firms are not supporting efforts to improve diversity among founders in their portfolio, investors remain optimistic that within five years, “34% of their portfolio will consist of companies who are founded by racially diverse teams.” Yet, studies show that U.S. VCs are more likely to invest in start-ups led by executives of their same ethnicity.

Among investors in companies whose securities are publicly traded, there is nascent interest in diversity. In 2012, U.S. investors controlling $417 billion of assets said they considered diversity when making investment decisions; by 2014, that number had risen nearly 40 percent — to $578 billion, according to US SIF, a trade association. In contrast, the total market capitalization of all U.S. publicly listed companies is more than $60 trillion.
Moreover, neither companies nor investors have a shared definition of “diversity.”

In 2016, then-U.S. Securities and Exchange Commission Chair Mary Jo White stated in her keynote address at the International Corporate Governance Network conference:

“[In] 2009, the [S.E.C] adopted a rule requiring companies to disclose whether, and if so, how their nominating committees consider diversity and, if they have a policy on diversity, how its effectiveness is assessed. The rule does not define diversity … It left it to companies to say what they mean by diversity in their policies and disclosures. What has been the impact of our rule? Companies’ disclosures on board diversity in reporting under our current requirements have generally been vague and have changed little since the rule was adopted. Very few companies have disclosed a formal diversity policy and, as a result, there is very little disclosure on how companies are assessing the effectiveness of their policies. Companies’ definitions of diversity differ greatly, bringing in life and work experience, living abroad, relevant expertise and sometimes race, gender, ethnicity, and sexual orientation. But these more specific disclosures are rare and, not surprisingly, there are investors who are not satisfied.”

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Some investors are requesting more specific diversity policies and practices at companies.

+ In 2015, Arjuna Capital began asking tech giants to disclose the wages of their employees broken down by gender. A new EEOC requirement for larger companies to disclose employee compensation data, starting with 2017 EEO-1 reports, should shed more light on pay inequities.

+ In 2016, Trillium Asset Management withdrew workforce diversity shareholder proposals at Adobe and Citrix after both companies committed to publishing annual EEO-1 workforce diversity data and to disclosing details about strategies and plans to attract and retain women and underrepresented people of color. Citrix specifically agreed to set diversity and inclusion goals with deadlines by the end of 2016.

+ In May 2016, New York City Comptroller Scott Stringer unveiled new governance principles and proxy voting guidelines for the New York City Pension Fund to focus on board diversity, among other criteria — and include a focus on racial diversity, gender diversity and increased representation among LGBT people.

+ In 2015, Apple shareholder Tony Maldonado submitted a proposal asking the company to adopt an “accelerated recruitment policy” to increase representation of people of color among Apple’s leadership. The proposal garnered widespread media coverage and won 5.1 percent of the shareholder vote. Mr. Maldonado and co-filer Zevin Asset Management have filed a similar proposal for consideration at Apple’s 2017 annual meeting.

+ After Black Enterprise in 2014 published a “list of shame” of tech companies without a single black director, the Nathan Cummings Foundation prodded 13 tech companies to improve the racial diversity of their boards. It also asked them to devise plans to broaden black representation in each company’s “contractor relationships and the workforce more broadly.” By 2016, only three of the targeted companies had appointed a black person to their corporate board.
Strengthening Data Disclosures

For investors, disclosure and transparency by companies are often critical to identifying the changes that must occur there. But such openness is still limited.

One limitation is the overall lack of data aggregated by gender and race. With current disclosures, it is difficult to answer more complex questions such as: How are women of color faring compared with white women, or compared with men of color? Software startup Slack in 2015 found that only 9 percent of U.S. engineering organizations publicly reported the intersection of race and gender in staff diversity reports.

Disclosure is also often limited by the lack of information given to investors about the kinds of jobs held by people of color in the company. For example, the chart on page 10 of this report shows that a relatively high proportion (18 percent) of Amazon employees identify as black or African American. But Amazon’s U.S. employees of color are often found in underpaying warehouse jobs with poor benefits, rather than in tech jobs that pay well and offer good benefits. The Institute for Local Self Reliance found that “Amazon [warehouse workforce] wages were an average of 15 percent below the wages for comparable positions” in other similar warehouse jobs, and that “these low wages disproportionately affect African-American and Latino workers, who comprise 45 percent of Amazon’s warehouse workforce, but only 8 percent of the company’s management.”
While there’s no quick fix to the problem, experts and advocates say companies would benefit from more focused strategies. These four are at the top of the list:

+ **COLLECT AND DISCLOSE MORE DETAILED DATA** on the workforce, filtered by demographics (both gender and race, aggregated) to help display the specific challenges each company faces related to race and equity. As with any other business challenge, tracking a comprehensive set of metrics can help companies understand whether the efforts in place to address the problem are working, and where additional efforts are needed.

+ **DEVELOP AND PUBLICLY DISCLOSE TIME-BOUND GOALS** for racial diversity to ensure that tech companies not only make public commitments — they also produce timely outcomes that reflect those commitments.

+ **LINK EXECUTIVE COMPENSATION AND EMPLOYEE INCENTIVES TO THE ACHIEVEMENT OF GOALS** related to increasing racial diversity, as one way of instilling accountability.

+ **ENGAGE WHITE EMPLOYEES — ESPECIALLY EXECUTIVES — IN MAKING CHANGE** to help ensure that the responsibility to increase racial diversity falls on those who currently hold the most power and influence, rather than on the tech professionals of color who are most directly affected.
Collecting and Disclosing More Detailed Data

Publicly disclosing the EEO-1 form, which gathers information about the race and gender composition of a company’s workforce, is a good place to start. What we measure, we improve. Some additional suggested demographic metrics from Project Include are featured in the box below:

PROJECT INCLUDE’S RECOMMENDATION: MEASURING PROGRESS

Project Include recommends that tech companies collect data, cut by demographics, on:

+ Employees overall, by function, seniority and tenure
+ Employee status (full-time / part-time / contractor)

+ Management and leadership
  - Employees reporting to female managers
  - Employees reporting to managers from under-represented groups

+ Salary
  - Raises and bonuses

+ Equity, all-time and 12 months trailing
  - Employee equity pool, all-time and 12 months trailing, by gender and race
  - Investor equity pool, by gender and race
  - Vesting rates, by gender and race

+ Board of Directors
+ Candidate pools and hiring funnels, by role
+ Voluntary and involuntary attrition rates
+ Promotion rates
+ Complaints (formal and informal)
+ Complaint resolution status*
Tech companies such as Amazon, Apple, Facebook and Microsoft have begun to disclose employee salaries, broken down by gender and sometimes but not always by race. The salary data does not reflect total compensation, including bonuses and stock options. In a keynote address at the 2016 Human Capital Management Summit, Cyrus Mehri, a partner of Mehri & Skalet, a law firm specializing in class actions, urged the SEC to require that companies disclose the top 200 highest-paid executives’ total compensation by race, ethnicity and gender.

**Linking Time-Bound Goals with Accountability Mechanisms**

Kimberly Bryant, founder of Black Girls Code, expands on the notion that goals may look different depending on the context: “If companies build for diversity from the beginning from the ground up, that’s definitely the ideal… But if you’re a more mature company that’s been around for 10 years, 20 years, 30 years, and you’re still having diversity issues, I think a more targeted effort that may involve setting a quota or number for the number of hires you’re going to attract over a period of time is a good solution. I don’t think quotas are necessarily an evil.”

Dozens of companies have signed the Obama White House’s Tech Inclusion Pledge, which holds them to “implement and publish company-specific goals to recruit, retain, and advance diverse technology talent, and operationalize concrete measures to create and sustain an inclusive culture.”

Identifying responsibility for holding leaders to achieving time-bound goals is critical. Many experts suggest that when company leadership — especially a CEO or a committee of the board — takes on the responsibility of achieving diversity goals, the company gets better faster.

Not all company diversity policies are created equal. One study found, “Efforts to moderate managerial bias through diversity training and diversity evaluations are least effective at increasing the share of white women, black women, and black men in management. Efforts to attack social isolation through mentoring and networking show modest effects. Efforts to establish responsibility for diversity lead to the broadest increases in managerial diversity.”

Attorney Mehri has urged shareholders to press for creation of “Human Capital Committees” on company boards to require management to keep and share robust metrics and “regularly undertake a company-wide review of human capital opportunities and vulnerabilities.”
POLICIES AND PRACTICES TO INCREASE RACIAL DIVERSITY: EXAMPLES

+ **Microsoft** announced in 2016 that it will tie executive bonuses to workforce diversity goals, following a 2015 policy change by **Intel**, where executive compensation is tied to achievement of diversity goals and where bonuses are given to employees who refer candidates from underrepresented groups. **IBM** holds monthly diversity councils led by senior leadership and also ties executive compensation to goals set by these councils. **At LinkedIn**, several managers’ salaries and bonuses are linked to the achievement of diversity goals, by as much as 20 percent in one instance.

+ In 2016, **Pandora** publicly disclosed its goal to increase the percentage of U.S. employees of color from 35% to 45% by 2020, and to achieve gender, racial and ethnic promotion parity by the same year. Parity will be informed by the surrounding local communities in which Pandora’s hubs are located. In 2015, **Pinterest**, after publicly setting diversity goals, boosted hiring rates of underrepresented people of color by 8 percentage points for technical roles and 5 percentage points for non-tech roles.
Linking Compensation and Incentives to Results

Calvert Investments has explained why linking compensation to the achievement of diversity goals is worthwhile: “As compensation is the principal performance incentive at any company, its alignment with diversity objectives conveys the importance of inclusion to high-level managers and helps ensure a focus on advancing diverse employees.”

Linking executive compensation to the achievement of responsible investment goals is not a new type of shareholder engagement. Such companies as Verizon, Kraft and Coca-Cola look at the success of diversity initiatives when determining the wages of top managers. Groups like Ceres have advocated for this practice for years as a method of increasing both financial gains and environmental sustainability in business. According to Calvert Investments’ 2013 A Survey of Corporate Diversity Practices of the S&P 100, 42 percent of companies in Standard & Poor’s 100 Index tied executive compensation to diversity goals. A 2014 report on corporate diversity by U.S. Sen. Robert Menendez found that about half of Fortune 100 companies surveyed (55.4%) tied performance on meeting diversity goals to a portion of executive compensation. Among tech companies, the practice is becoming more common.

“THE COMMITMENT TO WHITE MALE LEADERSHIP DEVELOPMENT MUST FOCUS ON ACCOUNTABILITY FOR IMPROVED BEHAVIOR AND RESULTS.”

— The Study on White Men Leading Through Diversity & Inclusion, a report by Greatheart Leader Labs
Engaging White Executives to Change the System

Without real commitment to change from white executives who currently hold disproportionate power in tech companies, diversity and inclusion efforts can fall short.

Ellen Berry, a sociologist who wrote *The Enigma of Diversity: The Language of Race and the Limits of Racial Justice*, cites a study that concluded corporate diversity trainings “are especially counterproductive, despite being the most popular program in the multibillion-dollar diversity management industry. These trainings do not move white women or most people of color into management, and they actually decrease black women’s odds of becoming managers by 7 percent, perhaps because they can breed resentment.”

White Men as Full Diversity Partners (WMFDP), a consulting firm that has worked with companies including Lockheed Martin on becoming more diverse and open, points out that decades of diversity work in the corporate sector have disproportionately burdened marginalized groups — women, people of color, LGBTQ communities — in setting and driving diversity-related work.

Another executive development firm, Greatheart Leader Labs, in a 2013 study suggested that rather than seeking to avoid conflict, companies should assume that conflict is inevitable and often an important step along the way to change. Among other strategies, the report recommends that companies quantify both the financial results (money gained and money saved) of diversity efforts while simultaneously supporting white men as they “define their own self-interest in leading through diversity and inclusion.”

Investors have a unique opportunity to push tech companies to change.

Diversity efforts can be most effective when they move beyond reacting to the lack of diversity and toward creating an alternative multiracial environment that works for all. Crossroads Antiracism Organizing & Training, an organization providing organizing, training and consulting to institutions striving to dismantle racism, developed a *Continuum on Becoming an Anti-Racist Multicultural Organization* that lays the groundwork for evaluating an institution and moving it from being exclusionary and “monocultural” to becoming an “anti-racist, multicultural” one.
The U.S. tech sector creates products and services that increasingly shape our lives, our economy and our democracy. Yet too many companies in the sector — often bold, innovative and profitable firms — find their systems for recruiting and retaining human capital infected by racial bias. The unfortunate reality is that tech companies provide disproportionate access and opportunity to white men at the exclusion of women and people of color, and to the detriment of society and the economy.

The challenge — for an industry that usually welcomes challenges — is to transform the workplace into one that works for everyone. It can be done.

For those leading the way to improve racial diversity, persistence is a critical part of the strategy. Bringing about systemic change requires re-evaluating and disrupting currently accepted policies, practices and behaviors.

Fortunately, some stakeholders have begun to build frameworks that could shape a more open and responsible future. But there’s a lot of work to do.

Open MIC urges you to weigh the data in this report. Listen to the voices. Investors, tech professionals, budding entrepreneurs, consumers — all have a stake in creating a racially diverse tech industry. It’s time to break the mold.
People of color in tech are leading the way by providing a path forward. The organizations listed below are among many groups leveraging the expertise of people of color to shed light on the issue and to make the industry racially diverse. This list is only a sampling, and is not meant to be comprehensive.
+ **20/20 SHIFT** exists to help tech and digital media companies diversify their recruitment process, retain minority talent and provide leadership and skills-based training to the industry’s next leaders.

+ **BLACK FOUNDERS** works to increase the number of successful black entrepreneurs in technology.

+ **BLENDOR** is a blind recruiting application that hides candidates’ name, photo, and dates to mitigate unconscious bias in hiring. Blendoor uses data-driven technology to enable companies to make better hiring decisions based on merit, not molds.

+ **CODE2040** creates access, awareness and opportunities for top black and Latino/Latina engineering talent to ensure their leadership in the innovation economy.

+ **/DEV/COLOR** seeks to create self-sustaining systems that help black software engineers grow their impact.

+ **DIGITAL UNDIVIDED** trains and supports black women and Latina entrepreneurs. Founder Kathryn Finney is also a partner in the Harriet Fund and co-founder of the HARRIET ANGELS SYNDICATE, both of which focus on startup support for black women and Latina entrepreneurs.

+ **GOOD FOR POC** is a survey that can be filled out by people of color working at tech companies. It’s meant to be a measure of how people of color in the tech industry are treated/feel included at the companies they work for. The goal is to provide an anonymous and safe space for people of color to share their experiences at the companies they work for.

+ **LEVEL PLAYING FIELD INSTITUTE (LPFI)** is a project of the KAPOR CENTER FOR SOCIAL IMPACT, which aims to make the technology ecosystem and entrepreneurship more diverse and inclusive.

+ **PROJECT INCLUDE** is an open community working on diversity and inclusion solutions for tech companies. It is led by tech leaders Erica Joy Baker, bethanye McKinney Blount, Tracy Chou, Laura I. Gómez, Y-Vonne Hutchinson, Freada Kapor Klein, Ellen Pao and Susan Wu. The group has developed a list of seven top RECOMMENDATIONS for tech industry leaders seeking real change.

+ **SM Diversity** specializes in helping companies attract talent from under-represented gender, race and ethnically diverse communities to drive innovation, teamwork, and bottom-line results.

+ **THE TECH CONNECTION** is a recruitment platform that supports the professional development of untapped technical talent. It offers individualized career planning and job placement to candidates.

+ **THE TECHSTARS FOUNDATION** is a networking and grant-making organization for organizations seeking to improve diversity in tech entrepreneurship. The foundation, founded in 2015, awards grants up to $50,000.

+ **TECHUP** connects diverse tech talent with companies that believe diversity is an advantage, and that inclusive teams are stronger, smarter and better.
END NOTES

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