Reckoning, Repair, and Change

How Business Leaders Can More Effectively Advance Racial Equity and Competitive Advantage

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Are business leaders prepared to reckon with history?

Business leaders face growing pressure to address societal issues as part of core business practices. The public is increasingly speaking out against perceptions of discrimination and unequal treatment. Employees are organizing from within to push for social change. Evidence is mounting that businesses with diverse workforces benefit from greater innovation, and corporate leaders are increasingly pledging their commitment to diversity and inclusion. Over the past two years, FSG and PolicyLink have released research demonstrating multiple ways companies can create competitive advantage by pursuing racial equity. Earlier this year, we published research providing more specific examples focused on the health care and financial services industries. To maximize success in implementing similar efforts, we recommend that business leaders pursue three actions:

1. Understand history and the racialized impacts of past company and industry actions;
2. Repair relationships and rebuild trust, particularly with people who have been harmed most by these past actions; and
3. Change business practices to advance racial equity while improving the company’s competitive advantage.

We hope these actions can help transform the systems in which we work and live—and create a different future in which we all can thrive.
any of us want to live in a world free of race-based discrimination and other forms of inequity. Yet evidence abounds that racial identity continues to impact all facets of life in the United States, from housing to education, health and wellbeing, income and wealth, and beyond. Researchers have shown that unexamined biases influence decision-making processes—business activities such as hiring and product development may contribute to disparities in life outcomes based on race, intended or not.1, 2, 3

Businesses have significant assets and power and therefore play a critical role in contributing to systemic changes that allow everyone to participate, prosper, and reach their full potential.4 A wide range of strategies are available, including recruiting and retention efforts; reducing income and wealth disparities via employee compensation structures; designing and delivering products and services that meet the needs of all customers; and leveraging businesses’ influence to inform public opinion and policy.

Companies also benefit from advancing racial equity. Businesses with diverse workforces demonstrate greater innovation, and corporate leaders across the globe are signing diversity and inclusion pledges.5 Disrupting business as usual is more than just a values-based argument; it is a financial imperative. Companies that do not address bias and exclusion risk their financial success. As McKinsey noted in 2018, “companies in the bottom quartile for both gender and ethnic/cultural diversity were 29% less likely to achieve above-average profitability than were all other companies in our data set. In short, not only were they not leading, they were lagging.”6 Companies also risk creating real harm for people already experiencing exclusion and marginalization.

4 https://www.policylink.org/resources-tools/equity-manifesto
What should businesses do? CEO concern is warranted because of the many ways that historical and structural impediments of racism are woven into our culture, laws, and social systems. Companies that have not sufficiently examined these barriers face public scrutiny and risk costly missteps. Consider Pepsi’s 2016 “Jump In” commercial, in which Kendall Jenner eased tensions between protesters and police by sharing a can of soda. The ad was dubbed “Fail of the Year” by Marketing Dive, and within 24 hours roughly 3/4 of digital content engagement that included the phrase “tone deaf” mentioned Pepsi.7 Brand perception fell to its lowest levels in a decade, and the multi-million dollar ad was pulled a day after it was released. These missteps are particularly challenging when companies must address damage after it is done.8

Such miscalculations do not have to be a foregone conclusion. To effectively advance racial equity and competitive advantage, business leaders can support meaningful action that goes beyond signing pledges and verbalizing good intent. Leaders in the financial services9 and health care10 sectors—including Citi, Prudential Financial, Kaiser Permanente, and UnitedHealth Group—offer inspiring and instructive models of companies whose business strategies advance racial equity.

Below, we offer examples of ways in which companies across sectors are working to leverage their businesses in service of reducing historical disparities. To maximize chances of success, we recommend business leaders take steps to:

1. **Understand history** and the racialized impacts of past company and industry actions;
2. **Repair relationships and rebuild trust**, particularly with people who have been harmed most by these past actions; and
3. **Change business practices** to advance racial equity while improving the company’s competitive advantage.

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9 https://www.fsg.org/publications/financial-services-and-racial-equity
10 https://www.fsg.org/publications/health-care-and-racial-equity
1. UNDERSTANDING HISTORY

When businesses enter new markets or target new customer segments, they first conduct intensive research. Companies invest substantially in learning all they can about the needs and desires of potential customers, and carefully design products and services to meet those needs. The rise of big data and analytical algorithms is a testament to the importance placed on market knowledge and customer analysis.

Yet businesses often do not show the same vigor for investigating data regarding racial disparities that have impacted customer needs and behaviors. Most of us have a lot to learn. In part, this is because there is so much we don’t know.

Racially motivated history has often been hidden and can be challenging and traumatizing to uncover.\(^{11}\) Clair Minson, a workforce strategist from Associated Black Charities, spoke to this during a 2019 presentation to grantees of the Walmart Foundation. She pointed out that while direct experience as a person of color is valuable, lived experience on its own is not sufficient for developing inclusive strategies. Engaging in racial equity analysis is an ongoing practice of examining racialized patterns and structures that hold current patterns in place.

Even with the best of intentions, businesses that lack historical awareness may demonstrate biases at all stages of the value chain, from product development to marketing and distribution. Companies do not operate in a vacuum, as Heather McGhee and Sherrilyn Ifill explain in their recommendations for Starbucks following the arrest of two black men at a store in Philadelphia.\(^{12}\) As the authors note:

*The formational identity of Starbucks is centered around the creation of the “third place”—not home, not work, but a public space where all are welcome and people can share “the Starbucks experience.” But the “third place” cannot exist outside of the history and reality of racism in public accommodations. Indeed, the ambitious vision of Starbucks’ founder to create a “third place” in which all are welcome engages, by its very terms, the history and contemporary struggle of African Americans for dignity in the public space. Thus, the awful, humiliating experience of Donte Robinson and Rashon Nelson in the Philadelphia Starbucks provoked a necessary discussion within the company about the need to confront the full dimensions of what it means to steward public spaces in our country.*

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12 https://www.demos.org/research/toward-vision-racial-equity-inclusion-starbucks-review-and-recommendations
When companies design products and services for communities of color without full context, they risk designing products and services that aren’t relevant or that miss market opportunities. For example, federally institutionalized practices such as redlining kept people of color from purchasing homes in neighborhoods with higher potential for financial appreciation. Historical data shows this is a significant contributing factor in the wealth gap between black and white households in the United States. As research by PolicyLink and FSG notes, "Structural racism is still visible in exclusionary practices and implicit biases exercised by both large national banks and smaller community banks."\(^{13}\) Such exclusion and bias have caused substantial harm to black families and led to unmet customer needs.

The research spotlights several examples of how companies are actively designing products and services that reduce barriers for communities of color. For example, Citi found that lower-income market segments comprised predominantly of people of color were discouraged from creating accounts due to real and perceived banking fees. This understanding informed the company’s creation of Access Accounts, simple checking accounts with no or low monthly charges that can be avoided by establishing direct deposit or online bill pay. Not only were the Access Accounts successful in attracting customers who are often excluded by traditional products, they have also proven popular with a broader range of customers including retirees and millennials. Citi’s Access Accounts are crucial to the company’s future growth, representing roughly 23 percent of all newly originated accounts.\(^{14}\)

There are real reasons why some consumers avoid particular products, services, or companies. People of color in the United States have long been preyed upon by businesses, including in the financial services and health care sectors. Consumers of color have been given loans at higher interest rates than white customers with similar profiles, and have been subjected to health experiments and faulty products that were developed by and for, and tested on, white employees and consumers. A wide range of companies and industries have negatively impacted consumers who more commonly experience marginalization. We’ve seen this in developing sectors such as artificial intelligence, in iconic brands such as Daimler-Benz, and even in startups.

Until we understand the ways in which our businesses have historically not been designed to serve everyone, we cannot meaningfully take steps toward a future in which they are.

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13 https://www.fsg.org/publications/financial-services-and-racial-equity
14 Ibid.
Contemporary business leaders are not solely responsible for the current state of the world. Today’s CEOs did not invent the social construct of race, nor did they originate the historic practices of oppression and marginalization that continue to result in poorer life outcomes for people of color in the United States. Yet all of us do—now—face an important choice. Business leaders can act to understand racialized historical context and design appropriate products and solutions. Or, leaders can remain less aware and likely find themselves perpetuating or exacerbating the inequities of the past. Executives at JP Morgan Chase are choosing the former. The company’s *Advancing Black Pathways (ABP) program* works to help black Americans achieve economic success via education and job training, career support, and improved products that strengthen financial wellness. In addition to the ABP program, JP Morgan Chase is investing in a fellowship initiative, efforts to retain and advance black employees, and enhanced access to capital for minority entrepreneurs. “We are expanding our existing commitment to help create economic opportunity for more black families, businesses, employees, and communities,” said Jamie Dimon, Chairman and Chief Executive Officer. “Making the economy work for more people is not only a moral obligation—it is a business imperative.”

Peter Harf, the chairman of JAB Holding Company, might agree. JAB is one of the world’s largest consumer goods conglomerates, worth over $20 billion. The company is grappling with recent revelations that their success was built upon abuse of forced laborers and prisoners of war during World War II, and Harf is considering this history as he guides JAB’s choices within today’s world. “Businesses can no longer pretend that they are operating in a ‘value-free space,’” Harf told *The New York Times*. “This is once again a time when everybody needs to take a stance… I’m very scared of what’s happening. Every time business leaders make decisions, they should ask, ‘What does this mean for our children? What does it mean for the future?’”

To get to a future that is better than our past, we must first understand how we got to the present.

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2. REPAIRING RELATIONSHIPS AND REBUILDING TRUST

With a deeper understanding of history, leaders can work to repair relationships, rebuild trust, and share decision-making. Otherwise, customers may believe company actions are inauthentic or inadequate and may take their dollars elsewhere.

A first step is to acknowledge that history. On its website, Daimler openly admits interning forced laborers from concentration camps, along with prisoners of war and abducted civilians, in “barrack camps with poor, prison-like conditions.”\textsuperscript{17} National Geographic offers another example. In 2018, the magazine noted the ways in which past editorial decisions, whether intentional or not, reinforced stereotypes that were “ingrained in white American culture.”\textsuperscript{18} Such candor signals that company leadership is willing to be held accountable to the public. As Michele Norris wrote for National Geographic, “It’s hard for an individual—or a country—to evolve past discomfort if the source of the anxiety is only discussed in hushed tones.”

Next, it is critical that business leaders build authentic, substantive relationships with people from communities that have been most affected to ensure a range of voices are represented across the value chain. These relationships can include expanding employee diversity, bringing in advisers who can provide guidance for inclusion and racial equity, or establishing formal partnerships to share resources and decision-making power with organizations that have strong connections to impacted populations. Companies are likely to continue exclusionary product design, marketing, or distribution practices unless they tap into the insights and knowledge of others, particularly people most connected to the original experiences of harm.

To rebuild trust after World War II, Daimler became involved in the German Industry Foundation’s “Remembrance, Responsibility and Future” initiative, whose work included the provision of humanitarian aid for former forced laborers. In another example profiled in Financial Services and the Competitive Advantage of Racial Equity, multiple major banks are partnering with UnidosUS, the largest national Latinx civil rights and advocacy organization. The banks are accessing customer research and leveraging UnidosUS’ affiliate network of community-based organizations as distribution channels for financial products and services. Companies that leverage partners can gain customer insights and bolster their credibility.

Companies can also influence policy and systems reforms that contribute to a more equitable society beyond just the walls of the business. ProMedica, the 15th-largest
integrated health care delivery system in the United States, understands that mistrust between communities of color and large health institutions is the legacy of decades of structural racism. As Kate Sommerfeld, President, Social Determinants of Health, put it, “Trust is foundational to our work.” In addition to using data to learn about racial disparities and expanding its products and services, ProMedica successfully collaborated with community partners to advocate for a new zoning ordinance preventing predatory payday lenders from opening new branches. The company has started intentionally gathering inputs from local community leaders before launching any community revitalization efforts as a way to mitigate power imbalances. These strategies addressing a range of social determinants of health are part of a portfolio of approaches that have resulted in reduced health care costs for patients and improvements to ProMedica’s own talent pool.19

Lastly, business leaders can foster interconnectedness in ways that stimulate insights and ideas that might be missed if stakeholders remain untrusting or distanced from each other. This goes beyond typical “transactional” business relationships. Sharing analysis and decision-making with people who may have previously been excluded can take a relationship from feeling extractive or one-sided to more fully embodying a true partnership. Stakeholders can be more candid and surface concerns earlier, saving time and money by reducing friction and mistakes. People are more likely to understand unintended impacts, give each other benefit of the doubt, and share accountability for joint decisions.

Pixar’s development of the 2017 film Coco illustrates how engaging with stakeholders differently created business value and built trust.20 Pixar upended “a long-running studio tradition of strict creative lockdown,” resulting in a film hailed as a “model for culturally conscious filmmaking at the blockbuster level.” As the filmmaker Lee Unkrich attested, his anxiety about responsibly developing the movie felt personal. “With me not being Latino myself, I knew that this project was going to come under heavy scrutiny.” His team relied on multiple research trips to Mexico and personal stories of Latinx team members, which provided specific and nuanced details that were not just culturally appropriate, but also valued by Latinx audiences. The filmmakers turned to an “array of outside Latin[x] cultural consultants to vet ideas and suggest new ones,” and based the central family in the story “on real-world families with whom they embedded while visiting the Mexican states of Oaxaca and Guanajuato between 2011 and 2013.” A network of 30–40 volunteer advisers, plus a range of consultants, provided input throughout

the process. As a result, the film received accolades from audiences and even from watchdog groups such as the National Hispanic Media Coalition. Within a month of its premiere, the film was the highest-grossing animated film in history in Mexico, and as of September 2018 was reported to have earned over $600 million in global net profit.\(^{21}\) Given Latinx audiences were reported in 2018 to have the highest movie-going rate among ethnic groups in the United States, the investment put in by Pixar's team was mutually beneficial.\(^{22}\) By seeing and valuing customers fully, sharing opportunities for input and decision-making, and fostering an understanding around shared interests, companies can build trust and create possibilities that didn’t previously exist.

3. CHANGING PRACTICES

Once business leaders have gained a better understanding of historical context and have invested in improved relationships and trust, their companies are more likely to succeed in effectively changing business practices to advance racial equity. As FSG and PolicyLink learned from the companies profiled in our recently released research, “race-blind” strategies are not sufficient to reach new and growing markets. We identified 8 specific practice changes that businesses are using to create business value while addressing racial inequities.

Companies are refining business-as-usual by disaggregating data, expanding product and service offerings, and partnering with community and government organizations as part of a broader systems-level approach. One example is UnitedHealth Group, profiled in Health Care and the Competitive Advantage of Racial Equity. UHG is one of the largest health and well-being companies in the world, earning over $201 billion in revenue in 2017. The company aims to promote health equity across multiple dimensions, including race, gender, and geography, and roots their approach in careful analysis of disaggregated data. UHG works with local market quality and clinical leaders to tailor and personalize outreach to members, establishes community partnerships to facilitate trusting relationships with plan participants, and helps clients access additional services such as transportation, housing, financial assistance, and food. Connecting clients to these services reflects an understanding that a range of factors affect health. This more holistic systems-oriented approach is reducing the company’s health care costs and positively impacting participant outcomes.

\(^{21}\) https://www.businessinsider.com/pixar-most-successful-film-2016-6

As described in a case study in our financial services research, Prudential Financial is one of the world’s largest financial institutions with more than $1 trillion in assets under management. Business leaders investigated needs for specific customer segments, and found that more than 80% of small businesses in the U.S. do not offer retirement plans or 401(k) access. Nearly two-thirds of households of color in the U.S. do not have any retirement savings in a 401(k) or IRA, and three-quarters have total retirement savings of less than $10,000. Furthermore, half of all private sector employees and a majority of employees of color are employed by small businesses. Leaders at Prudential recognized the opportunity to create shared value for both the company and previously excluded consumers. The company is leveraging data to design improved product offerings such as a supplementary emergency savings feature tied to workplace retirement plans and funded by after-tax payroll deductions. Prudential has a partnership with UnidosUS, benefiting from detailed behavioral insights on retirement security trends and working together to support regulatory and legislative actions that can broaden access to employee benefits plans in which multiple employers can participate. Increased consumer access to workplace plans opens the door for Prudential to offer tailored products and services to a growing market segment.

An important component in moving away from business-as-usual is recognizing that this is not a one-time shift—it is a practice. Maintaining carefully cultivated trust isn’t easy, and mistakes or misunderstandings can quickly undo past work. Establishing mechanisms for ongoing communication, continuous representation, and active feedback loops can help. Prudential Financial has structured its Corporate Social Responsibility team to identify Inclusive Markets opportunities, build partnerships with external stakeholders, and influence product development. The team reports directly to Prudential’s C-Suite.

Business leaders can also amplify the voices of their customers and partners, rather than absorb them within the company’s branding alone. Sharing credit for joint work builds connectivity, shows stakeholders that partnerships are authentic, and demonstrates that all members within

23 https://www.fsg.org/publications/financial-services-and-racial-equity
24 Ibid.
the collective system are individually seen and valued, which contributes to improved trust. Better yet, authentic partnerships can spur partners to amplify the company in return. The ride-hailing service Lyft has partnered with RAICES since July 2018. RAICES provides legal services to immigrants and refugees, and Lyft provides free rides so transportation barriers do not prevent RAICES clients from attending legal meetings and appointments. In July 2019, Lyft increased support by matching donations from riders who opt in to rounding up their fare to the nearest dollar and donating the funds to RAICES. RAICES and Lyft have a shared investment in the effort’s success, and are each amplifying the work of the other to promote the initiative. As of this writing, Lyft was prominently featured on the home page of the RAICES website. Of course, suggesting businesses can make changes to their ongoing practices does not necessarily mean a wholesale overhaul. Business leaders can make wiser decisions about what to keep or improve by examining data and considering partner perspectives. Companies will continue to recruit, develop products and services, and market their offerings. What may change more substantially is the how—what data is analyzed and by whom, for example.

To see an example of transformation, look at Barilla’s efforts after the chairman openly disparaged homosexuality on Italy’s best-known radio talk show. The company faced calls for a global boycott, Harvard University pulled products from their dining halls, and Barilla dropped 21 spots on the Reputation Institute’s 2014 rankings. Company leadership took swift action, including acknowledging the problem, hiring support from advisers including gay rights activists, creating employee resource groups, and partnering with LGBTQ advisers. Five years later, David Mixner (a civil rights activist) was featured at the annual company meeting hugging the chairman; Olimpia Zagnoli, an artist who initially advocated for boycotting the company, designed a recent marketing effort. The company acknowledges that rebuilding trust is a continuous practice; former critics have noted the company is still in repair mode, a point that Claudio Colzani, Barilla’s CEO, acknowledges: “[It’s] a fair comment.”

25 https://www.theguardian.com/technology/2019/jul/01/lyft-us-immigration-activism-raices
27 https://blog.lyft.com/posts/immigration-rights
At FSG, we’ve been on our own path of reckoning, relationship building, and changing practices to improve diversity, inclusion, and our commitment to racial equity.

It hasn’t been easy. We’re evolving both internally and in our externally facing work. We have invested in hiring people with a broader range of personal experiences and capacity to support this work. We are also improving our culture, and have developed resources including a guide for integrating a focus on equity and inclusion into the major phases of our work with clients. We more consistently disaggregate data, seek a wider range of perspectives, deploy specific approaches to foster stakeholder relationships and trust, and identify strategic practice changes that can change the conditions that hold problems such as racial inequities in place. FSG has always been a consulting firm that put social impact at the core of what we do—it’s what drew me to the firm nearly 10 years ago. We recognize we can do even better, and are learning from and with incredible partners like Michael McAfee, Josh Kirschenbaum, and the rest of the outstanding team at PolicyLink. It’s this willingness to grow that keeps me here today.

It’s time for change. We may not have created the world of today, but we do face a choice. We can reckon with history and meaningfully commit to doing better. Or, we can turn away as if the past isn’t affecting the present. Companies that turn away do so at their own peril, leaving profit on the table and taking a risk of hurting people, intentionally or not. The choice seems pretty clear. We hope you’ll join us in pursuit of a more equitable and purpose-driven future.

Contact us to join companies that are working with FSG and PolicyLink to find new business opportunities by advancing racial equity.

Learn more about FSG’s work with corporations >
About the Author

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FSG is a mission-driven consulting firm supporting leaders in creating large-scale, lasting social change. Through strategy, evaluation, and research we help many types of actors—individually and collectively—make progress against the world’s toughest problems.

Our teams work across all sectors by partnering with leading foundations, businesses, nonprofits, and governments in every region of the globe. We seek to reimagine social change by identifying ways to maximize the impact of existing resources, amplifying the work of others to help advance knowledge and practice, and inspiring change agents around the world to achieve greater impact.

As part of our nonprofit mission, FSG also directly supports learning communities, such as the Collective Impact Forum, Shared Value Initiative, and Talent Rewire to provide the tools and relationships that change agents need to be successful.

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