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DIVERSITY

Silicon Valley Diversity Wake-Up Call: Turning Business Risk Into Competitive Advantage



BY WELDON LATHAM

The technology giants loosely known as “Silicon Valley companies” generally are credited with leading the U.S. from an industrial to an information age economy in the 21st century. When it comes to having a workforce that reflects America’s increasingly diverse population, labor force and consumer markets, however, the companies in the “old line industries” are the ones leading. Growing criticism has been aimed at Silicon Valley companies for their surprising shortages of African-American, Hispanic/Latino and female employees.

In the last decades, companies in old line industries have been seeking to better reflect America’s increasingly diverse population, labor force and consumer markets. Indeed, they have increased their numbers of minority and female employees to more closely resemble America’s emerging, more diverse demographics.¹ On the other hand, Silicon Valley companies have had significant unwanted attention and scrutiny for what are reportedly their white-male-dominated work-

forces.² How these companies choose to respond can turn the potential business risks into a competitive advantage.

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The roots of corporate workforce diversity go back more than 50 years to “trailblazer” corporate actions, e.g., PepsiCo naming the first major corporate African American vice president (1962), General Motors naming Rev. Leon Sullivan the first African American member of a major corporate board of directors (1971), and the Washington Post Co. naming Katherine Graham the first female major corporate chief executive officer (1972), but it took nearly 30 more years before Fannie Mae named the first African American CEO of a Fortune 500 company (1999). PepsiCo, GM and many others have continued to dramatically enhance their diversity programs, performance and profile since those early landmark accomplishments.

Recognition and implementation of diversity as a *corporate imperative* did not achieve real widespread momentum until the high visibility, public embarrassments of race and gender class-action discrimination lawsuits of the 1990s, most notably the 1996 Texaco “diversity crisis.” Today, many successful CEOs and other corporate leaders are motivated less by the threat of high-profile discrimination litigation (while risk-avoidance is

¹ In 2010, the U.S. population of 309 million was 36 percent minorities. By 2045, the U.S. Census Bureau projects that the U.S. population will be 390 million, and 51 percent minorities. During that period, the minority population will increase by 88 million. *Source:* U.S. Census Bureau 2010 Census (including projections).

² *See, e.g.,* “Smashing Silicon Valley’s Biases,” *Washington Post*, Aug. 9, 2012; “Still Very Few Women on Valley Boards,” *San Francisco Chronicle*, Dec. 1, 2011; “Silicon Valley Fights to Keep Its Diversity Data Secret,” *CNNMoney*, Nov. 9, 2011; “Minority Leaders Protest Hiring Practices at Silicon Valley Tech Companies,” *Contra Costa Times*, Feb. 2, 2011.

still an important motivator) than a realization of the *positive benefits* of strong corporate diversity performance and profile. For example, in 2001 *DiversityInc* magazine received 75 applications for its “Top 50 Companies for Diversity”; by 2015, more than 1,600 companies competed, seeking the recognition and validation that comes with being an industry diversity leader.

Silicon Valley’s Diversity Challenge

Recently, some prominent Silicon Valley companies released workforce diversity data indicating their workforces are overwhelmingly white and male. This might strike some as surprising for “new age” companies, whose success is based on “state of the art emerging technologies” that aggressively pursue the “youth market.” Many of these Silicon Valley companies appear to have failed to realize that younger Americans’ life experience dictates a much more diverse society and workforce. In the wake of these workforce data releases, a few progressive Silicon Valley corporate leaders have publicly embraced the need for an inclusive workforce—and a few others are poised to address the apparent disparity between current Silicon Valley workforce demographics and an increasingly diverse American buying public.

One leading company, Intel, announced a major initiative to “diversify its workforce” to align with the pool of available qualified workers, a move that may well have a ripple effect among Silicon Valley companies. The goal makes sound business sense when one answers the following questions:

- Who comprises the fastest growing segment of America’s labor pool and consuming public?
- Where must American companies expand their search for new talent and increased market share?
- Will companies that have workforces to best serve, “look like,” and respond to rapidly growing diverse customers and market segments be more successful?

Silicon Valley companies can act in their own best interest by translating the articulated objective of workforce diversity and inclusion into significant practical change.

Major corporations in the more traditional industries have made substantial strides to improve diversity, principally by recruiting, hiring, developing and promoting minorities and women in significant numbers. This is not to suggest that their work is done, but progress has been made. Significant diversity improvements were achieved “the hard way,” *i.e.*, stimulated by reputation-damaging discrimination lawsuits; Equal Employment Opportunity Commission (EEOC) and Department of Labor Office of Federal Contract Compliance Programs enforcement actions; adverse media coverage; loss of stock value and revenue from minority, female and sympathetic mainstream customers; and threats of civil rights boycotts.

Now, a growing number of progressive CEOs are learning from other companies’ bad experiences and making pro-diversity changes both in the best interests of their shareholders as well as to avoid suffering similar diversity crises. In the next several years, the good business practices noted above should drive all American companies to become more diverse and inclusive as

the U.S. population, labor force and customer base reach their highest levels of diversity.

Those Silicon Valley companies that respond affirmatively to this challenge will likely be market share winners that capture (or re-capture) enormous, and rapidly growing, U.S. minority and female market segments. For example, in 2013, African American buying power in the U.S. was \$1.1 trillion, a 78 percent increase since 2000, and is projected to rise to \$1.3 trillion by 2018. Similarly, Hispanic buying power in the U.S. was \$1.2 trillion in 2013, a 142 percent increase since 2000, and is projected to rise to \$1.6 trillion by 2018. The combined buying power of U.S. African American and Hispanic buyers exceeds the gross domestic products of *all but seven nations in the world*—greater than, for example, Italy, India and Canada³—and this “new” buying power is right in Corporate America’s backyard.

First Look at Silicon Valley Workforce

While data on Silicon Valley workforce diversity had generally been unavailable publicly, in February 2010, an analysis based on data provided by only the 10 largest Silicon Valley companies “willing to provide such data” was published.⁴ The data revealed that those workforces had grown by 16 percent between 1999 and 2005, but their minority and female employee representation declined.

The African American share of Silicon Valley computer workers declined by 28 percent. Hispanics/Latinos, who constitute 25 percent of the Silicon Valley geographic population, declined by 24 percent. African American and Hispanic/Latino “officials and managers” representation combined was similarly low from 1999 to 2005, at only 5 percent. African American and Hispanic/Latino computer workers in Silicon Valley lagged behind their comparators in the industry nationwide. In 2008, only 1.5 percent of Silicon Valley computer workers were African American and 4.7 percent were Hispanic/Latino, compared with 7.1 percent and 5.3 percent, respectively, nationwide.

Female representation also declined over the same period, from 37 percent to 33 percent, and among officials and managers, a 2-percentage point decline, from 28 percent to 26 percent. Likewise, women have generally been underrepresented on Silicon Valley corporate boards of directors compared with corporate boards of other industries. As of December 2011, 57 percent of Silicon Valley boards had at least one female director, compared with 91 percent of S&P 500 corporate boards. Further, women constituted *only* 9 percent of all Silicon Valley directors, compared with 16 percent of all directors of S&P 500 firms.

Public Disclosure of Workforce Diversity

Initially, a number of Silicon Valley firms resisted divulging diversity numbers, even in response to highly public requests. In 2014, Reverend Jesse L. Jackson Sr. challenged several Silicon Valley companies, raising questions at their annual shareholder meetings con-

³ “The Multicultural Economy 2013,” University of Georgia, Selig Center for Economic Growth; World Bank Development Indicators Database, July 1, 2015, worldbank.org.

⁴ “Blacks, Latinos and Women Lose Ground at Silicon Valley Tech Companies,” *San Jose Mercury News*, Feb. 23, 2010.

cerning low minority representation and publicly seeking release of their workforce demographic data.⁵

Subsequently, in 2014 many “household name” companies from Silicon Valley made public their workforce demographics. Here, too, the published data confirmed that these additional Silicon Valley workforces are largely white and male. In addition, many of these companies have low percentages of African American, Hispanic/Latino and female employees—with lows of 2 percent African American, 3 percent Hispanic/Latino, and 30 percent women, compared to the U.S. civilian workforce of 12.4 percent African American, 15.1 percent Hispanic/Latino, and 51.5 percent women. Following release of these diversity workforce demographics, Rev. Jackson convened 25 Silicon Valley companies to discuss ways to increase minority representation in the technology sector.⁶ In addition, Rev. Jackson’s RainbowPUSH Coalition announced its intention to create and publish “Diversity Scorecards” for technology companies.

Other advocates also are adding pressure. In May 2015, the Congressional Black Caucus launched its “Tech 2020 Initiative,” a campaign to increase the hiring of African Americans in the tech industry over the next five years. Recently, several members of the Caucus visited CEOs in Silicon Valley to discuss tech companies’ plans for diversifying workforces. Congressional Black Caucus Chairman G.K. Butterfield (D-N.C.) concluded that, of the companies they met, “All of them are deficient” on diversity.⁷

The media also has shown growing interest, and tech companies are therefore likely to remain under public scrutiny pending new policy actions that “create good news” to report.⁸ Silicon Valley companies that reverse the reportedly negative trend, aggressively recruit, hire, develop, retain and promote representative numbers of minorities and women, and, equally important, engender significant public awareness of these successes will create goodwill with minority and female buyers and a positive story for a potent competitive market advantage.

Intel Assumes Silicon Valley Trailblazer Role

In early January 2015, only weeks after the RainbowPUSH Coalition “diversity brainstorming” meeting with 25 high tech companies, chipmaker giant Intel pledged \$300 million to diversify employment within its workforce; in so doing, it assumed the trailblazer role of

⁵ See, e.g., “Jesse Jackson Gets Silicon Valley to Talk Diversity,” *USAToday*, Dec. 11, 2014.

⁶ “Jesse Jackson Gets Silicon Valley to Talk Diversity,” *USAToday*, Dec. 11, 2014; “Tech Jobs for Blacks? Rev. Jesse Jackson, RainbowPUSH Convene Tech Companies for Diversity and Inclusion Forum,” *San Francisco Bay View*, Dec. 13, 2014.

⁷ “Black Lawmakers Call for More Diversity in Silicon Valley,” *USAToday*, Aug. 4, 2015.

⁸ See, e.g., “Behind Silicon Valley’s Self-Critical Tone on Diversity, a Lack of Progress,” *New York Times*, June 28, 2015; “Silicon Valley Struggles to Hack Its Diversity Problem,” *Washington Post*, July 16, 2015; “More Than a Pipeline Problem: In Search of Diversity in Silicon Valley,” *NPR*, July 27, 2015; “Twitter 2015 Diversity Report Shows No Progress for African-Americans, Slight Gains for Women and Hispanics,” *International Business Times*, Aug. 28, 2015; “What It’s Really Like Being Black in Silicon Valley,” *USAToday*, Sept. 18, 2015.

GM and PepsiCo of more than 50 years ago.⁹ At the time, Intel reported a workforce that was 76 percent male, 4 percent African American and 8 percent Hispanic. Recognizing its role in the overall larger issue of minority underrepresentation confronting Silicon Valley, Intel’s efforts will include funding engineering scholarships and supporting Historically Black Colleges and Universities (HBCUs). The rationale for this is that many minority students (both before and after matriculation at colleges and universities) do not consider, and are not encouraged to pursue, careers in technology. Intel appears focused on maximizing the number of minority graduates in science, technology, engineering and mathematics (STEM) fields to enhance the talent pool from which to hire “best and brightest” diverse candidates—which is clearly one part of the larger problem facing these companies.

In August 2015, Intel announced that it had exceeded its first-year goal to hire 40 percent diverse candidates—its actual diverse hires were 43.3 percent. More telling perhaps is the epiphany by Intel’s CEO Brian Krzanich about the availability of qualified diverse candidates:

“[W]e started this process thinking that the pipeline was empty and we’d have to start at the very beginning. But we were all pleasantly surprised that there’s actually a pretty good pipeline going.”¹⁰

Will other companies follow suit? Apple, for example, the ultimate consumer products company, only recently named its first African American board member, James Bell, former Boeing CFO and interim CEO. These are just two encouraging first steps that could inspire leadership by the entire Silicon Valley corporate community. Indeed, they must realize that by 2050, the U.S. population will be composed of several different minority groups, including white males.¹¹

Next Steps to Successful Diversity and Inclusion

In our experience advising major companies over the last 20 years on how to dramatically improve workforce diversity and effectively address other vexing diversity and inclusion issues, the most successful efforts have always started with determined CEO commitment and leadership. These companies have educated their executives and mid-managers of two business reasons for why creating a diverse workforce is a priority business imperative. First, embracing highly skilled minorities and women expands the sources of urgently needed talent; and second, appropriately motivated diverse teams can provide greater positive access to minority and fe-

⁹ “Intel Announces \$300 Million Tech Diversity Initiative,” *www.pcmag.com*, Jan. 7, 2015; “Minority Leaders on What Intel’s Pledge Will Mean to Tech Diversity,” *www.fastcompany.com*, Jan. 15, 2015.

¹⁰ “Intel’s Diversity Hiring Doubles in Six Months,” *USA Today*, Aug. 13, 2015. See “Silicon Valley Struggles to Hack Its Diversity Problem,” *Washington Post*, July 16, 2015 (finding that “top schools are turning out black and Hispanic graduates with tech degrees at rates significantly higher than they are being hired by leading tech firms.”)

¹¹ By 2044, the U.S. will become a “majority minority” nation, with no race or ethnic group accounting for 50 percent or more of the population. Source: U.S. Census Bureau, 2010 Census Projections.

male customers and market segments. Thus, an inclusive corporate focus should go well beyond recruiting and hiring of minorities and women. Successful companies also have provided leadership opportunities and responsibility to minority and women executives, as well as created welcoming environments for all employees to encourage long-term success and enhanced workforce productivity.

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Companies credited with the best diversity performance report that recruiting new diverse talent addresses only half the equation—after recruiting and hiring, *development, retention and promotion* become equally critical to avoid the “leaky bucket” syndrome (i.e., where diverse high performers leave prematurely due to corporate failure to develop and fully utilize them in a professionally rewarding and comfortable work environment). One prominent tech company recently reported that it made significant gains hiring women and Hispanics, but had as many losses of African American talent during the same period.

Companies that identify and correct inappropriate, costly and unnecessary turnover and unwanted attrition often report a need to change corporate culture to create a more inclusive environment. Effective, all-important diversity and inclusion programs and practices can improve company-wide business performance. Diversity “best practices” can be adopted to address undue diverse turnover. Companies that have been most successful in implementing the right program for their distinctive corporate culture often engage outside, impartial experts to objectively analyze their unique circumstances and candidly recommend effective solutions to address their particular concerns. While diverse turnover is a common problem, solutions must be tailored to address specific corporate needs. Once an effective approach is implemented, providing avenues for professional participation (inclusion), development, advancement, recognition and rewards, as well as creating a welcoming environment for all employees, will lead to better minority and female retention and overall improved productivity.

It remains to be seen whether and to what extent other Silicon Valley companies will follow the positive public pronouncements of Intel (a business-to-business company) or the action of Apple (a consumer products company) in naming an African American board member. Clearly, the benefits to consumer products companies are obvious and can be more immediate. As for Intel, its pledge is all the more impressive and impactful. Thus, Intel’s pledge should clearly be applauded by all of Corporate America, particularly, technology compa-

nies. Silicon Valley companies should see Intel’s move not as simply “doing the right thing,” but, much more importantly, doing the best thing for their shareholders and our nation to enhance corporate global competitiveness.

Conclusion: Evolution of the ‘Corporate Diversity Imperative’

As CEOs and other business leaders have told us, the ability to successfully achieve constructive change in any major corporation (here, changing corporate diversity from a “high risk” to a “competitive advantage”) is not easy. This is clearly more difficult, complex and multi-faceted than can be thoroughly addressed in this single article. As attorneys who have successfully resolved both the immediate adverse consequences of corporate “diversity crises” as well as developed comprehensive long-term action plans to prevent their recurrence, the most important lesson we have learned is that each corporate situation demands careful assessment of the individual corporate culture and development of a specific plan tailored to meet that corporation’s specific needs and challenges. Recent news coverage and public focus should propel action from Silicon Valley executives to develop corporate diversity strategies and action plans, as well as remind more traditional companies of the need to refresh and vigilantly protect their hard-earned diversity and inclusion achievements.

The examples of PepsiCo, GM, Intel, Apple and other leading companies that have made diversity a corporate value and priority should motivate other Silicon Valley companies to embrace diversity and inclusion as “good business,” and keep traditional companies from resting on their laurels. As one prominent CEO explained, all major American companies need to remain motivated to move as rapidly to enhance diversity and inclusion performance to keep pace with the rapidly growing diversity in the American workforce and consumer base—if they are to remain the leaders in a globally diverse and highly competitive new world.

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