

KENAN INSIGHTS

Challenges and Solutions to Recruiting, Hiring and Retaining a Diverse Workforce

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In recent years, company leaders have begun to make public promises to recruit, hire and nurture a diverse workforce and leadership team. This public calling for more inclusive workplaces is due to both public pressures and the rapidly changing demographics of the U.S. workforce.¹ Not only is a commitment to diversity, equity and inclusion (DEI) the right thing to do, it is also critical to business success.

Research indicates teams that are more diverse outperform their peers on a wide variety of measures, including better financial performance, increased innovation and attracting top talent.² However, many companies – large and small, young and old—still struggle to meet their diversity goals.³

Industries that have struggled the most with diversity, including technology and financial services, have developed a significant number of programs to recruit women and people of color into STEM and business fields, and ultimately into their firms.⁴ However, many of these efforts have failed to retain workers, signaling that there is more to the story than a recruiting pipeline problem.

Systemic Issues within the Entrepreneurship Ecosystem

Startup culture has developed a reputation for not being inclusive especially for women, people of color and older workers. From Uber to WeWork, and most recently Coinbase, there have been many Silicon Valley darlings who have made headlines for

their toxic workplace cultures. Yet, even with the problem so pronounced, much of the movement towards change has been either superficial or ineffective.

Part of the problem is inherent in how startups form and grow, especially in Silicon Valley. These challenges are influenced particularly by the lack of diversity in the investor community, how advisory and fiduciary boards are built, and the lack of proper recognition that building an inclusive culture must be prioritized early in the life cycle of an organization. The makeup of a startup firm is often a result of its environment and network. So when the whole ecosystem fails to model inclusionary practices and diverse hiring, it is unsurprising that many startups still struggle with diversity and those startups by founders of color and women are underfunded.⁵

Even as public firms have moved toward greater board diversity, startup firms have been slow to match these efforts. A recent survey of 200 venture-backed startups that had either \$100 million in funding or were valued above \$500 million found that women held only seven percent of private firms' board seats, while 60 percent of private firms did not have a single woman on their board. For reference, there are no all-male boards within the S&P 500.⁶ Many startups include their investors on their boards. Yet, women and people of color are underrepresented as decision-makers in venture capital firms.⁷ In order to solve the problem, initial board creation, the diversity of investors and the diversity of leadership teams within startup organizations must be addressed.

¹ Slides 27 and 28

² Slides 29 - 32

³ Slides 33-36

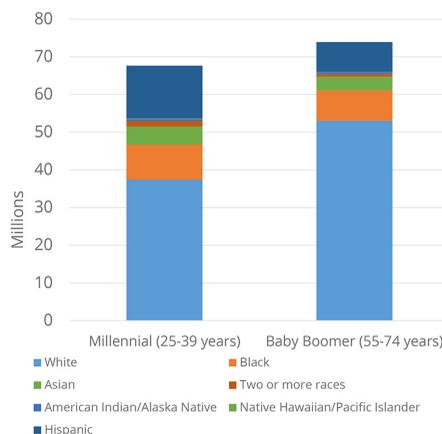
⁴ Slide 38

⁵ Slide 41

⁶ Slide 39

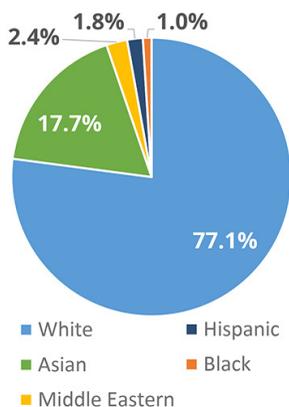
⁷ Slide 42

Distribution of the Race and Ethnicity of the U.S. Population in 2019



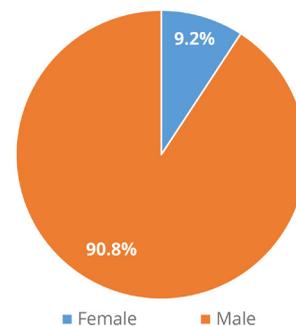
Source: U.S. Census

Ethnicity of VC-Backed Founders



Source: RateMyInvestor, 2019

Gender of VC-Backed Founders



Source: RateMyInvestor, 2019

DEI as a Tool in the Entrepreneurship Tool Box

Although the picture looks bleak, entrepreneurs and ecosystem partners have a great opportunity to turn the tide, by beginning to cultivate leadership that is more diverse and exemplifying the best in what workplaces can offer all employees. In the latest Trends in Entrepreneurship Report, Stanford University Professor Chuck Eesley noted that there is evidence from case studies and research literature that creating a diverse, equitable and inclusive culture from the inception of an organization is not only possible, but also yields better performance and lasting diversity benefits for both the company and society.⁸

A commitment to DEI must become a tool in the entrepreneurship toolbox – one that is embraced and taught by universities, incubators and accelerators, investors and other startup supporters. It also requires each player in the ecosystem to expand and diversify its own network to create broader inclusivity and attract more talent and innovation into the field of entrepreneurship. The result of a sincere commitment to the equitable expansion of entrepreneurial networks will be the formation of better and more sustainable companies, and will allow for an ecosystem where diverse founders can thrive.

Strategies That Work

Industry leaders and academics alike have been exploring best practices in workplace diversity (particularly in leadership positions) and inclusivity. Although this list is not comprehensive, the following are some evidence-backed strategies for firms to consider when promoting greater diversity in recruitment, the hiring process and retention.

[1] Companies should make a good first impression by highlighting how diversity and inclusion matters to the organization during the recruitment process. Research suggests that perception and reputation of the organization matter to job seekers and influence whether they see themselves as a good fit with the company.⁹ In particular, women and people of color seek different employer attributes than their white male counterparts, with both groups putting greater emphasis on workplace diversity.¹⁰

[2] Recruit from predominantly minority or female institutions of higher education. Recruiting from mostly minority (HBCUs) or all-female institutions (women’s colleges) signals to potential hires the organization’s commitment to hiring the respective affinity group.¹¹

[3] Address company culture to ensure that it is truly inclusive and welcoming for all groups, including women, people of color, parents, different generational workers and others. Ensure you have a welcoming and accessible environment for all people. This includes attention to cultural norms, language and the physical spaces within an organization’s office.¹²

[4] Begin building a diverse team (especially leadership), an inclusive culture and internal processes, as well as a welcoming environment early on in the lifecycle of the organization. When the organization starts to grow, founders need to be intentional about setting up company values and culture. They must ensure they are inclusive and welcoming by creating systems

⁸ Slide 45

⁹ Slide 49

¹⁰ Slide 49

¹¹ Slide 50

¹² Slide 51

and habits that encourage behaviors that align with these concepts from within. Then, they must break out of their bubble when recruiting. Early in the life cycle of a startup, recruiting often takes place within known networks. Leadership needs to be intentional about breaking out of these networks and seek more diverse sets of job applicants.¹³ Additionally, most startups do not have a formal performance evaluation process or career path planning. Prioritizing these elements will ensure applicants and employees see a fair future within the organization.¹⁴

Conclusion and Call To Action

A great deal of research points to the fact that a commitment to diversity, equity and inclusion is critical to business success. To date, many of the programs focused on improving diversity have targeted recruiting practices, but those efforts have failed to retain workers, signaling that there is more to the story than a recruiting pipeline problem. What is also clear is that

the entrepreneurial systems have been set up to encourage insular networks, within both startups and investor organizations, which has made the problem worse and more difficult to address with surface solutions.

In order to change the cycle, we have to approach the problem in an entrepreneurial way – we have to start doing things differently, by measuring the success or failure of our activities and then sharing our results to help our community learn together. If you have any stories you would like to share with us, please let us know, so we can continue the conversation and make progress in changing the culture of entrepreneurship to become more inclusive.

*This insight is based on findings from the latest Trends in Entrepreneurship Report, a product of the Kenan Institute of Private Enterprise and the UNC Kenan-Flagler Entrepreneurship Center. **View the report and all research citations at frontiers.unc.edu.***

¹³ Slide 52

¹⁴ Slide 52

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