

Diversity and Inclusion Practice

Investing in Black economic mobility

Racial equity and inclusive growth can drive economic mobility and a postpandemic recovery.



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In this episode of *The McKinsey Podcast*, Diane Brady speaks with partner Shelley Stewart III about the economic benefits of closing the racial wealth gap, leading the new McKinsey Institute for Black Economic Mobility, and strategies to promote racial equity. An edited transcript of their conversation follows.

Diane Brady: Hello, and welcome to *The McKinsey Podcast*. I'm Diane Brady. Today we are speaking with McKinsey partner Shelley Stewart. He is a leader in our Private Equity & Principal Investors Practice, helping clients on growth topics, and now he serves as a leader of the McKinsey Institute for Black Economic Mobility. Shelley, welcome.

Shelley Stewart: Thank you so much for having me.

Diane Brady: So why are we starting this?

Shelley Stewart: The history of racial disparity and systematic inequality has been long-studied and well-known in the United States, and it has been brought into particularly sharp focus over the last six months, both in the context of the disproportionate impact on Black Americans of COVID-19 and with respect to some of the social-justice issues that we are all facing and discussing as a nation.

These challenges are relevant in the US, and they're relevant around the world. As part of our remit, we as a firm have long taken the opportunity to partner with our clients across sectors, and around the world, on issues that are particularly tough. So we believe that we have a place to help on this particularly tough, and what some would even call "intractable," issue.

Diane Brady: There's something almost audacious about coming out and saying Black economic mobility. When these issues are discussed, it's often under an umbrella term, like financial inclusion. Was there a reason why you felt it was important to see it directly through a racial lens?

Shelley Stewart: Absolutely. First and foremost, we know that this issue of mobility does not impact

only Black Americans. But we have seen in the data that Black Americans in particular face staggering inequality that is only matched in some instances by the Native American population, at least in the US.

So we wanted to be very precise about the group that we were trying to impact. On the economic-mobility front, you hit the nail on the head. We wanted to be very clear about what the end goal was, which is to help Black Americans increase their mobility in places where they faced stagnant mobility for generations.

Persistent gaps in Black economic mobility

Diane Brady: As you say, these are issues we've seen for many generations. What's changed? Are you hopeful?

Shelley Stewart: I am hopeful. But I think that many folks who are not as close to the history and the data assume that more progress has been made than is actually the case over the last, call it, 150 years. So certainly, if you take the lens of Black Americans descending from slaves, and the economic conditions associated with that, one would say yes, we have made progress today.

If you fast forward and you look at some of the educational gains that came around and accelerated after *Brown v. Board of Education*, the data is quite clear that educational attainment has improved for Black Americans. So we should celebrate that.

That being said, if you look at many of the measures of economic wellbeing, whether it is income or wealth, there are huge gaps that have persisted—and over various periods of time, even grown. You take wealth, for example. Today, or at least as of 2016, the median net worth of Black families was one-tenth that of white families. So from that perspective and that lens, we have not made substantial progress, and there's a lot of work to do.

The goal: ‘to help Black Americans increase their mobility in places where they faced stagnant mobility for generations.’

‘An incredible impediment to wealth’

Diane Brady: You’ve done a lot of work on Black-owned businesses. What are you doing specifically through the institute?

Shelley Stewart: Black-owned businesses and business ownership and entrepreneurship in general are a critical wealth driver. And as we know, small and medium-size businesses are also our job-growth engine here in the United States.

The opportunity to increase the number of Black-owned businesses is substantial. Today Black-owned businesses comprise only 2.1 percent of US employer firms while Black Americans make up more than 13.0 percent of the population. This gap is an incredible impediment to wealth for Black Americans on the whole.

Even where we have businesses, we know that there’s a certain level of fragility that’s being exposed, for example, by the pandemic. At the outset of the pandemic, we wrote an article, “Investing in Black lives and livelihoods,” where we identified that about 40 percent to 50 percent of Black-owned businesses were in the most vulnerable sectors of the economy when it comes to the pandemic.

That’s before you even adjust for size and revenue and access to credit and some other challenges. So we’re trying to take all the challenges head-on, from how do we get more Black entrepreneurs at the front end of the funnel coming up with business ideas—which, by the way, we actually do at a disproportionate clip, particularly with Black women—to how do we ensure that those businesses are being funded? That they have access to credit? That supplier-diversity programs in corporate America are supporting those Black businesses?

That comes in the form of research, which we’ve been publishing. We’re also convening various groups. We’ve had a number of discussions with corporate leaders as part of our institute outreach around this imperative. And we hope to even begin some capability efforts with Black-owned businesses in the next horizon of the institute.

Investing in Black entrepreneurship

Diane Brady: It’s interesting, because oftentimes these issues are discussed when there’s a corporate involvement through a bank, for example, or when a financial institution will have an initiative. How does McKinsey approach this problem differently?

Shelley Stewart: We try to take a very holistic lens. Certainly the financial-services industry has a huge role to play as we’ve identified access to capital as being one of the largest impediments to scaling and sustaining Black-owned businesses. That being said, there are a number of challenges that are not related to access to credit or access to capital, whether these are industry-selection choices that entrepreneurs are making or access to networks, or social networks that help ensure businesses are successful, or capability-building efforts.

And so we’re trying to look across the whole journey of entrepreneurship and not only ask where are there real opportunities for McKinsey but also ask in our unique role as a convener of stakeholders from across the public, private, and social sectors, how do we bring those groups together and point them in the direction of impact? And so I think we can take a bit of a broader look at that entrepreneurship journey, whereas banks play an important but more defined role in certain parts of that journey.

Diane Brady: You yourself were an entrepreneur prior to McKinsey. You cofounded Dreadnought Capital Management. What was your experience as an entrepreneur?

Shelley Stewart: Ten years ago, a couple of colleagues I had previously worked with at a bank and I started an asset-management firm called Dreadnought Capital. And we had a diverse partner group in founding that company. I think we had a unique set of challenges at the time we were starting it. It was coming out of the Great Recession. I'd like to believe that the diversity of our team made us stronger, so when we walked into a room people said, "OK, wow, this is a group that comes with diverse perspectives, but all have top-notch training."

So I think we did get the benefit of that diversity. Maybe a group of all Black founders may not have been able to have some of the same conversations that our group had, given the makeup of our founders. That certainly was a benefit. But in many ways, that isn't always the case if you're a sole proprietor or someone trying to grow your company and you're a Black businessperson. We've got to get people more used to seeing folks walk in the room by themselves that look like me. And while my experience was quite positive, and I had a great group of cofounders, I also had the benefit of having folks who were not Black Americans supporting me on my team [which not everyone does].

The influence of Black Lives Matter

Diane Brady: You mentioned earlier in the conversation this confluence of the pandemic, which has affected Black Americans disproportionately on multiple levels, and Black Lives Matter. How has that shaped your thinking around the issues?

Shelley Stewart: From my perspective, I know that the national dialogue has accelerated. But there are plenty of folks, including some at McKinsey, who have been spending time thinking about this long before this recent pandemic and long before some of the other issues that we're discussing in society.

So in many ways, the content, the problem, and the solution space remain unchanged for me. It's more about accelerating the efforts because everyone is watching. People are pledging and making commitments to racial justice, providing capital to causes that will help Black Americans.

I don't want to miss that opportunity. So there's that piece of it, which is about seizing the moment and the broader interest in the topic. The second thing, which I probably should've started with, is that the pandemic has made very clear the deadly implications of continued inequality.

The disproportionate death rates of Black and Latinx Americans is something that we should all be embarrassed about as a society. And much of these outcomes that we see, whether they are disproportionate outcomes in the healthcare system or in the education system or even in the criminal justice system, all link to this lingering economic inequality. And so now we see what happens in the most extreme context. And therefore that action—excuse me, that burning platform to act—is really, really timely.

The economic value of closing the racial wealth gap

Diane Brady: When people talk about race issues, there's sometimes a sense of a zero-sum game—that you're helping one group in isolation. But the cost to the overall economy of these issues is something that I've started to appreciate. Think about the billions if not trillions of dollars worldwide that are being left on the table by not unleashing the creativity and the economic might of different groups. Can you give me some sense of the broader cost to the economy of not addressing these issues?

Shelley Stewart: Absolutely. And I'm so glad that you bring that up because that idea of this zero-sum economy is one of the all-time great falsehoods. This has been studied. People have looked at the gender parity issue and what that's costing the global economy.

And people have also looked at it through the racial and ethnic lens to understand it better. And it's very clear that there is a dampening effect on the economy when we don't have broad participation in productive efforts. We did an estimate in 2019 that suggested the US economy is missing out on something in the order of \$1.0 trillion to \$1.5 trillion a year in annual GDP just due to economic disparity with respect to Black Americans.

There are only a few levers that you have to move the economy forward. No matter what your school of economic thought, everyone agrees that fostering human capital and investing in people to unlock productivity is one of the most available levers we have.

And I would assert that Black Americans, and I think the data would support this, have been underinvested in for generations. So you have all these individuals who are waiting, with all this latent potential.

Black Americans have done amazing things and continue to do amazing things in spite of being underinvested in. If we can shift that narrative and if we can invest more in this group of our fellow citizens in the US and in the UK and in Brazil and all these places, we can unlock productivity and economic benefit that does lift all boats. That rising tide will lift all boats. In the US that number translates to \$11,000 to \$12,000 of GDP per capita a year if we could unlock that potential.

McKinsey Institute for Black Economic Mobility: Goals and challenges

Diane Brady: Going forward, what do you see as the immediate challenges that we have to address to create the conditions for success?

Shelley Stewart: This is something that we will be studying in great detail at our institute, both the outcomes and the determinants of those outcomes, as well as the solutions. But let me hit four primary areas, even though I won't be able to do justice to all the issues that need to be addressed.

The first I'll mention is community development, which is all about the quality of schools and access to public-health infrastructure and broadband access—the nuts and bolts of what helps communities thrive. We need to invest in these in places where Black Americans live.

The second is private-sector development. We talked a little bit about this. Entrepreneurship and business formation in these communities not only creates wealth for the entrepreneurs but also creates jobs for people in that community and has other knock-on effects.

Three, human development. This is all about employment and skills training. We have to close this employment gap over a lifetime. We have to close the gaps around pay equity and really ensure that when folks are earning income over a lifetime, that income

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is the maximum that they can earn and not some artificially low number because they spend too much time out of the workforce or are paid too little for what they're delivering.

And lastly, financial development, which is all about access to financial products and financial services. I want to dispel a myth that is often suggested, but that the facts don't support, which is that conducting mass financial-literacy campaigns or teaching Black Americans to save will somehow be the magical unlock [to closing the wealth gap]. It benefits all Americans.

Diane Brady: We all need bank accounts.

Shelley Stewart: Exactly. There's no question that all Americans—including me, even though I worked in financial services—could develop and benefit from financial literacy. That being said, fundamentally this is an income issue for Black Americans.

Diane Brady: We all wear multiple hats, and as a woman, one of the issues that I think about a lot is the gender lens. Is that something that you look at in terms of the conditions and opportunities for Black women versus Black men?

Shelley Stewart: Absolutely. There's obviously this intersectionality lens, and very core to what we want to accomplish with BEM is ensuring that we are inclusive in our efforts around Black economic mobility, recognizing that Black women often face the double ding, if you will, of being Black and also of being a woman.

And the data bear this out. If you look at the progression data in corporate America, you will see the drop off from entry level to executive for Black women is substantially larger than it is for Black men, who also fall off in a very dramatic rate relative to white men.

And again, let me dispel a couple of myths. That is certainly not because of capabilities and it is certainly not because Black women are opting out.

It links back to a lot of the different things that we've been talking about as a society, with respect to racism and bias and lack of sponsorship and support.

And so we want to focus on that. Another important area is entrepreneurship. Black women are underfunded and undercapitalized, despite being one of the most entrepreneurial groups just in terms of the data. They start businesses at a higher clip than you would expect, based on their population, and they need to be supported. And we have huge, huge economic implications of not doing so.

How business leaders can promote racial equity

Diane Brady: What is the advice you give people in terms of actually helping to be part of the solution, as they say?

Shelley Stewart: There's a very tactical list of specific things. But if I had to distill down the essence of all of those tactical things, it's about being deliberate about the decisions you make and understanding the implications on equity. Whether it is how you recruit, promote, develop, or pay, you need to take that equity lens.

It's important to understand exactly where the dollars are flowing in your company. And it hasn't worked to say, "Well, we don't want to focus on race because then we're injecting some bias." Saying "we're not going to focus on it, and it will work itself out through a meritocracy" has not worked. It just hasn't, right?

Because of, again, systematic bias and things like that. So let's be deliberate about the decisions we make. If you take it outside the four walls of a company and you think about running your business—the products, the services, where you locate your company, the vendors you use—then it's about taking an equity lens and just understanding how the decisions you make help different groups.

And even before you set aspirations or targets, if you can take that more deliberate lens and measure as a baseline, I think it'll be very surprising to most people who are running organizations to see that many of the decisions that they take—which could make an impact on certain communities—tend not to flow to those groups, not to Black Americans, for example. And again, that just plays out in the data.

Diane Brady: The public sector has had initiatives such as supplier diversity, vendor diversity. Is that a model that we can scale to support and grow Black-owned businesses, for example?

Shelley Stewart: I think that's a very important model, both for the public and the private sectors. And you've actually seen companies scale. There are a couple of Black-owned companies that I can think of off the top of my head that are billion-dollar-revenue companies now that got their start by leveraging and working through some of these supplier-diversity government programs.

Then they scaled beyond that, obviously, and delivered outstanding products and services. So that is a very big opportunity. The one thing that I will say is we need to be expansive in what we mean by supplier. Because it's not just the supplier of certain services. Janitorial services is an area where we've certainly got examples of Black- and Latinx-owned companies, and also we've also got some great companies that have done well in food services. Those should continue to be supported by these programs.

But we also need to look at the [Black-owned] professional-services side and the investment-management side. There are Black-owned investment banks and law firms and accounting firms and Black asset managers. We need to make sure that they are part of that broad definition of suppliers that fit into and get access to these programs.

A global issue

Diane Brady: Sometimes, we underappreciate the degree to which race is treated differently in the US. You mentioned the UK, for example, or even say places like South Africa. How would these issues be tackled or seen differently in those countries?

Shelley Stewart: At the core, you're right, this is global. And there are certainly going to be unique things in every country. The dynamics around race are different, and some of the challenges are different. And that's something that we will be researching.

But at the core of it, the equity lens is about investing in Black children, quality schools, ensuring equal access or equity of access to capital for entrepreneurship, and being deliberate in our employment practices in terms of recruiting, developing, promoting, and paying.

There should also be greater participation in traditional financial products and services. These are things that are going to ring true across the board. And so the question will be not so much about what you do as about how you go and implement these changes in these different regions. And that is something that we hope to develop a very clear perspective on in the coming months.

Diane Brady: You've done a lot of work in these areas. How does having the institute alter the nature of the research that you do?

Shelley Stewart: We'll continue to do the research, but what the institute allows us to do is to leverage the research foundation to build assets and capabilities that we can help deliver to those who are interested in creating an impact on these issues.

And so we really want to take this beyond the research and convening and get very practical with our clients in the private, public, and social sectors, and be able to say, “Here are the areas that are going to make the biggest difference based on our analysis. Here’s the solutions base and some things that we think are going to be high impact. And here’s the empirical evidence for why we believe that.”

I really do hope and believe that this institute will allow us to move much more quickly to action and solutions. A former colleague of mine, Jason Wright, was my original partner on this journey.

Diane Brady: He’s in the football business now.

Shelley Stewart: Exactly. I think he’d described it as going from admiring the problem to helping us really accelerate toward better outcomes.

Improving the racial wealth gap: Moral, economic imperatives

Diane Brady: I’m aware of the fact that if I’m talking about women’s issues, it’s often to a room full of women. I understand that as a Black American you bring personal experience to these issues, but give me some sense as to how do you engage people who feel like it’s an issue that someone else has? I don’t know if that’s the right way to put it.

Shelley Stewart: Understood. It’s a really important question. I fundamentally believe that, given the resource allocations that basically sit at the root of why we’re having this discussion, we will have to engage and activate allies and the broader community if we’re going to address these issues.

It goes back, though, to where we started this discussion. If you are not moved by the moral imperative—by the way, I think many people are moved by the moral imperative, the more we bring transparency to the level of disparity—then we hope that you will be moved by the economic imperative.

And there are really two sides to that coin. The first is that, as we know, social cohesion is a part of what underpins economic stability. We also know that

economic disparity threatens social cohesion. And so we always need to be thinking about that level of disparity in society, not just for Black Americans, but in general.

That’s one reason to be thinking about it. And then the other side of that coin is what I mentioned earlier: there’s \$1.5 trillion a year of GDP at stake that we’ll all benefit from if we get this right. And so regardless of what moves you to listen and to be curious about this topic, there is a comprehensive set of reasons that I’m confident will push people to action.

Regaining the trust of Black Americans

Diane Brady: It’s about trust and it’s about faith that the government has your back. Where are we on that front?

Shelley Stewart: I think there’s a huge opportunity to rebuild and regain the trust of Black Americans. I’ll spare the long history lesson of how that trust was eroded, whether it was what happened with the Freedman’s Bank or what happened with redlining in America with respect to the housing market.

There are many, many things that we could point to. But now is an opportunity, particularly for the private sector, to lean into gaining trust in a win–win situation by offering commercially viable products and services that Black Americans need and want—and doing it in a way that does not extract and is not exploitative but that creates a feedback loop of customer loyalty that also helps to build and sustain wealth over time.

That will benefit all of us. And there is a lot of work to do in the healthcare sector, in particular, as well as in the financial-services industry. And I think many companies are starting to understand. And the dialogues are shifting.

I’ve talked to several banks over the last six months, as well as companies involved in the healthcare space broadly. And there is this recognition of the tremendous amount of work to be done but also of the huge opportunity that exists if we get this right.

Diane Brady: Two, maybe three, years from now, what will success look like for you in this realm?

Shelley Stewart: It's a great question. In all honesty, and acknowledging all the humility that is appropriate for this topic, I don't know how to think about the time increments, whether it's a year or 18 months or two years. Some people ask, "Can the gap be closed in ten years?"

And I don't have a crystal ball, so I won't try to be too precise. But what I will say is that if we look back a year or 18 months from now, given the billions and billions and billions of dollars that have been announced and committed to the racial-justice moment that we're in right now, even though not everything is going to work and not everything is going to be effective, we should have a handful of

use cases that have been highly successful by all accounts. We can use those to roll out and scale up and continue to have an impact. That's my hope and aspiration in this moment.

Diane Brady: Great. Well, I hope and aspire to that too. Shelley, thank you very much for taking the time to speak with us.

Shelley Stewart: Thank you so much.

Diane Brady: That was Shelley Stewart, who's in McKinsey's Private Equity & Principal Investors Practice and is now a leader of the McKinsey Institute for Black Economic Mobility. I'm Diane Brady. Thanks very much for listening. See you next time.

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