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McKinsey Institute for Black Economic Mobility

# It's time for a new approach to racial equity

Despite decades of efforts by public-, private-, and social-sector organizations, racial inequity has only increased. Can a concerted, coordinated effort reverse this trend?

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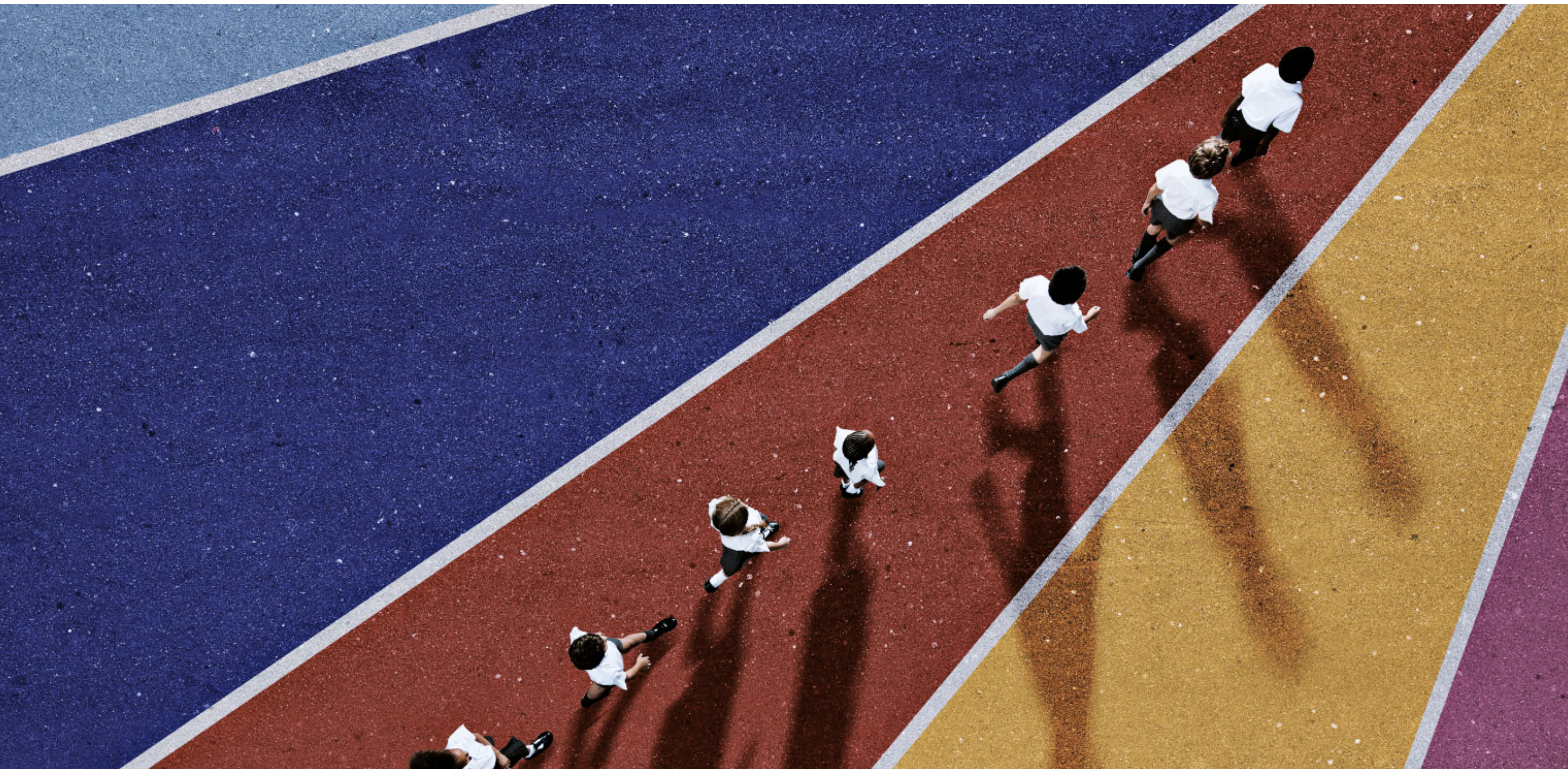

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**2020 has been a year of losses.** First, lives have been lost—around the world, and in the United States in particular. Those lost lives are disproportionately Black lives. 2020 saw the murders of George Floyd, Breonna Taylor, and countless others at the hands of police, and the deaths of more than 46,000 Black Americans from COVID-19.[1] According to the American Public Media Research Lab, the novel coronavirus mortality rate for Black Americans is at least double that of white Americans. The disparity is profound: had Black Americans died of COVID-19 at the same rate as white Americans, more than 22,000 Black Americans would still be alive today.[2]

The economic burden of the pandemic has also fallen more heavily on Black workers and Black business owners. As of October, the unemployment rate for Black Americans stood at nearly 11 percent, versus 6 percent for white Americans.[3] The Federal Reserve Bank of New York found that more than 40 percent of Black-owned businesses in the United States closed between February and April 2020, versus about 17 percent of white-owned businesses.[4] Over those three months, the number of Black business owners dropped by a staggering 440,000.[5] The losses are likely to grow: in September, nearly half of Black business owners said that without federal support, they would only be able to remain in business for another six months.[6]

The events of this year are emblematic of long-standing inequities and are rooted in a long history of systemic discrimination. According to the Federal Reserve, the typical Black American family has eight times less wealth than a white family.[7] The racial wealth gap has profound consequences, both for Black families and for the US economy; our previous research revealed that it will cost the US economy between $1 trillion and $1.5 trillion in GDP output each year.[8]

Despite all this—and in part because of all this—2020 has also emerged as a moment of opportunity, a possible inflection point for addressing inequity in a profound way. The global protests following the killing of George Floyd demonstrated the widespread awareness of inequity and a willingness to do something about it. Fortune 1000 companies have responded, committing $66 billion to racial-equity initiatives. But how can this potential be tapped in a way that delivers meaningful, systemic change?

We at McKinsey don't have the answer to that question. But over the past few months, we have spoken with many leaders of organizations whose goal is to promote racial equity, as well as leaders of organizations that address similar issues, which once seemed intractable. Our research underscores that racial-equity organizations face many of the same challenges as other groups and movements. It has also made clear that collective action that brings together public-, private-, and social-sector stakeholders is the most promising way to create broad, permanent change on this complex issue. Such an approach would draw on the experiences and expertise of racial-equity organizations and Black communities, and could amplify their considerable strengths and capabilities.

In this article, we will explain why we believe that no single sector can solve this problem on its own. We will outline five key elements that are needed for a broad coalition of public-, private-, and social-sector entities to succeed. And we will announce the launch of the McKinsey Institute for Black Economic Mobility, which will aim to accelerate research, to convene people and organizations, and to develop tools and assets that can help advance racial equity and inclusive growth to safeguard the nation's future and the lives of Black people around the world.

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1 "The color of coronavirus: COVID-19 deaths by race and ethnicity in the U.S.," APM Research Lab, November 12, 2020, apmresearchlab.org.
2 Ibid.
3 "Employment status of the civilian population by race, sex, and age," US Bureau of Labor Statistics, November 2020, bls.gov.
4 Jessica Battisto and Claire Kramer Mills, *Double jeopardy: COVID-19's concentrated health and wealth effects in Black communities*, Federal Reserve Bank of New York, August 2020, newyorkfed.org.
5 Robert Fairlie, *The impact of COVID-19 on small business owners: Evidence of early-stage losses from the April 2020 current population survey*, University of California at Santa Cruz and National Bureau of Economic Research working paper, number 27309, June 2020, nber.org.
6 Alysia Snell et al., "Small business owner survey: Findings based on a national survey of small business owners," The Main Street Alliance and Color of Change, September 2020, theblackresponse.org.
7 Neil Bhutta et al., "Disparities in wealth by race and ethnicity in the 2019 Survey of Consumer Finances," Board of Governors of the Federal Reserve System, September 29, 2020, federalreserve.gov.
8 Nick Noel, Duwain Pinder, Shelley Stewart, and Jason Wright, *The economic impact of closing the racial wealth gap*, August 2019, McKinsey.com.

## Commitments to fulfill

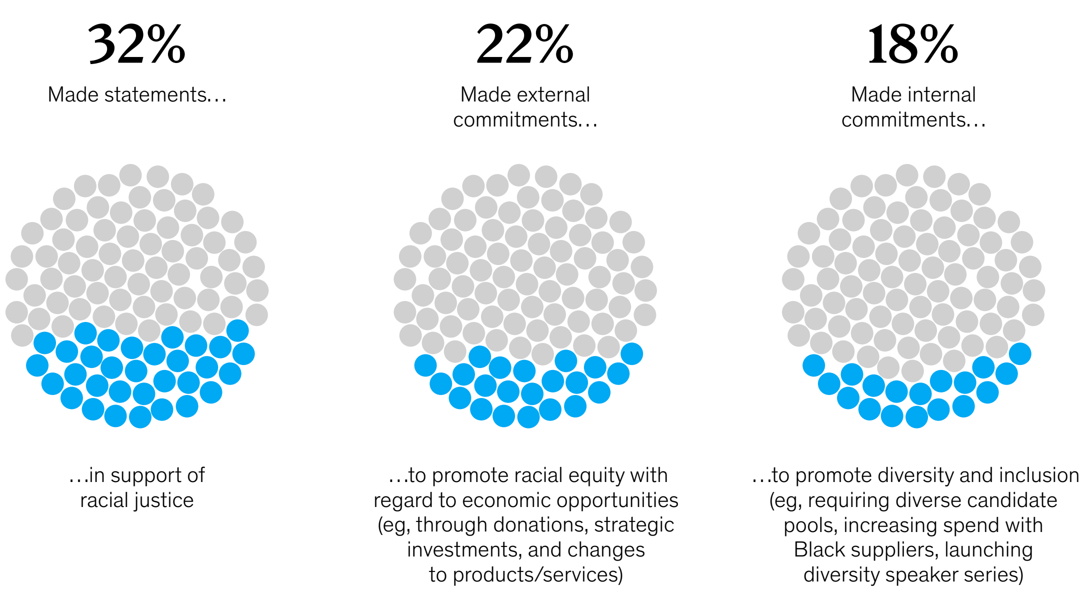
The police killing of George Floyd drew worldwide attention to Black Americans' experiences. People in more than 60 countries and from more than 2,000 cities and towns across the United States took to the streets to express their support for the Black Lives Matter movement.[9] Private- and social-sector organizations hastened to respond, and many have made commitments to advance racial equity. Between May 25 and the end of October, about one-third of Fortune 1000 companies made a public statement on racial equity (Exhibit 1). Of those companies, 93 percent followed up with an internal or external commitment, and 57 percent publicly announced the amount they were committing to racial equity initiatives, pledging a total of $66 billion (Exhibit 2). More than three-fifths of external financial commitments explicitly extend over multiple years.

But amid all these statements, commitments, and initiatives, we find ourselves reflecting on the events and lessons of past decades. Despite the efforts (and achievements) that have been made across the public, private, and social sectors, Black Americans are continuing to face marked economic inequality. The racial wealth gap in the United States not only has persisted in recent decades but also has grown at a compound annual growth rate (CAGR) of 3 percent between 2003 and 2018. In fact, one recent study found that since 1950, there has been no progress toward income or wealth equality between Black and white households in the United States.[10]

Exhibit 1

### Since the George Floyd protests, many companies have committed to reducing racial disparities.

**Individual commitments by top 1,000 US companies,** May 25–Oct 31, 2020[1]



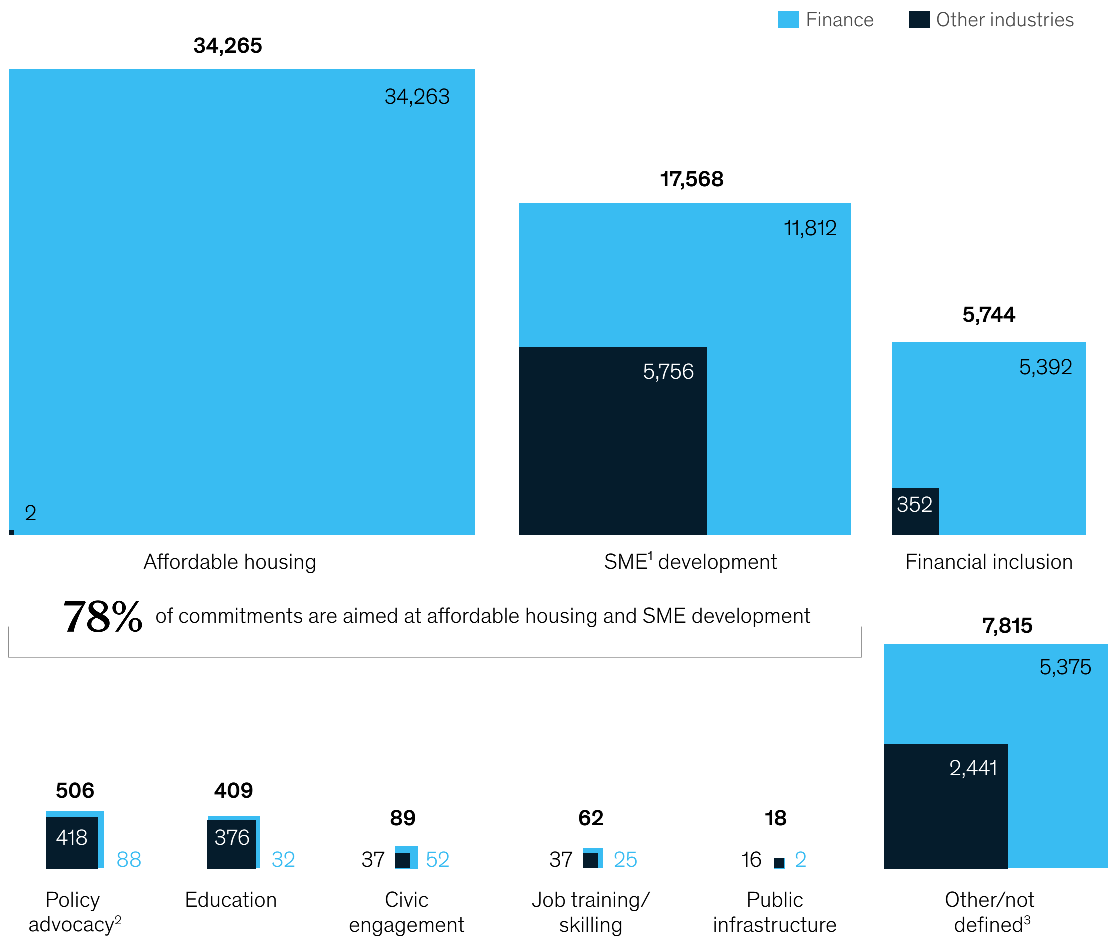

[1]May not reflect all commitments made by corporate roundtables, alliances, etc.
Source: Outside-in profiling of largest US companies by revenue (May 25–Oct 31, 2020); n = 1,144, encompassing new and recently removed Fortune 1000 companies

[9] Audra D. S. Burch et al., "How Black Lives Matter reached every corner of America," *New York Times*, June 13, 2020, nytimes.com.
[10] Moritz Kuhn, Moritz Schularick, and Ulrike I. Steins, "Income and wealth inequality in America, 1949–2016," *Journal of Political Economy*, September 2020, Volume 128, Number 9, pp. 3469–519, journals.uchicago.edu.

Exhibit 2

## Companies have committed $66 billion to advancing racial equity.

**Area of publicly committed investment,** $ million




Note: Dollar figures may not sum, because of rounding.
[1]Small and medium-size enterprises.
[2]Includes donations toward policy initiatives relating to civil rights, criminal-justice reform, etc.
[3]Other/not defined includes internal diversity and inclusion initiatives, as well as external company commitments that were not explicit.
Source: Outside-in profiling of largest US companies by revenue (May 25–Oct 31, 2020); n = 1,144, encompassing new and recently removed Fortune 1000 companies

The evidence suggests that while the public, private, and social sectors have engaged in meaningful efforts to combat racial inequity, racial disparities are produced, reinforced, and amplified across sectors. Black Americans face systemic disadvantages in the private sector, and market-oriented solutions do not fully meet the needs—or match the realities—of Black Americans. Similarly, while policy reform can have a powerful impact, government interventions alone cannot address racial inequities, especially given that public-sector tools and solutions are not equally available to Black Americans. Civil-society organizations are unable to bridge these gaps on their own. In short, single-sector solutions cannot fully address the barriers to Black advancement.

Decades of failures and shortcomings have contributed to widespread distrust of these efforts in the Black community—which in turn compounds the challenges. If the past is any indication, the commitments of individual organizations may not be enough to drive the meaningful, system-level changes needed to address racial disparities.

## Five attributes of successful coalitions

The best hope lies with a sector-spanning coalition.[11] Such coalitions have achieved success or made significant progress in addressing similarly complex challenges, such as youth unemployment and discrimination against LGBTQ+ Americans. Many of the challenges facing organizations that promote racial equity have been shared by entities confronting other systemic issues. In fact, our conversations surfaced five attributes that tend to form the foundation of successful coalitions.

Our research suggests that a coalition with these five key elements would boost the effectiveness of ongoing racial-equity efforts and help to sustain these efforts beyond the current moment of broad public attention. These key elements are not exhaustive but emerged from wide-ranging conversations with leaders who are on the ground doing this work. Those leaders' expertise, insights, and lived experiences should inform any new approach. They understand and acknowledge the challenges they face—and they see many areas of achievement and opportunity.

**1. Unite around one clear mission**

Racial inequities exist in nearly every area of society—housing, politics, finance, labor, criminal justice, and more—so it can be hard for organizations to successfully focus on a clear mission that will have a profound and lasting impact. The director of impact investing at a foundation working to drive economic inclusion for people of color noted that his biggest challenge is getting grant makers, nonprofits, and private-sector companies to stop talking past one another.

Successful coalitions are committed to and united around a clear mission. Freedom to Marry, a campaign that was active in the United States between 2001 and 2016, rallied its supporters around a clear goal: winning marriage for same-sex couples. As early as 2001—14 years before marriage equality was achieved in the United States—founder Evan Wolfson urged movement leaders, supporters, and allies to focus on that goal: "We may leave the room not getting everything we want, but don't go in bargaining against yourself."[12]

Wolfson told us that LGBTQ+ organizations "never 100 percent agreed on anything." But as the focused Freedom to Marry campaign moved forward, more and more movement organizations and activists, as well as new supporters and allies, responded to the strategy and embraced the goal of winning marriage. "One of my precepts of activism," Wolfson explained, is that "*you don't need every*; you just need enough—the critical mass of people, supporters, resources, agreement, and momentum to deliver on your strategy."

**2. Coordinate and collaborate via a central backbone**

In many of our conversations, leaders of organizations working toward racial equity called for a better way to coordinate and collaborate. Connie Evans is president and CEO of the Association for Enterprise Opportunity (AEO), a decades-old group that works with more than 1,700 member and partner organizations to provide capital and services to underserved entrepreneurs in the United States. When discussing the challenges facing organizations that promote Black economic development, Evans cited a lack of collaboration as a reoccurring theme. "The fragmentation slows things down," she told us. "What is needed is an agreed-upon direction whereby each organization could realize its role in support of a more aligned strategy."

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[11] The Oxford dictionary of economics defines a coalition as "a group of individuals or firms who have separate objectives, but combine to adopt strategies or advocate policies."

[12] Peter Freiberg, "Wolfson leaves Lambda to focus on freedom-to-marry work," *Washington Blade*, March 30, 2001, geocities.com.

Gary Cunningham, president and CEO of Prosperity Now, a nonprofit that advances financial security, stability, and mobility, noted that a lack of national coordination limits the effectiveness of local organizations: “There is no national intermediary to support local ecosystems, so each ecosystem suffers from the same problems as its clients when it comes to capital, technical assistance, talent, staffing, and resources.”

Coalitions that succeed often rely on a backbone structure—a core group that will regularly convene stakeholders, build consensus, and coordinate action; collect data, disseminate knowledge, and identify programs to scale; and track overall progress and publicize the results.

The World Economic Forum (WEF), for example, engages businesses, governments, and civil-society leaders to address a wide range of industry, regional, and systemic issues. The WEF’s industry and regional action groups, COVID Action Platform, and other multistakeholder groups are helping companies and organizations work together to respond to current crises.

The Reboot Representation coalition offers another example of how coalitions can support and amplify the work of individual organizations. Reboot Representation aims to close the race and gender gap for underrepresented women of color in the tech sector. Dwana Franklin-Davis, the coalition’s CEO, told us that the coalition “offers a safe space where tech companies can learn, grow, and share information about their investments and internal diversity and inclusion initiatives.” She noted that the coalition supports more grantees than any single company could by itself, and that “collective power is a major benefit.” The coalition also promotes accountability, including by asking member companies to collect and share disaggregated data (broken down by both gender and race) on their diversity and inclusion investments and initiatives.

Franklin-Davis, herself a Black technologist, credits her lived experiences with strengthening her work as leader of the coalition. As she explained, “I have lived experience in exactly what we’re trying to do.”

**3. Secure adequate and appropriate funding**

Black-led and Black-focused organizations are disproportionately underfunded.[13] Kimberly Bryant, the founder of Black Girls CODE, an Oakland-based nonprofit working to provide Black girls with opportunities to learn programming and other technology skills, reported that she has to work harder to secure funding than comparable white-led nonprofits: “Even when we’re tapping into the same partner pool, the amount of funding they receive is often significantly higher.” Furthermore, much of Bryant’s funding comes in the form of restricted grants, curbing the organization’s ability to invest in the things Bryant thinks are most needed, like leadership talent and tools to track the impact of its work. “We need women of color in positions of power within funding organizations,” she said.

Coalitions fighting racial inequity must seek to arm themselves with sources of ongoing funding—but of course, this is far easier said than done. As Henry Hipps, a deputy director at the Bill & Melinda Gates Foundation, observed, a long history of bias makes it especially difficult for Black-led organizations to gain the support of philanthropic groups: “Funders say they want to support other communities—but they have consistently funded people who look like them.”

Following Bryant’s lead, stakeholders should continue to push for flexibility to allocate funds for themselves—to decide, for example, what funding goes to innovation and taking risks versus implementation and institution building. Coalitions are often successful when a large group of funders is willing to pool resources and leave allocation decisions to a strong leader. The US Pan Asian American Chamber of Commerce Education Foundation (USPAACC), for example, pools contributions from member businesses, as well as foundations and individual donors, to fund community activities.

[13] See, for example, Jeff Bradach, Cheryl Dorsey, and Peter Kim, “Racial equity and philanthropy: Disparities in funding for leaders of color leave impact on the table,” collaborative research from the Bridgespan Group and Echoing Green, May 4, 2020, bridgespan.org.

**4. Ensure accountability**

Many racial-equity organizations lack data and accountability standards. The majority of stakeholders we spoke with are unable to link key performance indicators (KPIs) at the organization level to broader economic indicators.

It's a difficult challenge. Sarah Treuhaft is vice president of research at PolicyLink, a nonprofit working to advance racial and economic equity in the United States. She told us that while local data are essential, they "can be impossible to get for some important equity indicators such as wealth without individual surveys, which are very resource intensive."

Successful coalitions have systems in place to collect, analyze, and share data on the outputs and outcomes of their initiatives. These systems are based on an agreed-upon set of principles on how impact will be measured and reported, and on how credit for accomplishments will be shared. Racial-equity stakeholders are already taking steps to develop and strengthen such systems. Together with the Equity Research Institute at the University of Southern California, PolicyLink has built an online resource—the National Equity Atlas—to share data with local partners, community leaders, and policy makers.

The global employment nonprofit Generation (which was founded by McKinsey) offers an example of how data can drive progress. Generation gathers a wide range of data and has collected more than seven million data points on its graduates and applicants. The organization has an 86 percent job-placement rate within three months of program completion, and graduates earn three to four times their previous income. Mona Mourshed, Generation's CEO, explained: "The data we gather about our learners, our programs, and our impact help us adjust course and improve programs continually."

**5. Win and maintain support from a broad set of stakeholders**

Even when racial-equity organizations have a proven action plan, they often face institutional barriers—biased policies, structures, forces, and practices that limit their growth. As Henry Hipps observed, "Even if we get all of the policy and advocacy right, there is an undercurrent of institutional racism at every step of the journey."

Successful coalitions rely on broader support from—and active engagement by—institutions and individuals beyond those directly affected.

Long-established civil-rights organizations have already worked to build such support, and their example could help guide the outreach efforts of other racial-equity groups. The National Urban League and the National Association for the Advancement of Colored People (NAACP), for example, have driven meaningful progress over the past century through collaboration with national and community leaders, policy makers, and corporate partners.

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As we have noted, organizations working to achieve racial equity are not alone in facing these barriers; these are collective action problems that other groups and movements share (including those we've highlighted above).[14] A coalition that surmounts these challenges could accelerate progress toward racial equity and strengthen the efforts of cross-sector stakeholders.

## How McKinsey plans to support this critical work

Forming racial-equity coalitions that combine all five attributes is not easy, and this article is not meant to suggest that McKinsey has an absolute answer to the question of how to do so. But we are committed

[14] While other groups may not face racial discrimination, they do encounter institutional barriers of other kinds.

to playing a role in supporting such coalitions, which is why we are launching the McKinsey Institute for Black Economic Mobility.

The McKinsey Institute for Black Economic Mobility will support the movement for racial equity in a variety of ways. Our mission is to help private-, public-, and social-sector leaders take coordinated action to accelerate Black economic development by providing in-depth research, convening stakeholders, and translating research into real-world impact. We will contribute to a fact base that can help guide decision-making, measure progress, and identify priorities and opportunities. We will leverage our deep connections in the private, public, and social sectors to convene leaders who share an interest in driving racial equity but who might not otherwise find ways to leverage one another's strengths. And we will try to ensure that this research and these connections lead to practical tools, assets, and capabilities to create real-world impact.

This is a critical moment. Corporate America is more focused on the issue of racial justice than it ever has been. It is imperative to ensure that the unprecedented commitment of resources and focus toward racial equity is channeled effectively, proves impactful, delivers a high return on investment for society, and brings about real progress for individuals and communities.

Equity should stand at the core of our firm and the organizations that we serve. We humbly acknowledge that we have work to do to achieve this goal. Today, we are committing resources to create sources of renewal for Black individuals and communities across the globe. We hope that this is a step into a more equitable future, and we hope that the companies we work with and broader communities will join us in championing racial equity and inclusive growth, for this generation and those to come.

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