Northwestern | Kellogg

GATHER AGAINST THE GAP: INSIGHTS AND TAKEAWAYS

EXECUTIVE SUMMARY

Gather Against the Gap, a day of programming co-hosted by Northwestern University's Kellogg School of Management and Northwestern Mutual in October 2023, addressed the pressing issue of the racial wealth gap affecting Black Americans. The interactive conference, which was conceptualized in partnership with Boston Consulting Group, convened more than 220 leaders from academia, business and other sectors to discuss key issues and proven strategies for narrowing the gap and driving business growth.

The event kicked off with a presentation of key data. A staggering $10 trillion racial wealth gap exists in the United States, with Black households experiencing a median wealth of $20,000 compared to $180,000 for white households. A significant employment gap for Black Americans contributes to an income gap of more than $100 billion annually. At 1% of total privately owned business revenue, Black-owned businesses are too few and too small to meaningfully impact these gaps without significant growth.

Expert speakers highlighted three levers that organizational leaders can pull to reduce the racial wealth gap and fuel growth:

- **Advancing business diversity.** Corporate procurement spend is a powerful tool to help grow businesses that invest, employ and operate in diverse communities, especially those that are locally owned.

- **Channeling capital to grow employment and business.** Institutional investors can make more and larger investments that generate both financial returns and social impact. Investors who doubt there are enough opportunities for these investments can find them by looking beyond their traditional relationship networks.

- **Scaling businesses in diverse communities with commitments from private equity.** Innovative models, strategies and network support from private equity partners can play a valuable role in scaling impact-focused businesses.

To sustain momentum in their efforts to narrow the racial wealth gap, corporate leaders would benefit from tracking diversity in their companies' people, purchasing and philanthropy.

Though systemic change will take time, conference organizers were optimistic that the event's conversations would lead to better action plans and outcomes. They urged participants to return to their businesses energized and equipped to drive change, as closing the racial wealth gap is everyone's business.

INTRODUCTION

The racial wealth gap for Black Americans remains significant, with a direct impact on social and economic growth in the United States. The median wealth for Black households is roughly $20,000, compared to about $180,000 for white households — a disparity that carries major consequences for individuals, families, communities and the nation.

At Gather Against the Gap, a day of programming co-hosted by the Kellogg School of Management and Northwestern Mutual, academic and business leaders came together to discuss strategies for reducing the racial wealth gap while driving business growth. More than 220 leaders participated in the October 26, 2023 event, held at Northwestern Mutual's corporate headquarters in Milwaukee. Attendees hailed from 120 organizations representing academia, government, corporate America, investment and asset management, health care, and the nonprofit sector.

The live, interactive conference, which Kellogg and Northwestern Mutual conceptualized in partnership with Boston Consulting Group (BCG), offered opportunities for participants to engage with expert speakers, including Kellogg alumni and faculty, Kellogg Dean Francesca Cornelli and Northwestern Mutual Chairman, President and CEO John Schlifske '83 MBA. The main objective was for participants to "learn, connect and contribute to actionable plans to drive measurable change," Schlifske said, and return to their workplaces better equipped to help narrow the racial wealth gap.

Both co-hosts highlighted their respective organizations' commitment to advancing diversity, equity and inclusion. Schlifske founded and chairs Northwestern Mutual's Sustained Action for Racial Equity (SARE) initiative and was recognized as a 2021 CEO of the Year by the National Diversity and Leadership Conference. In an opening conversation with Cornelli moderated by Ginny Clarke '84 MBA, he cited two factors — altruistic motives and market opportunities — that should fuel companies' interest in closing the racial wealth gap.

"Almost every corporate leader I meet wants to do something good with their organization," Schlifske said, describing the altruistic motive. Simultaneously, in Northwestern Mutual's 165 years of doing business, he said, "the more we've leaned into the notion of diversity from a commercial perspective, the more we've grown … It's not easy. It takes a lot of work. But like any business initiative, there's a payoff to it."

As a global leader in business education, Kellogg also has a vital role to play. While many of the leaders gathered in Milwaukee were passionate about addressing racial inequality, Cornelli said, "We also need to reach out to people who are not thinking about it. Eventually, at a certain point in their careers, every Kellogg alum may have to make a small or large decision that will affect the racial wealth gap."

Kellogg has a long tradition of offering executive education courses to support minority-owned business leaders and programs to train and invest in minority entrepreneurs. Looking ahead, Cornelli said, "I would like every student to say, 'I want to learn more about this because there's great opportunity.' Working to reduce the racial wealth gap is not only about social impact — it should be seen as a great way to do business."

RESEARCH, DATA AND POINTS OF IMPACT

Taking action to close the racial wealth gap requires an understanding of its dimensions. Dwight Hutchins ’91 MBA, senior fellow and adjunct professor at Kellogg and managing director and senior partner at BCG, presented key datapoints around the issue. According to recent research from BCG:

- There is a $10 trillion racial wealth gap in the United States. That total is based on the calculation that if Black households’ share of the national wealth was proportionate to their share of the U.S. population, it would amount to more than $12 trillion in household wealth, rather than the actual sum of $2.54 trillion.

- 1 in 4 Black households have near zero or negative net worth, compared to less than 1 in 10 white households. The majority of Black households — 6 in 10 — have less than $50,000 in wealth, compared to fewer than 3 in 10 white households.

- The racial wealth gap is symptomatic of a more than $100 billion annual income gap, caused by an employment gap for Black Americans of over 2 million jobs. This employment gap is reinforced by the reality that revenues from Black-owned businesses — which comprise just 1% of the nation’s small businesses — create too few neighborhood jobs for local communities.

Without wealth, Hutchins told conference attendees, “I can’t start a small business and become your supplier. I can’t shop in your store and buy your goods. I can’t buy a home. I can’t participate in the American economy.” And inequality has consequences for everyone: According to a study by the San Francisco Fed, racial and ethnic gaps in economic opportunity cost the United States nearly $3 trillion annually in foregone GDP.

How corporations can make a difference

Shifting the discussion to solutions, Hutchins noted that improved livelihoods for Black families would have a positive impact on health and well-being, public safety, educational advancement and wealth disparities. “If we are intentional and more inclusive with future growth, we could all but close the wealth gap for the majority of Black Americans,” he said.

To create meaningful change, business leaders and corporations should focus their efforts on four areas, Hutchins said:

1. **Reimagining procurement.** Companies will have tremendous impact by identifying and choosing suppliers and partner businesses from underserved communities as part of their procurement policy and by including hiring and spending in distressed neighborhoods as part of their scoring criteria.

2. **Expanding impact investments in underserved communities.** Financial institutions can better support the dealmaking needed to pump growth capital into businesses that help Black communities thrive. They should concentrate on investments that promote access to capital, growth methods, assets and tools — and in some cases acquire existing suppliers.

3. **Promoting impact investing as a viable investment theme for private equity.** Experienced PE firms can deploy their proven templates for growing companies and generating wealth, and offer their connections to source, screen, structure and rapidly grow expansion-ready suppliers. Acquisitions can accelerate impact by identifying suppliers willing to sell and by expanding operations and hiring in targeted communities. Nationally, there are 100,000 privately owned businesses that employ millions from distressed communities. As long-time owners consider exit options, private equity could assemble diverse ownership teams, and even employee stock ownership plans (ESOPs), to pursue acquisitions.

4. **Maximizing federal funding to prime the pump of inclusive growth.** If business and civic communities united with state and local governments, they could maximize the billions of dollars in federal infrastructure investments to drive business growth and create jobs in distressed communities.

"If we do these things — get the buying signals right, get the investment flowing and get private equity to bring their tried-and-true templates to the table for growth — we can grow the businesses that create jobs in these communities and change the game," Hutchins said. "But we have to do it at scale."

LEVERS AND KEY INSIGHTS

Gather Against the Gap organized discussion around three levers that leaders can pull to help reduce the racial wealth gap and drive business growth. Sessions featured expert speakers who focused on specific levers and provided opportunities for conference attendees to delve into the topic in small groups and share back their questions and reflections.

Lever #1: Advancing business diversity and Black supplier growth

Supplier diversity is a business strategy to intentionally grow the use of diverse vendors or suppliers when procuring goods and services. Presenter James H. Lowry, academic director of Kellogg's Advanced Management Education Program, senior advisor at BCG and a nationally recognized supplier diversity expert, outlined ways to catalyze the growth of minority businesses.

To increase wealth and reduce poverty nationwide, **minority-owned businesses of all sizes need to be created and expanded – especially large ones**. "The cornerstone of the U.S. free enterprise system is the small business," Lowry said. "They create the jobs, they create the revenue, they create the hope." Second-tier minority businesses with the capacity to grow and employ more people are also vital, along with billion-dollar Black businesses — "big, big businesses that are players in the bigger game both domestically and internationally," he said.

In 1978, Lowry designed the first federal strategy for minority business, leading to the creation of the Minority Business Development Agency in the U.S. Department of Commerce. Soon after, legislation was passed that helped minority-owned businesses grow 8.5% annually from 1982 to 1997, but the starting point was too low and the racial wealth gap has persisted. **Both minority and non-minority elected officials and civic leaders must do more to accelerate Black economic development,** Lowry said, or be voted out: "Limited economic growth in minority communities is a national problem and should be treated as such."

Lever #2: Channeling capital to grow employment and business

How can corporations invest to both benefit their shareholders and policyholders and also improve economic outcomes for undercapitalized communities? And how can Black businesses gain access to the capital they need to move forward? A panel moderated by William Towns, adjunct professor in Kellogg's Sustainability and Social Impact Program, explored those questions with a discussion of impact investing.

Impact investing doesn't aim to place societal or environmental benefits above financial returns. "In its purest sense, it has an equal focus on those two components," said panelist Joe Pursley, head of insurance, Americas, at Nuveen.

To achieve scale and drive change, **companies need to think about how they will organize their investments to achieve the type of returns that investors are looking for**. "What we're hearing, and this is incredibly important, is that we're not sacrificing returns for impact — there can be a balance there," agreed panelist Ladell Robbins, managing director at BlackRock Alternatives.

BlackRock invests in businesses or projects that are owned, founded, led or managed by people who identify as Black, Native American or Latinx — and which serve minority communities. The investment management company has allocated $1 billion in capital to this strategy, with an average investment size between $40 and $100 million for projects in housing, financial inclusion, health care, education, workforce development and other areas.

Investors who doubt there are enough minority businesses to invest in at this level should look beyond their traditional relationship networks. "There are a lot more out there than you think," Robbins said. "I can assure you that there are talented Black and Brown entrepreneurs across the country who are not achieving their economic potential because of a lack of capital."

Increasingly, financial institutions and private equity investors want to track and communicate financial and social returns to their boards and shareholders, Pursley said. Therefore, **a company's ability to quantify its positive impact on society or the environment** — carbon emissions lowered, hospital beds created, students educated — **can help unlock institutional capital**. The practice can also help businesses attract talent.

Such insights resonated with conference participants including Precious Drew of gener8tor, who runs Northwestern Mutual's Black Founder Accelerator program. Now in its third year, the initiative supports tech entrepreneurs with access to a $100,000 investment, coaching and mentorship. The program is a success, but Drew said more resources were needed to ensure that founders advance not only in the startup phase, but at every stage.

Andrea Hoffman, founder and CEO of Culture Shift Labs, stressed the importance of networking to create access to capital. Her firm has built a large community of Black and Latinx venture capitalists, she said, "and we've gotten $1.4 billion into the hands of the community, founders and fund managers over the last nine years." That growth has been possible because companies like TIAA, Nuveen, JP Morgan Chase, UBS and others attend Culture Shift's summits "and allow us to get investors in the room to meet founders and fund managers," Hoffman said.

Lever #3: Scaling Black businesses with commitments from private equity

When businesses move from the startup to the scale-up stage, their impact becomes much greater — in job creation, capital contribution and community benefits. What challenges exist for business owners looking to scale their businesses? How can models and commitments from private equity and venture capital firms be leveraged to fuel this growth?

In a panel moderated by Francesca Cornelli, three presenters weighed in. Eric L. Kelly is chairman and CEO of Overland-Tandberg, a global technology firm that empowers businesses to securely manage their digital assets and people. Previously, Kelly spent most of his career at Fortune 500 companies, two as CEO of publicly traded companies, gaining a foundation in the corporate world that he called “invaluable” for learning to scale and manage businesses.

Panelist Susan Edwards ’10 MBA, operating director at the Vistria Group, said her Chicago-based private equity company aims to deliver financial returns while contributing to a thriving society. “We define a thriving society as being healthy, wealthy and wise,” she said, “so our investment verticals are in health care, education, financial services and affordable housing.”

Panelist Fonta Gilliam is CEO and co-founder at Wellthi, a financial technology (fintech) company that helps banks deepen their customer relationships with Millennial and Gen Z clients, who mainly look for financial advice online.

Drawing on lessons from their experience, the presenters offered the following advice for Black-owned businesses looking to scale for growth and impact:

- **Think global.** Even if your company’s early development is on the domestic side, many of your future business and growth opportunities may come from outside the United States.

- **Borrow innovative models and strategies from private equity.** Consider mergers and acquisitions as a way to fill out your value chain. Create an ecosystem in which the right legal, accounting and consulting firms help you build on your growth strategy.

- **Give management teams financial incentives to meet specific objectives.** Since 2020, the national reckoning around racial inequality prompted some companies to promise they would diversify their boards and invest in underserved communities. "What we've learned is that it’s one thing to say something, but if you don't put money or action behind it, it’s just performative," Edwards said. Companies should set specific goals and offer incentives to meet them.

- **Work with private equity firms to create a road map for going public.** Three to five years ahead of time, build your company’s leadership team and board with the goal of going public in mind. “You can’t get to where you want to go without the private equity teams being with you,” Kelly said.

Private equity investors who want to deliver financial returns and positive societal impact are likely to ask the following questions when they consider opportunities to ramp up their investment in Black-owned businesses, Edwards said:

- What is the potential impact for our investment?

- What value proposition is the company offering to the market? Is the market growing? What are the revenue and cost drivers for that business?
- What does the management team look like? Are the right people in place to take the company to the next level and, if not, is there a talent pipeline that can be tapped?
- What is the best growth strategy for the company — is it organic or should it involve add-on acquisitions? How can workforce development be part of growth?

Following small group discussions, questions bubbled up from participants. Kahlil Byrd is the founder and CEO of Shur, a fintech company that seeks to build generational wealth for student loan borrowers. He asked how soon early-stage companies should think about private equity as one of the roads available to them. Justin Mott, a second-year Kellogg MBA student, asked if presenters had any advice for businesses that wanted to access federal contracts.

Kelly suggested that companies combine federal funding with money raised from partners on the private equity side. "I can't say it enough — it's not just the dollars, it's smart dollars." Growth-oriented businesses need advisers who will guide the company at every stage. "The people who are going to invest in you and your company are going to be so important," Kelly said.

FINAL TAKEAWAYS

In a shifting environment, how can organizations continue building momentum to narrow the racial wealth gap? What lessons can experienced leaders bring to these efforts? A conversation featuring John Schlifske and John W. Rogers, Jr., chairman and CEO of Ariel Investments, probed these questions.

Founded 40 years ago, Ariel was the country's first Black-owned investment firm and is still one of the largest. Recently Ariel successfully launched Ariel Alternatives, raising over $1 billion to invest in acquiring and growing diverse businesses. When he launched Ariel, Rogers had to go to friends and family to raise capital. Today, he said, more banks will loan to minority firms but most large corporations are unlikely to do business with them outside of traditional areas like construction, janitorial services or catering. Those sectors "supply a lot of jobs, but they don't really create wealth," Rogers said.

Rogers called instead for a change of mindset where corporations commit to hiring minority-owned investment, law, accounting, consulting, technology and government affairs firms and routinely partner with them. He said CEOs who want to make a difference in the racial wealth gap need to emphasize *business* diversity, rather than supplier diversity: "They've got to work with Black and Brown businesses in the parts of the economy where the wealth is being created today and tomorrow."

Increasingly, corporations take into account diversity, equity and inclusion concerns and environmental, social and governance factors when investing in any business. To take actionable steps toward racial justice, Rogers suggested that corporate leaders pledge to keep track of "three Ps" in their organizations:

1. **People:** Track and measure the diversity in your company's C-suite.

2. **Purchasing:** Form contractual relationships with minority businesses across a variety of industries. Keep track of spending by category to see how much went to investment, legal, technology, media and consulting firms owned by minorities and women.

3. **Philanthropy:** Make sure philanthropic investments go to organizations that target minority communities and ultimately serve to uplift the corporation's employee and customer bases.

There are many ways organizations can commit to investing in a more diverse future and workforce. Following the conference, blog posts by Northwestern Mutual and Kellogg offered these takeaways for business leaders who want to have an impact on the racial wealth gap:

- **Treat this as a business imperative and gains will be two-fold.** Ask questions, show vulnerability and carry through that commitment in a strategic and actionable business plan. Supporting change can enhance community vitality, while also having significant return for your business.

- **Sustained action requires sustained leadership.** When leaders show up consistently for their impact initiatives, they create a multiplier effect within their organization.

- **Challenge your thinking on the partners you align with.** Remove any guardrails that may have unconsciously been placed on the types of organizations you think of when hearing “supplier diversity.” Broaden that definition to “business diversity,” which includes technology, professional services and other fast-growing industries that can add value to your corporation.

- **Have transparency and intentionality around tangible outcomes.** When a consumer can understand how the dollars being invested are directly having an effect on their community or issues they align with, it leads to trust, understanding and a greater connection.

CLOSING THOUGHTS

Wrapping up the conference, Schlifske said, “I’m thrilled at not just the size of this room but the scope of the conversations that went on.” Although systemic changes don’t happen overnight or because of a single meeting, he noted that “every conversation leads to stronger roadmaps, action plans and implementations that lead to higher outcomes for communities and business, all in support of driving equality in racial wealth.”

Northwestern Mutual’s Abim Kolawole, vice president and chief audit executive, and Jonathan Viard, senior director, compliance and program lead for the company’s Sustained Action for Racial Equity (SARE) initiative, encouraged conference participants to continue striving for impact in their communities.

“Addressing the racial wealth gap is of the utmost importance, and we were grateful to partner with Northwestern Mutual to bring together the best academic and business minds for meaningful conversation on how to advance that goal,” Cornelli said. “At Kellogg we are shaping leaders who will lead courageously, setting priorities at their organizations that can help advance a more equitable society.”

In short, closing the racial wealth gap is everyone’s business.