The Shocking Factor Putting Your Entire Exit Strategy at Risk



Establishment segregation was decreasing until the 1990s. So, what caused the reversal?

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A Note From The Editor

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Organizations are more segregated today than they were 40 years ago. And entrepreneurs are to blame.

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A study released in January by John-Paul Ferguson of Stanford University and Rembrand Koning of Harvard Business School, found that “occupational segregation” (where minorities are relegated to certain roles within a company) has decreased since 1970. “Establishment segregation” (companies’ emphasis on diversity) has increased.

What’s interesting is that establishment segregation was decreasing until the 1990s. So, what caused the reversal?

Companies started becoming less diverse around the same time it became common for larger organizations to acquire startups. Ferguson and Koning suggest that since startups tend to be less diverse, they dilute the diversity of larger organizations when they’re acquired. This, they say, is what has led to the increase in establishment segregation.

With many companies focusing increasingly on diversity, corporate executives and investors may think twice before investing in or acquiring a less-than-diverse startup. In other words, if you’re a startup owner, you should be focusing on diversity *now* to ensure a smooth exit strategy later. Here’s how:

Hire outside your comfort zone.

Entrepreneurs often focus narrowly on fast growth. They make the mistake of surrounding themselves with other people honed in to the same short-sighted goal. This is why Dallas-based strategic leadership consultant Keith Martino advises that leaders hire for diversity early on.

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“As the business begins to take on momentum, the owner often fuels the fire by hiring individuals who share his or her perspective,” Martino told me in an email. “It’s convenient.”

But the price for this convenience is a company built on a foundation that lacks diversity, Martino said. So, from day one, hire outside of your company’s comfort zone. Find people who challenge decisions and ask questions. Start by looking outside of the startup world.

Then, during the interview, ask potential employees about their perspective of the company. What weaknesses do they see? Where do they see potential? What would they do differently? While their answers may prove they’re not the right fit, the process will show if the candidate can bring something unique to the table.

Avoid employee referrals.

Often, employee referrals lead to some of the best hires. But when a company is small, so is the pool of employees’ family and friends.

As San Francisco-based advisor to tech startups Lever, Bravado and AdRecruits, Leela Srinivasan pointed out, this often means a company’s early hires are exactly like its current employees. Even if the founding team is made up of people from a minority group, there’s no further diversity.

“I’ve seen this in countless startups with an ‘about us’ page that is predominantly male and non-diverse,” Srinivasan said in an email.

Instead of relying on employees’ networks, turn to more diverse pipelines. For technical positions, Srinivasan suggested hiring coding-bootcamp participants. These training programs provide people with the skills employers need. And, since bootcamps occur all over the country, they give access

to talent from a variety of backgrounds.

Another great option is veterans groups. While they might require more on-the-job training, veterans are an underutilized but talented and diverse workforce.

Ask the right questions.

Most leaders don’t set out to build companies that lack diversity. But that can happen when they are blind to their own biases.

“Startup leaders should assess their current strengths and weaknesses from a ‘people’ perspective,” Tim Gates, the Pittsburgh-based senior regional vice president of the staffing and temp agency Adecco USA, said in an email. “In many cases, diversity gaps in the workplace aren’t intentional, but leaders simply aren’t asking the right questions.”

Dig into your company’s demographics. Look beyond race and gender. Consider other sources of diversity, like education, employment history and personality. Determine if these demographics are represented proportionally throughout the organization. The answers to these questions will show where holes exist in your company’s diversity.

Train for diversity.

When an organization is diverse, leaders have access to multiple perspectives and ideas. While employees’ backgrounds play a big part in their point of view, so does their training.

“Don’t train people in mass quantities like big, traditional companies,” Andres Angelani, CEO of Oakland, Calif.-based digital transformation company Softvision, told me. “Instead, expose young people to different emerging technologies, new

design trends and agile mindsets.”

Give each employee a unique learning experience. Have him or her work with different types of customers and under different managers. Try to match employees with unfamiliar experiences.

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For example, if an employee is a white man from an affluent background, assign him to a manager who is a female minority. This will expose him to a variety of experiences that will help him develop new, diverse ways of thinking.

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