

## Episode 32: Empowering an Inclusive Economic Recovery Transcript

Shelley Stewart:

We looked at what we think this is costing the US economy, this wealth gap between black Americans and white Americans. And our analysis suggested that the dampening effect is about \$1.5 trillion of annual GDP from having this long sustained wealth gap. That's a massive amount of economic output that we are choosing to forego by failing to invest in communities that have all sorts of potential, but who have not received adequate investment historically.

Michael Torrance:

Welcome to Sustainability Leaders. I'm Michael Torrance, Chief sustainability Officer with BMO Financial Group. On this show, we will talk with leading sustainability practitioners from the corporate, investor, academic, and NGO communities to explore how this rapidly evolving field of sustainability is impacting global investment business practices and our world.

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Eric Smith:

Hello, everyone. I'm Eric Smith, Vice Chairman here at BMO Harris. And welcome to our podcast discussion. Today we'll be talking about our theme empowering inclusive economic recovery, and we'll be looking at specifically how the public and private sector can work together in partnership to be purpose-driven in helping to promote an inclusive economic recovery. Our first guests include Shelley Stewart, who is a partner at McKinsey and Company and a leader within the firm's private equity and principal investors practice, which serves a range of clients on marketing and sales topics. In addition to his client work, Shelley leads McKinsey's highly regarded research focused on black economic mobility in the United States. We're also pleased to have with us today, Andrea Zopp who was a managing partner at Cleveland Avenue, a privately held Chicago venture capital firm focused on the food and beverage industry. Andrea joined Cleveland Avenue at the beginning of the year, and her illustrious career includes high profile leadership roles in both the public and private sector.

Eric Smith:

In 2017, Andy was appointed by then mayor Rahm Emanuel as CEO of World Business Chicago, which is Chicago's public private economic development agency. Prior to that, Andy served as Deputy Mayor of Chicago, as well as the former CEO and President of the Chicago Urban League. And she's been a trailblazing corporate leader having served as General Counsel of Exelon and Sears, as well as Deputy GC at Sara Lee. As we have just concluded Black History Month, our nation is still at a critical crossroad as it relates to the fight and the battle against COVID-19 and the disparate impact that it's had on the black and brown community. We've also seen the economic downturn and issues around racial and social unrest. So I'm really encouraged today to have both Shelley and Andy here for our discussion, because both of you are in the midst of leading incredible work to advance racial equity. Shelley, can you talk to us about the work that you're leading at McKinsey as part of the Institute for Black Economic Mobility?

Shelley Stewart:

Absolutely. And thank you so much, Eric, for having me. So we've been doing this research for a few years now, but building on decade or so of work on topics of diversity and inclusion. And as we went

through this moment last year with respect to COVID-19 and the disproportionate impact on black Americans, as well as the broader social justice movement, we really thought it was time to formalize our efforts around racial equity beyond the four walls of corporations and so much of our work and much of the discussion in the private sector at least had traditionally been around representation and inclusion inside of companies, and that's critically important. And we continue to do research and to convene and discuss that topic and try to encourage our own firm and others to act. But there's a bigger opportunity to really lift the floor, as I like to call it, with respect to black Americans and their economic outcomes.

Shelley Stewart:

If you just take, as a starting point, that the typical black person who is born poor, so born in the lowest income bucket, has only about a 25% chance of reaching the middle class. That's our starting point for why we need to act urgently because if that broad swath of the population is not participating in the American dream then we're missing out on both opportunity for individuals, so human impact, but there's also economic implications for the broader economy.

Shelley Stewart:

And so our work is really focused on across sector look at what are the different outcomes across one's life journey starting with birth and through to retirement that where these disproportionate outcomes materialize and what are the determinants of those outcomes. So things like education, things like workforce participation, and really trying to understand what the big levers are to help address this mobility issue. And so our research is very focused on that and beyond the research, we're focused on convening stakeholders across sectors to discuss and to really try to catalyze for action, to help address these different opportunity areas and also building assets and tools that help enable institutions like BMO and others to help do their part in addressing this mobility challenge.

Eric Smith:

That's terrific. And I look forward to diving into some of the research and work that you're leading there at McKinsey, Shelley. Andy, I'm going to turn to you and first congratulations on your recent move to Cleveland Avenue, but can you talk a little bit about some of the work that you're doing there to support racial equity?

Andrea Zopp:

Absolutely. And also, Eric, thanks so much for having me with you today. So I came to Cleveland Avenue to lead an initiative that we are developing there too under the guidance and with the support of our CEO, Dan Thompson, and his wife, Liz Thompson, who've been working, as you know, in racial equity for a long time. I'm leading an initiative to invest in black and LatinX and women owned entrepreneurs with a particular focus on the South and West sides of Chicago. Now our view is, I think Shelley's absolutely right. There are a lot of determinants to mobility and barriers to mobility. And I think there are a lot of levers we can pull. We believe one of those critical levers is growing black owned and minority owned businesses, particularly doing that with them at the community level so that they can not only create jobs and economic wealth for their owners, but that those dollars will have a much higher likelihood of staying in the communities and staying in the neighborhoods.

Andrea Zopp:

And so we think that's a critically important part of this addressing this mobility issue and this racial wealth gap that Shelley was talking about. And we know that minority led founders and women led founders have a very disproportionate access to capital. Something like about 80% of those founders do

not have their capital needs met compared to well under 50% of white led majority like companies. So there's a huge gap there. We're trying to address that gap and also provide additional resources for our businesses so that they're well positioned to grow. We are really focused not on a philanthropic effort, but really on a business effort to grow strong, sustainable, growth engines for advancing economic opportunity, particularly on the South and West sides of the city.

Eric Smith:

Thanks, Andy. This is really exciting because I feel like we truly have two incredible game changers here with us for our discussion. So, Shelley, I'm going to come back to you and start with a little bit around the research that you've been focused on. You actually published a report last week that hopefully our listeners will check out. It was entitled America 2021, The Opportunity to Advance Racial Equity. And I was immediately struck by sort of the opening lines, which read, as follows. It says repairing the frayed social fabric in the United States is one of the most pressing issues of our time. It's not a new problem, but if we don't address the underlying issues preventing us from achieving equitable growth and inclusion, the economic and social divisions that drove the civil unrest following the murder of George Floyd will only become worse. Shelley, can you set the stage for our discussion today by describing what you see as the economic inequities that were unmasked over the past year as a result of the COVID-19 crisis?

Shelley Stewart:

Back in April of 2020, we put out a piece called COVID-19, Investing in Black Lives and Livelihoods. And the reason that we broke that piece back in April was because it became immediately apparent, if you look back at history, whether it's natural disasters or the Great Recession that these big exogenous events will disproportionately impact those with less resources and in particular those in minority communities. And so I think this has been eyeopening for many, which I think has accelerated the dialogue, but it was very knowable. Right? So we actually, in that initial work, we looked at factors that would suggest mass disruption from a pandemic, like more disruption than normal. So what is the level of poverty in a given place? What's the housing density situation? What's the incidents of comorbid conditions? And when we put all that into the blender, we identify the fact that black Americans were two times more likely to live in the 10% of counties that would be worse if and when the pandemic got there.

Shelley Stewart:

And so I say all that to say, not that we had a crystal ball at McKinsey, but just that based on history, we knew exactly what would happen and the fragility, whether it relates to health outcomes. So we're seeing disproportionate death rates from COVID-19, which has been widely reported. And we're also seeing disproportionate impacts on black owned businesses and black employment. Again, all these things were very, very knowable at the outset of this crisis. And so what I'm really hoping is that we recognize that now is the time, as we hopefully go into a new normal, to shore up the economic wherewithal in these communities so that we are not as vulnerable when the next big crisis hits. And would be a lost opportunity if 10 years from now, whether it's a pandemic, I hope not, a natural disaster or something else, if we're saying, wow, I can't believe this disproportionately impacted this community because we know quite precisely what the implications will be.

Eric Smith:

The implications are pretty dire, particularly as it relates to small businesses and minority businesses since the start of COVID-19 and the crisis, the number of black owned businesses in the US has declined from roughly 1.1 million to 640,000. And when surveyed, roughly 37% of black owned businesses

express concerns that they won't be able to survive more than a year under the current restrictions versus 59% of white businesses. And, Shelley, I credit you because I think that was actually some of the research from McKinsey. As further acknowledgement though, of the severity of this troubling situation, our own treasury secretary, Janet Yellen, commented during a recent interview. She said that black owned businesses has suffered disproportionately when compared to white owned businesses amid the pandemic. Black businesses were the first to close their small businesses. Blacks were the first to lose their jobs. And early data suggests that blacks will be the last to be rehired when the economy opens up. Andy, how can the private sector help to address this alarming crisis?

Andrea Zopp:

So I just first, I also want to echo what Shelley said. McKinsey and he and his team did the research to support this fact. But the truth is had we stepped back to adjust a minute, we would have known that this was going to happen. We were talking about health disparities, for example, well before the pandemic hit. Right? The life span [inaudible 00:13:33] has been working on that hospital here. So we knew none of this should be a surprise for anybody who's worked in communities of color and working with all the barriers for black businesses. I think what really this showed is that we have to be intentional about activity actions to address the issue, talking about it and saying this is a problem. And hemming and hawing about it isn't really enough. Because when you are intentional, you can do some things.

Andrea Zopp:

So I think some of the things that the corporate community can do are, first, think about their own procurement in two ways, high level and you know, this, Eric. We've talked about this so many times, whether it's professional services and investing and lawyers and insurance brokers, but also taking some of their dollars and saying, I am going to, their procurement dollars, I'm going to be committed to spending these dollars with locally-owned entrepreneurs, or I have a line of business that we can use vendors that we can build a relationship with over time to help grow that.

Andrea Zopp:

The challenge is it takes time and it is outside of the typical norm sometimes of procurement processes. And so it's where you spend your dollars. It's where you invest your dollars. And you know this because you're leading the charge and BMO has been a huge supporter of this investing dollars at the community level both with community organizations who are driving change, but also in development that are happening. Much of the neighborhood development work that I worked on when I was a Deputy Mayor that was a success, that has been successful, is all about public private partnerships.

Andrea Zopp:

The government cannot do it alone. They need private partners. So, and companies have money to invest in a variety of settings, and those funds are changing. But to think through where are you spending your investment? And then the third is, of course, hiring and how you're hiring, not just thinking through entry-level jobs, but thinking through career pathways, whether it's apprenticeships or internships or partnering with community colleges intentionally saying, we are going to build a long-term relationship with a community college for a pipeline of talent that we know will be diverse. But I think the key focus here is there has to be a high level of intentionality, and there has to be someone incented to get to the outcome because standard practices typically will not address these barriers because these are barriers that have derived from systemic issues. You cannot just say put a color on it that goes like we're going to be focused on diversity and just assume that's going to happen.

Eric Smith:

I love the term intentionality, because I think in this moment in time, we have to be moving beyond just making public statements, but actually putting practices in place that will drive results. And that means for both the public and the private sector, and, Andy, you laid out a really terrific framework for the private sector. And I'm going to come back to that in a moment, but I want to also maybe look a little bit at the change with the new Biden and Harris administration. For instance, President Biden has passionately proclaimed that, as it relates to race relations, we're in a battle for the soul of our nation. And to bolster that position, racial equity is now part of the national agenda for the first time in American history. Shelley, your research is almost like a blueprint for how the Biden administration can think about addressing this, and I'd love to get your thoughts on how you see the public sector providing targeted outreach.

Shelley Stewart:

I won't bleed into any specific policy recommendations because I'm not a policy expert, but what I will talk about is the outcomes, I think, that we need to be aspiring for if we're going to achieve racial equity, especially in the context of this recovery. First and foremost, it starts with the vaccine. Right? We need to get equitable access to the vaccination, and we need to be tracking that in real time to ensure that folks have what they need to get back out safely into the economy. So it starts there. The second thing is, and again, you talked about this is access to capital. Right? The public sector plays a role in a variety of forms as it interacts with both the traditional and non-traditional financial services sector. We have to improve the access, both for individuals which shows up in the form of things like bank accounts and access to mortgages and the like, and then again on the small business and medium business side, how do we ensure that entrepreneurs of color, minority entrepreneurs have access to capital and credit as they try to grow and scale their businesses?

Shelley Stewart:

The third thing I will say, which is maybe not as a direct a through line, but we've also got to be focused on improving K through 12 education in places where minority folks live. The return on that investment is extremely high. And those interventions today will have positive downstream implications beyond anything that we can do later on in life. And so I think across those three things, you've got the very near term is the vaccine, making sure that we're very focused on equitable access to financial services and products across individuals and businesses, and focusing on bolstering education, and high quality education for all.

Eric Smith:

That's great. Andy, anything that you would add?

Andrea Zopp:

Yeah. So actually I was literally just saying there's a couple of things I want to build on just to give you, and this goes back to my point about intentionality. So if you talk about equitable access to the vaccine, so vaccines first started coming out, and I know I'm more familiar with the data for Chicago than I am for others, but the disparate access data was horrific. Right? It was like three to one majority population white that's getting it and blacks and Latinos not. The city then took some very drastic steps, very intentional, opened up sites in communities, started targeting zip codes and they shifted those numbers pretty dramatically. So the point is you can't simply just say, we're going to do it. You have to be intentional. Same goes with access to capital, the PPP distribution, perfect example.

Andrea Zopp:

So we're going to have it, but [inaudible 00:20:36] of businesses that didn't have the relationships with the banks didn't have the same kind of financials, their financials together, cut out. So the last round, there's dollars going specifically target this next round, target in this next, the new bill that's coming out. There's dollars targeted specifically to small businesses, minority owned businesses because they changed the ground rules, and that will make a difference. And lastly, I just, Shelley's absolutely right. We have to continue to address education, but what I want you to remember is that the... So just to give you an example in Chicago, we made very dramatic gains in our public education system. Those gains have been devastated by what's happened in the pandemic and students not being able to be in school. And so to Shelley's point, we don't just have to fix public education right now.

Andrea Zopp:

We have to be focused on recovering what we lost by sending students home. And so just think it through. Think about students, minority students and students who are lower income. Didn't have the same access to computers, and IT, didn't have the same kind of support groups that majority or better resourced communities had, and they are falling behind, had fallen behind dramatically. So if we do not come back into schools and education, understanding that we have to be intentional in addressing that, we've lost years. And so it is, his points are absolutely the right points, but I really just want to highlight for us that we can't, we have to be really focused on addressing the barriers that exist in the policies and actions that we put in place otherwise we won't see the real change.

Eric Smith:

Addressing the barriers is something that I see as being really important. And you guys have described really a comprehensive way to build a framework to do just that. I think what we have seen though historically, is that there has been systemic racism in banking. And I think we have, here at BMO, and I know as some of our other competitors, really started to for the first time acknowledged that and to take bold steps to try to address those inequities. We obviously have a mission here at BMO to boldly grow the good. And we recently launched our own BMO empower initiative to provide a \$5 billion five-year commitment here in the US but having the opportunity to speak to some of our senior leaders right now, how would you guys address some of the opportunities in banking to really start to address solutions for the equity gap that we see, that we've seen for far too long? What are some of the opportunities that you see coming up, whether it's small business lending, LMI, mortgage lending, banking the unbanked. I'd love to get your thoughts. I'll start with you, Shelley.

Shelley Stewart:

I think there is, it goes without saying, there's, there's tremendous opportunity. If you take a bank account as the most basic form of participation in financial services, which I think that fits the definition for most, the fact that somewhere around 60 and 65% of black Americans are on or under-banked just really tells you how urgent the issue is. I think, as you think about traditional banking services, I think there's an opportunity for large traditional firms to leverage technology, to get to customers that otherwise they weren't able to access because maybe the cost structure didn't allow it to happen. So many folks who are black live in banking deserts. And how do we think about financial technology and digital banking as a way of, you know, in a way that's cost-effective for the financial institution to serve customers that they otherwise haven't been serving, that's one example. I think if you move to something like credit, I think institutions have an opportunity to re-examine the way they think about and evaluate what credit worthiness means, and leveraging technology and data for good to understand what does credit worthiness really mean?

Shelley Stewart:

And how can you assess it in ways that maybe don't reinforce things that are preventing credit in the first place? And I think that there's a really big opportunity to do that. I think on the investing side, for example, you're seeing with some of these new stock purchasing platforms where you can do things digitally and quickly and cheaply. You're actually seeing lots of interest from minority communities. McKinsey recently did a survey and we found that black consumers were twice as likely, over the last six months, to actually sign up for some of those online digital apps where they can purchase stocks quickly and cheaply. And so the appetite is really there.

Shelley Stewart:

And so I think there's a number of things that traditional financial services firms can do. And I think frankly, if they don't move into that opportunity, I suspect, and we're already seeing this, scrappy entrepreneurs will innovate and they will go after those market opportunities. And so someone is going to meet that demand where it is. And the question is who is willing to invest now to go build it? Because the opportunity is beneficial on both sides, both the institutions and the individuals.

Eric Smith:

Andy, What are your thoughts?

Andrea Zopp:

So, Eric, what I would add to that is I think, you know, institutions, large institutions, do you have a lot of policies and practices in place that came up because they were good, they made sense for the business and it's hard to change those things in smaller buckets. But what I would say is if you look at outcomes, if you say we want to increase our investments, our mortgage investments in these zip codes, by this much over this period of time every business I've ever worked in, once you set a specific goal, will figure out a rational path for the business to get there. Too often we don't, we simply say, well, we want to increase our lending with minorities, but we're not going to change the policies that we have in place that assess whether or not, to Shelley's point, they're credit worthy.

Andrea Zopp:

Well, it's the policies in place. But if you say we're going to work on the assumption that in these zip codes, we can find X percentage of clients that are customers that will be credit worthy. We just have to figure out how to make that happen. You will figure out how to make that happen in a way that would be ultimately financially feasible for the bank. And so this is again, my point around intentionality, it's really about thinking about where do you want to be in a year or two years when it comes to equity? Do you want to increase your were investments in areas that need that investment? And what do you have to do to do that?

Andrea Zopp:

And the truth is you don't have to undercut your business, but you will have to change how you do business and making that happen in large institutions is challenging. And so I think you're, the fund that you, commitment that BMO has made us a big step along the way. You have to act, you have to make that real now, and that's going to require changing practices that you've had in place for a while. And that came up as reasonable rational business practices.

Eric Smith:

You touched on something there, both of you, around the importance of thinking about outcomes. And we all have a clear objective to be able to serve our clients, our communities, and to also ensure that we are thinking about our shareholders and generating the types of returns that are very important. And so,

as I think about outcomes, I always think about what's the value proposition and whatever objective we're trying to achieve. And so, Shelley, I'd love for you to share that value proposition by really describing what's the economic and societal benefits associated with helping to address the racial wealth gap?

Shelley Stewart:

I think first and foremost, in my opinion, there is and remains a moral imperative that I think should be quite compelling and moving to most. If I then translate that to what it looks like for individuals, what I call the human impact, we live in a society where we value the fact that where you're born, right, that the station that you're born into does not dictate or should not dictate where you end up. Right? That is as fundamental to the American dream. It's fundamental to the ethos. Unfortunately, that is not true for black Americans. And if you just look at the data and I said the data point earlier. If you are born poor and you are black, you have about a one in four chance of reaching the middle class. Knowing that the stifling impact of that reality is suffocating.

Shelley Stewart:

And so that real, a very real human impact, and it's a similar number for Native Americans. And then you see varying rates. It's closer to six and 10 for Asian-Americans. So there's great variability, but for some groups, it is not working. And we have to address that if we're going to maintain the social fabric. But if I take a step back from the individual, and I think about the macro, we looked at what we think this is costing the US economy, this wealth gap between black Americans and white Americans. And our analysis suggested that the dampening effect is about \$1.5 trillion of annual GDP from having this long sustained wealth gap. That's a massive amount of economic output that we are choosing to forego by failing to invest in communities that have all sorts of potential, but who have not received adequate investment historically. And so this is not only about helping a subset of the population, it is about that, but it's also about, what I call supercharging the broader economy through unleashing human potential.

Eric Smith:

So coming back to our theme, it's never been more important that we think about ways to really focus inclusive economic recovery and doing this in a bold, transformative way that will, I think, affect generations to come. I'm going to close by just asking both of you, as you look to the future what are you both most optimistic about? Andy, I'll start with you.

Andrea Zopp:

What I'm really optimistic about is the idea that we're having these conversations, that we've got numerous entities who have committed significant resources to addressing the issue. And we've elevated the discussion to the point where I think we now can start thinking about the steps, actual steps that we have to take to drive real change. And I think that, I think, is really optimistic because before we were talking about it in kind of nice fuzzy phrases like inclusion and diversity, and now we're really talking about it in real words that matter equity, systemic problems that you have to address, and that makes a difference.

Andrea Zopp:

And so I'm very optimistic that we are on the cutting edge of really making some change. But I do, I think I, what I, you really know, it's hard. It is driving real fundamental change, and that's the concept behind people need to understand when we talk about systemic, systemic means that it's buried in the systems and you have to root it out, and change the systems to make change. And that becomes challenging. So



what I've, my optimism is based on the fact that we elevated the discussion. My concern is that we lose the moment and that because it will take hard work to drive real change.

Eric Smith:

Thanks, Andy. Shelley, your thoughts, what are you optimistic about?

Shelley Stewart:

I'm quite optimistic to the same point that Andy made just that we've elevate this discussion. I've had tens of conversations, if not over a hundred with leadership teams across the private, public, and social sector on the topic. The articles that we've written and others have written have been widely covered by mainstream media and have been quoted by politics. So everyone is starting to kind of coalesce around the problem statement. And you're seeing strong indications of people committing to changing the composition of their companies and committing real capital and time to help address these issues. And so that feels like something that we should be very proud of, but I think we have to also be very clear-eyed that we're still at the very beginning of the journey.

Shelley Stewart:

And one of my biggest concerns, which I hope becomes something, that again, can drive more cohesive set of solutions is that there's a lot of siloed effort and a lot of people working on pet projects or things that are interesting to them. I think that's great. I think with a problem of this magnitude, we do need more collective action. Let's pick a few things as a broader set of stakeholders who care about this, and let's set a goal and let's move that forward and let's stage and sequence the things we want to work on the same way we would do if we were rolling out a strategy for our business, whether it's we want to really move affordable housing or access to home ownership, let's work as a collection of private sector actors, philanthropists, and then the relevant government entities. Let's work together on that, or business fostering entrepreneurship and business ownership. Let's pick a few and let's really put the full collective weight behind those to ensure that we actually make some progress.

Eric Smith:

That's terrific. Andy, Shelley, I'd like to thank both of you guys for joining us for our podcast. I feel like we've covered a lot. I asked you guys to join because I know about the important work that you're leading, but also because of the partnership that we have with McKinsey and with Cleveland Avenue, and I know that working together, Andy, to your point, we won't miss this moment. We will do more than just talk about it. We're going to take steps to really drive meaningful change. And so I look forward to continuing this discussion and hope to have you guys back again soon to talk about some of the work that you're continuing to lead, but thanks again for joining our discussion today and empowering inclusive economic recovery. Thanks, everyone.

Andrea Zopp:

Thank you.

Shelley Stewart:

Thank you.

Michael Torrance:

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