

## Unlocking a Diverse Workforce in High-Tech Firms: The Power of Founder Diversity

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The high-tech sector, which refers to industries focused on advanced technologies and having high concentrations of workers in STEM<sup>1</sup> occupations, continues to grapple with a major diversity problem. Despite its reputation for being forward-thinking, the high-tech world struggles to welcome women and people from ethnic minorities into its ranks. In comparison to the private industry as a whole, there is a notable underrepresentation of women (36% vs. 47%) and ethnic minorities (7% vs. 13% for African Americans and 8% vs. 14% for Hispanics) in the high-tech sector (Zippia, 2022). This lack of diversity hampers the sector's progress because research consistently demonstrates that diverse teams are more adept at promoting innovation. For example, a study conducted by BCG (2017) showed that firms with higher levels of diversity generate 45% of their revenue from innovations, compared to 26% for firms with lower diversity. In a rapidly evolving field like high-tech, innovation is the cornerstone of success.

Why is the high-tech sector so homogeneous? Experts propose numerous theories. Some blame gender and racial stereotypes, as well as misconceptions among job seekers about what it takes to be a techie. Others point to a lack of positive role models for women and people from ethnic minorities. However, our study uncovered a more fundamental issue: diversity starts with the founding entrepreneurs. That is to say, the roots of diversity (or lack thereof) in the high-tech sector can be traced all the way back to the founding team composition. Our findings revealed that high-tech firms are at least 13% and 5% more likely to contact female and underrepresented minority (URM)<sup>2</sup> candidates, respectively, when the founding team has a higher proportion of female founders. Firms are also at least 18% more likely to contact URM candidates when the proportion of URM founders is higher. Even more exciting, the positive impact of female founders on the likelihood of firms contacting female or URM candidates is stronger when URM founders are present. On the flip side, the absence of URM founders weakened the effect of female founders on firms' outreach to female or URM candidates. We also discovered that female candidates are at least 25% more likely to respond to firms with a higher percentage of female founders.

We utilized a sample of over 73,000 job candidates and 1,170 high-tech firms, encompassing nearly 3,800 founders. This sample was sourced from a prominent networking platform connecting job seekers and high-tech employers in the U.S. The dataset enabled us to investigate the entire recruitment process, comprising three critical stages: the firms' initial contact with candidates, the candidates' responses, and the firms' final hiring decisions. Moreover, to see whether the effect of founder characteristics diminish over time, we divided the dataset by the mean firm age and repeated the analyses. The findings from these sub-samples were consistent with the findings from the full dataset, reinforcing that founder characteristics have an imprinting effect on firm hiring preferences.

Diverse founding teams are a game-changer when it comes to cultivating gender and ethnic inclusivity in the high-tech sector. Our findings underscore a fundamental shift: with women leading the way, doors of opportunity swing wider not only for women themselves but also for

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<sup>1</sup> Science, Technology, Engineering, and Mathematics

<sup>2</sup> We follow National Science Foundation nomenclature and refer to Blacks/African Americans, Hispanics/Latinos, and American Indians/Alaska Natives as underrepresented minority groups (URM). (<https://nces.gov/pubs/nsl9304/digest/introduction>).

URM candidates. Similarly, when high-tech firms are established by individuals from diverse ethnic backgrounds, it sets the stage for heightened access for URM candidates.

It's not just about reaching out, though - it's also about getting a response. Our findings imply that female candidates demonstrate a greater interest in firms where female leaders are present. It is worth noting that URM candidates are more likely than non-URM candidates to respond to firms' emails, regardless of founder gender and ethnicity. This signifies the elevated vulnerability URM candidates experience in the high-tech labor market, where the pressure to secure employment amidst uncertainty may prompt them to respond more readily.

However, here's the catch: the impact of founder diversity shrinks in the final hiring stage. This suggests that any bias based on candidates' demographic characteristics primarily occurs in the earlier stages. This pattern can be attributed to a gradual reduction in uncertainty and information asymmetry as the hiring process unfolds. Moreover, the declining influence of founder diversity at this point might be less problematic, given that a diverse pool of candidates has already been established.

From a policy perspective, promoting gender and ethnic inclusivity in the high-tech sector requires empowering female and URM entrepreneurs from the outset of the business formation process. Policymakers could play a key role in providing resources, mentorship, networking, and training programs to support diverse entrepreneurship in this sector. Building opportunities for diverse entrepreneurship is the key to fostering sustained diversity within the high-tech workforce.

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