



# High-growth healthcare IT: What CEOs and investors think about D&I

Healthcare IT companies, like many early-stage technology firms, are lagging on diversity. But industry leaders are committed to change, and many are taking concrete steps to improve their recruiting and talent management processes.

The moral case for diversity is unimpeachable and the business case is clear; study after study has shown that organizations with diverse workforces perform better than those without.<sup>1</sup> And many early-stage technology companies are even more challenged than established organizations: across the early-stage tech sector, a recent report showed that only 20% of B2B technology unicorns have women on their leadership teams,<sup>2</sup> below even the 25% a recent report cited for the Fortune 100.<sup>3</sup> Growth-stage, investor-backed healthcare information technology (HCIT) companies are no different, and racial and ethnic diversity is, in our experience, even less common than gender diversity at HCIT companies.

Interviews with more than a dozen HCIT investors and senior leaders offer insight into some of the challenges facing their sector: improving D&I across talent recruitment, culture building, and talent management. We found some varying perspectives between investors and executive teams, but also a clear commitment to D&I and some examples of companies making significant progress.

1 For example, see Vivian Hunt, Lareina Yee, Sara Prince, and Sundiatu Dixon-Fyle, "Delivering through diversity," McKinsey & Company, January 18, 2018, [mckinsey.com](https://www.mckinsey.com).

2 Christine Hall, "Women are still a rarity at tech unicorns, survey says," Crunchbase News, November 3, 2020, [news.crunchbase.com](https://news.crunchbase.com).

3 David F. Larcker and Brian Tayan, "Diversity in the C-suite: The dismal state of diversity among Fortune 100 senior executives," Stanford Closer Look Series, April 1, 2020, [gsb.stanford.edu](https://gsb.stanford.edu).

## D&I matters to HCIT leaders

Nearly universally, investors, board members, and executives told us that D&I is a pressing issue for their business, and one that needs to be thoughtfully and urgently addressed. As one CEO put it, “We’ve focused on this since we founded the company, and we’re still not where we want to be.”

On the whole, CEOs stressed their great need to make visible progress, perhaps driven by their day-to-day leadership responsibilities, their interactions with diverse customers, or the greater likelihood that they, themselves, are diverse. One executive focused particularly on the breadth of customers’ identities and needs: “Healthcare, by its very nature, serves everyone—all geographies, genders, socioeconomic statuses, ethnicities, religions, and sexual orientations. We need to both understand their needs and reflect them.” And we heard CEOs talk as much about the moral or ethical imperative as the commercial imperative.

Because emerging and high-growth companies are, by definition, small, building a more diverse team can have a material positive effect, creating notably more diverse external networks and bringing fresh insight and access to different talent pools. Less diverse teams impair such efforts—though some CEOs noted that there is a timing tradeoff, as building new teams who haven’t worked together often requires patience as they find their rhythm and establish a level of trust. “D&I might not manifest itself in the P&L,” one CEO explained, “but it shows up when you need it most: in employee engagement, recruitment, and retention. When things are really in trouble, the best will come out.” Another CEO stressed the importance of inclusion in creating tangible benefits from diversity, noting, “When the s--- hits the fan, a culture of connectivity, inclusion, and shared goals is the insurance policy that will pay off. You can’t buy that—you have to build it.”

Though they recognize its importance, many investors are less focused on diversity as a top priority. One explained, “When we top-grade boards and leadership teams, diversity is one of the key attributes, but it’s not a primary factor; it is one of six or seven criteria.”

Nonetheless, overall in HCIT, as in most industries, it appears that the days of paying lip service to diversity are coming to an end and that intentional and meaningful effort is on the rise.

## Defining diversity in HCIT

Research by Heidrick & Struggles has shown that companies more often see a business benefit from their D&I efforts when they define it clearly, including its importance to their business strategy, among other considerations.<sup>4</sup> Investors and CEOs almost universally told us that gender and ethnicity are critical criteria for diversity in HCIT. However, some HCIT leaders, like leaders in other industries, recognize the importance of more broadly reflecting the communities they serve and within which they operate. For example, some HCIT CEOs also include socioeconomic status as part of their definition of diversity—mostly those who have hourly workforces such as call center operators. They note that they strive to be purposeful in including less privileged voices and perspectives into their broader culture and business planning. CEOs also agree that employees who identify as LGBTQ+ should be considered in discussions of D&I, but most told us (many with concern) that they don’t know the best way to recruit for or showcase this aspect of their company culture.

While it’s quite common for executives of early-stage companies to build their teams from their personal networks, it is critical for leaders to continue to challenge their own thinking in order to ensure they are building the most diverse team possible. One CEO told us that he had a diversity issue inverse to those at most US companies: his top management team was predominantly South Asian and was high functioning and proven, with a number of successful exits behind them, while the rest of the company was predominantly white. When this CEO was seeking a new member of his C-suite, he ran an outside search process to ensure he scanned the market fully, even though the company had identified at least one strong candidate within its existing networks.

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<sup>4</sup> Krishnan Rajagopalan and Lyndon A. Taylor, *Meeting the Inclusion Imperative: How Leaders Can Link Diversity, Inclusion, and Accelerated Performance*, Heidrick & Struggles, April 30, 2020, [heidrick.com](https://heidrick.com).

## Increasing accountability in recruiting

Leading HCIT CEOs, like leaders in other industries, are becoming much more rigorous in ensuring progress on D&I is directly measured, and they are seeing their efforts pay off. One CEO explained, “As time has gone on, I feel increasingly comfortable holding myself and my team to a high standard for creating diverse slates of candidates. And the more I do, the more I see diverse candidates in our recruiting process.”

One CEO and board member added that in order to build a more diverse board, her company had to rethink the traditional search criteria: “To be clear, this isn’t a matter of lowering our standards, but we had to agree to make a concerted effort to reconsider the selection criteria to expand the talent pool. We need to keep the aperture open for well-qualified candidates who would not typically fit the standard profile.”<sup>5</sup>

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## Beyond recruiting to authentic inclusion

Long-term success in D&I efforts, however, comes not only from measuring numbers but from executives and investors holding themselves and others accountable to being more inclusive. That means taking a holistic approach to inclusion that includes engagement, retention, and development efforts to make their company a more attractive place for diverse candidates to work. Even among executives who consider D&I a critical priority, most still see opportunities for improvement. As one put it: “Historically, we haven’t been as focused on inclusion, retention, development, and promotion, but that is something that we are now turning our attention to.”

Regardless of where a company may be in terms of its approach to D&I, one point that came up in several discussions is the need for any effort to be authentic and genuinely embraced throughout the company for it to have a lasting impact. “This isn’t top-down,” another CEO said. “It is top-led and promoted, but it has been organically embraced through all levels.”

Several executives cited formal mentoring programs or rotational development programs as key tools to ensure women and people of color not only gain personal exposure to the most senior leaders—as well as coaching—but also gain more direct experience in a variety of operational and P&L roles. One CEO explained, “There are generic desires to bring women up in the ranks, but where you put them in the organization matters. You need to ensure that these executives are given the same level of exposure to critical business functions as others in their peer group.”

Critically, for these programs to be successful and not merely window dressing, executives repeatedly mentioned the need for a formal structure and accountability for results. Simply calling someone a mentor isn’t enough, they stressed.

Further still, some organizations are expanding their thinking about inclusion, changing general policies to create more welcoming and supportive environments. One executive described his company’s efforts to restructure holiday programs to be less denominational but to still provide the same amount of paid time off for employees to enjoy as they best see fit.

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<sup>5</sup> For more on how boards can change their processes to increase diversity, see Bonnie W. Gwin and Jeffrey S. Sanders, “Board succession 2020: Three steps toward long-term effectiveness,” Heidrick & Struggles, August 13, 2020; and Alice Breeden and David Hui, “A board review that accelerates competitiveness,” Heidrick & Struggles, April 16, 2020, [heidrick.com](https://heidrick.com).

## Investors' perspective

As noted previously, investors we spoke with were less inclined to see diversity as a crucial issue compared with CEOs. Investors tend to see diversity as something to encourage and support, but they told us it doesn't often influence investment decisions and isn't typically considered a key performance indicator in CEO assessments. One investor explained, "You can't draw a straight line between D&I and value creation—there's so much noise in the data to begin with. There are too many variables to control for. But we have enough anecdotes now to know that the companies that are diverse represent the kind of thinking about employee issues and customer issues that will bring better solutions."

Another investor added, "[Some] of the biggest drivers of high exit values are corporate culture and the charisma of the management team. When I think of the portfolio companies that lead to the best offers, they are often 'acqui-hires,' where the acquiring company wants the team and the culture. While not specifically about diversity, what I have noticed is that more diverse organizations tend to have better cultures, with more passionate workforces. People are excited to be there. And, anecdotally, those businesses are seen as more attractive assets."

That focus on executive teams may be one reason many HCIT boards are not yet particularly diverse. This was a point cited by many CEOs we spoke with, who noted the pronounced lack of diversity at the senior level in the investor community, which extends to poor board diversity at portfolio companies.

Even though investors seem to feel less urgency than CEOs in HCIT, it is clear that the frequency with which D&I is a topic of discussion is higher now than ever before for them, too. Some investors attribute this to the flood of institutional capital entering the HCIT market. As companies mature and pursue broader pools of capital, there is often a shift from the "tyranny of the immediate" to a greater focus on diversity. Other investors noted that D&I is a critical topic for their limited partners, and, as the competition for capital increases, it has become more critical for investors to develop an informed point of view and actively support D&I efforts across their portfolio. Some are making significant progress (see sidebar, "One HCIT PE firm's proactive approach to D&I").

Though they aren't leading the way on D&I, many HCIT leaders are seeing the benefit of being more intentional about building diverse, equitable, and inclusive leadership teams and workforces. CEOs are feeling the most urgency and are taking a range of actions to change their recruiting and talent management strategies. Investors are proving helpful in providing support in the form of regular access to pipelines of diverse talent, data aggregation, and insight sharing across their portfolio companies. By all accounts, from the boardroom to the executive team to the rank and file, D&I is an issue that is foundational and pervasive and can be fuel for an HCIT growth engine.

### One HCIT PE firm's proactive approach to D&I

Frazier Healthcare Partners is investing a great deal of time and resources into not only tracking D&I but also weaving it into the performance metrics of its portfolio companies. In mid-2020, the firm created a Diversity, Inclusion, Equity, and Advancement working group that includes people at all levels, from senior advisors to office managers, and that meets weekly. The group was formed with an open mandate to set its own objectives. In its first few months, they conducted a workforce census of gender and ethnicity across Frazier's portfolio companies. They then overlaid compensation and shared this data with the boards and leadership teams of the portfolio companies. Following that, they agreed to 10 key initiatives. Among them:

- Adapting a "Rooney Rule" for outside searches, requiring teams to interview one ethnic minority candidate and one female candidate in every search. In addition, before selecting a search partner, they require presentation and placement criteria from each firm.
- Developing scorecards for hiring and advancement that allow hiring teams to broaden their thinking about what constitutes specific subject-matter expertise by, for example, allowing them to consider the relevancy of adjacent experience.
- Instituting tracking of promotion rates and new hires within each company by gender and ethnicity, with a goal of being within 10% of the national census.
- Tracking employee satisfaction and engagement scores by gender and ethnicity as well as location and department, which traditionally had been the only categories.

While the companies are not tying progress to closing gaps in compensation or financial incentives (or disincentives), Frazier has nonetheless already seen a significant increase in awareness and intentionality around hiring and promotion processes.

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