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EXECUTIVE LETTER

Ethnic Parity and Competitiveness of Brazilian Companies

In this letter I do not bring answers, I just make an effort to reflect on a complex problem, and as such, it should be treated based on concatenated contributions from different fields of knowledge. ESG, discrimination or aversion to individuals belonging to certain ethnic groups, promoting population resilience, climate change, population aging, Sustainable Development Goals (SDGs), among other topics of high interest in recent years deserve reflection and attention from the academic and business communities, given the power to influence the well-being of people around the world.

In particular, the issue of equity and ethnic parity seems deserving of special attention. How ethnic equity presents itself includes aspects such as economic wealth (see Schmall Wolkowitz, 2016), health (see National Center for Health Statistics, 2016), and career (see Deloitte and the Alliance for Board Diversity, 2015). And, essentially three lines of action seem to interest the business environment: education (see US Department of Education Office for Civil Rights, 2015), infrastructure (see Bullard, 2005), and justice (see Gross, Samuel R. and Possley, Maurice and Stephens, Klara, 2017).

The view that racial-ethnic equity can be a source of competitive advantage for the company does not seem trivial. At the same time, a growing number of companies have made an effort to identify sources of competitiveness promotion based on issues related to racism or discrimination due to ethnic aspects. This way, growth, and profitability have been the target of corporate initiatives in this area, through the development of the companies' relationships with their relevant stakeholders, such as employees, customers, and ethnic groups. There is a relative consensus around the premise that ethnic inequity is the result of structural dysfunctions in the social fabric, including the economic system, cultural, political, and institutional aspects, according to the Center for the Study of Race and Ethnicity in America (2015).

The so-called structural ethnic prejudice works cumulatively and produces significantly adverse outcomes for people of different ethnicities in areas such as health, wealth, career, education, infrastructure, and civic participation. In the context of the United States, it is verified, for example, that the average net income of families considered white is approximately 13 times greater than that of families considered black, and ten times greater than that of Latino. This wealth discrepancy is attributable not only to differences in educational and career opportunities but also to factors such as government policies in that country. For illustration: people of color end up living predominantly in poorer neighborhoods.

According to the US media (Eligon & Gebeloff, 2016), even black families who earn at least US\$100,000/year end up being more likely to live in poorer neighborhoods, compared to families classified as white with income up to US\$25,000/year. The issue of space occupation also seems to be relevant in the context of São Paulo, the largest economy in Brazil. It is evident that it is imperative to understand the differences between different institutional contexts, it is not prudent to just assume the reality of other countries as a proxy for the Brazilian context. It is necessary to produce quality and technically credible knowledge, passions free.

The persistent impact of such disparities, combined with other inequalities such as underperforming schools, poor access to public transport, predatory loans granted by different financial agents (even those prohibited by law, as is the case of loan sharks, discussed by Braun Santos et al., 2018) and the profoundly disproportionate impact of our system. The criminal justice system ultimately excluded socially vulnerable people, who end up being those belonging to certain ethnic groups in Brazil, a context discussed by Heringer (2002). At the same time, there is a dramatic demographic shift in the movement, demanding the attention of companies, and it is up to managers to pay attention to this phenomenon.

The birth and death rates are not identical between ethnic and social groups, and this has induced particularly important aspects for the process of demographic transition around the world. Sweden, for example, is going through a process of explosion in the share of inhabitants from Muslim countries, and this has caused a strong transformation of the institutional environment in that country. These new inhabitants of Sweden are already aiming to occupy a place in the national political power, as reported by Vanttinen (2021).

The interaction between growing diversity and persistent economic-racial exclusion is the main challenge that Brazilian companies must face in order to compete now and in the near future. Potential gains are considerable. In the US context, GDP could be 14%, \$2 trillion higher, if the pay gap between white and black employees is eliminated. The purchasing power of blacks and Latinos in that country has steadily increased since 1990 and 2018, estimated at US\$1.3 trillion and US\$1.6 trillion, respectively, according to the Progress 2050 (2015).

The Brazilian citizen, in different countries around the world, usually does not find it difficult to be received with relative sympathy, essentially because of the image of a friendly and diverse country that



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Brazil ends up carrying. A proxy for this is the position occupied by the Brazilian passport in the Henley Passport Index, one of the 20 most valuable in the market, with the Japanese passport being the leader in this list, even though Japan is one of the approximately 50 countries in the world that does not allow a person to have more than a nationality.

The Covid-19 pandemic accelerated the movement of people into the labor market, mainly for this reason, having a second passport became frequent in order to maintain the freedom to travel anywhere, according to Ledsom (2021) discuss a recent article published in Forbes. Some argue that due to the considerable ethnic diversity found in Brazil, the Brazilian passport ends up being coveted by organized crime. In the early 2000s, the Brazilian media reported that the Italian mafia paid US\$10,000/Brazilian passport (Globo.com, 2001).

Researchers assume that opportunities to create shared value through promoting racial equity occur along a company's value chain - from hiring, training, and promoting employees to acquisitions, product design, and marketing, even including the company's ownership and governance structure and its lobbying and philanthropy. As Michael Porter and Mark Kramer define the concept of shared value in their 2011 Harvard Business paper "Creating Shared Value," companies can create shared value on three levels. Each of these three levels offers opportunities to improve a company's economic performance by promoting ethnic equity:

- i. Re-conceptualizing products and markets: serving existing markets better or accessing new ones with the development of innovative products and services that reduce inequality and meet the needs of people of color. In this regard, Pay-Pal uses alternative forms of credit assessment in working capital loan transactions, eliminating factors traditionally influenced by race. To date, this PayPal program has disbursed \$3 billion to 115,000 customers. 25% of its loans were in credit-starved counties that are predominantly black communities.
- ii. Redefining productivity in the Value Chain: Reducing costs, increasing quality, and improving productivity across a company's operations, promoting racial equity. In this regard, Gap Inc. has created a talent pipeline with double the average retention rates, providing a skills training course and a 10-week internship program through the This Way Ahead program. Ninety-eight percent of participants are people classified as of color in the United States.
- iii. Strengthening and consolidating the business environment: Nurturing a reliable base of qualified human capital and external suppliers, increasing consumer demand and improving the regulatory framework, creating opportunities for communities of color. By way of illustration, in the insurance market, Prudential used its lobbying arm to work with a coalition of organizations to pass legislation in the United States that purports to help small businesses enroll skilled workers in retirement plans, thereby increasing access to the economy for black people by creating a new market for retirement Prudential and its industry

An example of difference between preferences: the pharmaceutical industry

The Covid-19 pandemic intensified the dispute in the pharmaceutical industry, already traditionally known for its level of hypercompetitiveness. It turns out that, in line with the perspective that it is necessary to consider individual behaviors in the development of new products, there are differences between male and female individuals, according to unpublished data that I collected in the city of São Paulo, with 1,200 individuals (Figure 1).

It is suspected that the ethnic aspect is also important to under-

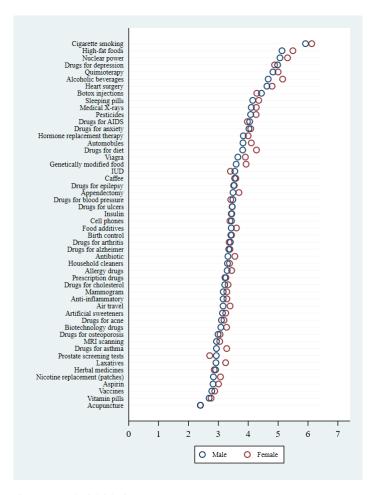


Figure 1. Perceived risk in drug use. N = 1,200. **Source:** Prepared by the author based on data collected in the city of São Paulo.

stand the risks and benefits perceived for certain products, as highlighted by Finucane et al. 2000. These researchers use the term White-Male Effect to refer to the willingness to risk on the part of white males. Figure 2 shows the benefits perceived by males and females in the consumption of medicines, something that can be useful to re-conceptualize products and markets in the industry.

It is necessary to know what we do not know, but what we should know about the topic

Figure 3 shows that in 2018 Brazil had approximately 19.2 million people who declared themselves black – 4.7 million more than in 2012, which corresponds to an increase of 32.2% in the period. This is what a survey released in May 2019by the Brazilian Institute of Geography and Statistics (IBGE) reveals.

The interest in intra- and inter-ethnic differences can be noticed in several fields of knowledge. In particular, the main contributions to the promotion of parity and ethnic equity can be found in the economic field, as highlighted by Roy et al. (2021) and Schwab e Zahidi (2020). In the Brazilian context, the Observatory of Education, High School, and Management, of the Unibanco Institute, highlights the following table: of a structural and systemic nature, inequality between whites and blacks in Brazilian society is unquestionable and persists with the fragility of public policies to face it. Blacks represent 75.2% of the

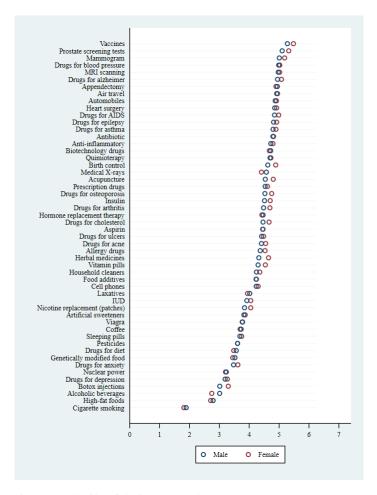


Figure 2. Perceived benefit in drug consumption. N=1,200Source: Elaborated by the author based on data collected in the city of São Paulo.

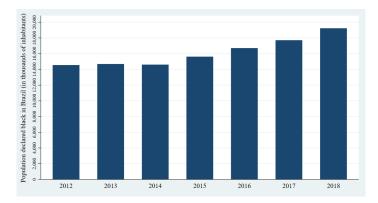


Figure 3. Evolution of the Brazilian population that declares itself black (2012–2018, in thousands).

Source: IBGE (2019)

group formed by the poorest 10% in the country (IBGE, 2019).

Reliable data must be built and distributed so that the scientific community in different fields of knowledge can produce relevant and technically supported knowledge. To reflect on the future, it is imperative to understand the past. In this sense, according to the available data, we found that 2004, according to Table 1, which presents a gen-

eral picture of ethnic inequality in the largest Brazilian economy, São Paulo reflected a picture that deserved attention to the issue of inequality ethnic. If we observe the fertility rate, it is reasonable to assume that the portion of the black population was higher, also presenting higher indicators for mortality. If we assume that the feeling of belonging can induce more individuals to declare themselves as blacks, given recent movements aimed at promoting equity, the black population should certainly continue to grow.

If on one hand, it may be true that there is a work agenda to promote ethnic equity in Brazil, on the other hand, we must be aware that our country has its history, its problems. It does not seem prudent to take any paths that might sound reductionist to something complex built over centuries, such as ethnic prejudice (not just against black individuals) in our country. It is necessary to build quality knowledge, capable of enabling management intelligence for the public and private spheres. This process starts with training human resources and producing good quality data. We have a work to do!

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Table 1. Racial Inequality Indicators-RDI (São Paulo in 2004).

Indicators	Values
Black Population	11,120,427
White Population	27,729,151
Black Men	5,630,520
White Men	13,395,984,0
Black Women	5,489,907
White Women	14,333,167
% of Blacks in the Total Population	28.3
% of Whites in the Total Population	70.5
Black Women's Fertility Rate (1) – 2000	2.5
White Women's Fertility Rate (1) - 2000	1.9
% of Black Live Births from Teenage Mothers (3)	19.3
% of White Live Births from Teenage Mothers (3)	17.4
Homicide Rate for Black Men aged 25 to 39 Years (per 100,000 men) – 2002/2004 Triennium	140.1
Homicide Rate for White Men aged 25 to 39 Years (per 100,000 men) – 2002/2004 Triennium	83.3
Mortality Rate from Maternal Causes of Black Women (4) aged 25 to 39 years (per 100,000 women) – 2002/2004 Triennium	5.9
Mortality Rate from Maternal Causes of White Women (4) aged 25 to 39 years (per 100,000 women) – 2002/2004 Triennium	2.6
% of Blacks aged 15 Years and More Covered by Health Plan – 2003	25.3
% of Whites aged 15 Years and More Covered by Health Plan – 2003	55.8
% of Households with Black Responsible, with Internet Access (5)	65.5
% of Households with White Responsible, with Internet Access (5)	80.0
% of Households with Black Responsible, with Public Sewage Connections	81.6
% of Households with White Responsible, with Public Sewage Connections	89.5
% of Households with a Black Responsible, without Adequate Housing Condition (6)	38.7
% of Households with a White Responsible, without Adequate Housing Condition (6)	19.4
% of Blacks among the Poorest (20% poorest)	43.5
% of White among the Poorest (20% poorest)	56.5
% of Blacks among the Richest (20% richest)	11.7
% of Whites among the Richest (20% richest)	88.3
Average Size of the Black Family (number of people)	3.4
Average Size of the White Family (number of people)	3.1
% of Families Headed by Black Women with Children	64.9
% of Families Headed by White Women with Children	60.3
% of Black Men Responsible for the Family	41.1
% of White Men Responsible for the Family	47.4
% of Black Women Responsible for the Family	19.3
% of White Women Responsible for the Family	17.1
Illiteracy Rate of Black Women 25 Years Old or Over (%)	12.0
Illiteracy Rate of White Women 25 Years Old or Over (%)	7.1
Average Years of Study of Black Women 10 Years and Over	6.5
Average Years of Study of White Women 10 Years and Over % of Black Children 4 to 6 Years Old Attending Preschool at the Appropriate Age	7.9
	62.8
% of White Children 4 to 6 Years Old Attending Preschool at the Appropriate Age	71.7
% of the Black Population 7 to 14 Years Old Who Attending Elementary School at the Appropriate Age % of the White Population 7 to 14 Years Old Who Attending Elementary School at the Appropriate Age	95.8
% of the Black Population 15 to 17 Years Old Who Attended High School at the Appropriate Age	96.6
% of the White Population 15 to 17 Years Old Who Attended High School at the Appropriate Age	57.6
	70.6
Participation Rate (7) of Black Women (%) Participation Rate (7) of White Women (%)	54.9
Fallicipation Rate (/) of Willie Wollien (%) (% of Plack Women Employed as Demostic Maids (%)	49.9
% of Black Women Employed as Domestic Maids (8) % of White Women Employed as Domestic Maids (8)	27.8 15.0
Average Nominal Income (9) of Black Occupied 15 Years Old and Over (in reais)	616.00
Average Nominal Income (9) of White Occupied 15 Years Old and Over (in reals)	1,037.00
Black Unemployment Rate (%)	
White Unemployment Rate (%)	14.6
% of Occupied Blacks-Not Contributors to Public Security	9.7
	41.9
% of Occupied Whites-Not Contributors to Public Security Average Value (9) of Retirement and Pension Benefits for Blacks (in reais)	35.0 795.00

Source: IBGE. National Household Sample Survey - PNAD; Demographic Census; Seade Foundation. (1) Average number of children had by a black woman at the end of the reproductive period. (2) Average number of children had by white, yellow, and indigenous women at the end of the reproductive period. (3) Adolescents are those under 20 years of age. (4) Excludes brown women. (5) Only households that have a microcomputer are considered. (6) The proportion of adequate housing was calculated by subtracting from the total number of permanent private urban households that had at least one of the following types of housing inadequacy: absence of mains water, piped to the household or property; absence of sanitary sewage through a general network or septic tank; insufficient living area, as measured by excessive density, that is, households with three or more people per room serving as a bedroom; inadequate structural quality, due to the use of non-durable materials in the walls and ceiling, or non-compliance with construction and urban standards (subnormal agglomerates); and insecurity of tenure, as in the case of homes built on land owned by third parties and other housing conditions, such as squatters. (7) Refers to the proportion of people who are inserted in the labor market, such as employed or unemployed. (8) Refers to people aged 15 and over. (9) In Reais (R\$) as of September 2004. Note: For the indicators presented, the black population includes browns and blacks. Available at: http://produtos.seade.gov.br/produtos/idr/principal_ind.php

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