TRANSCRIPT

"INVESTING FOR AGENCY - A DISCUSSION WITH RICH DONOVAN, PIONEER OF INVESTING IN DISABILITY"

A conversation with Rich Donovan

Recorded June 28, 2016

ANNOUNCER:

You are listening to a recording of the Open Society Foundations, working to build vibrant and tolerant democracies worldwide. Visit us at OpenSocietyFoundations.org.

KATE MURPHY:

My name's Kate Murphy. I work for Soros Economic Development Fund in the Economic Advancement Program. We're gonna have a few introductory remarks-- from my boss, Sean Hinton-- from Youth Exchange, from Human Rights Initiative. I think this has been a really exciting brown bag to plan where we had almost three programs together working on it. So it's-- it's a really exciting time for us. So with that, I'll turn it over to Sean.

SEAN HINTON:

Great, thank you. I-- Chris Stone often says that the work that we do is all about people, you know, it's all about finding extraordinary people doing-- you know, doing things in a new way or-- or-- or-- or doing something innovative. And I've had the chance to travel with him to a few countries and-- you know, looking at this and identifying and sort of feeling out where we're going to work. And I haven't met anybody that I have got as excited about the potential of working with as-- as-- as Rich-- in the last few years. I was really-- Kate said, "You gotta meet this guy." And I said, "Okay. You know, I'm busy flying around." She said, "No, no, you've gotta meet this guy."

And-- I-- I really-- have been inspired by and challenged by a lot of the conversations that I've had the opportunity to have with Rich. So not to talk about this as a big meta-macro subject or not to sort of explain why economic advancement cares deeply about this, because we do and-- and it is important, and I'll leave that to-- to-- to Kate and others to talk about.

But-- I'm just thrilled that Rich is here and this is the beginning of-- of what will be-- a very fruitful collaboration, I think-- with somebody who I find, you know, really inspiring and-- and challenging, as I say. So it's a great pleasure to have you here, Rich. And-- we're thrilled to be collaborating with-- with other programs in-- in-- in creating this opportunity to-- to talk.

ZACHARY TURK:

So just to follow up on that-- thinks so much for coming. Thanks, Kate, for organizing this. Youth Exchange, we're-- we're really excited to also be kind of collaborating on this-- project. We have Alex here as well from Youth Exchange. And Raquel, I believe, is on the line. And so just to give a brief background-- for those who-- (BACKGROUND VOICES) who aren't-- f-- who aren't familiar with Youth Exchange, so we're-- we're an internal support unit or an internal campaign, what we like to call ourselves. And we work with all the programs and foundations of Open Society.

As we put-- as we say, we put on the youth lens or the youth glasses as they-- as they-- as they're looking at (NOISE) planning for, engaging with and-- reflecting on youth activists as part of their broader strategies. And-- and really the-- one of the reasons why we're so interested in-- in this discussion, in this topic is-- because-- I think as everyone here knows, that young people is not a homogeneous group.

And we really like to ask when we're working with youth activists across a network whose voices are at the table and whose aren't. And-- and one of the-- one of the topics that comes up often is-- is when working with colleagues we-- we speak about-- intersectionality of-- of young people who are excluded over multiple layers-- including youth with disabilities, LGBTQI-- youth, youth on the move-- Roma youth.

So I think throughout the network there is-- a lot of questions being asked over, you know, what-- what young-- what young voices are at the table and what aren't. And so we're super excited to be joining this discussion to learning from all of you. So thanks for having us, Kate. And I think it's-- I'll pass it over to Kimberly.

KIMBERLY O'HAVER:

Okay. Great, thank you. I've heard about Rich's work, I think, from Kate-- for a couple of years actually. So-- I'm-- I'm-- I'm really glad that you're able to join us and finally meet you. I work with the Human Rights Initiative at the Open Society Foundations, and I s-- specifically work in-- with the disability rights teams. And we-- our-- our work-- most of our grant making-- our programmatic work-- has some link-- to the United Nations convention on the rights of people with disabilities. And-- why employment is important is that it's actually an article-- of that convention, Article 27 on Work and Employment, which-- says that state's parties recognize the rights of persons with disabilities to work on an equal basis with others and then it goes on and on and on. (THROAT CLEARING)

But we-- we really-- we really promote-- work that-- that focuses on implementing the different articles of the convention. And then also-- something new that has come up-- some of you might be familiar about-- Agenda 20-30-- which an agreement between the UN and governments-- to end poverty-- reduce poverty, bring equality. The sustainable development goals are part of that. And they replace and build on the former-- MDG's, millennium development goals.

And I think the link to-- to Rich here-- and what his presentation about the economic value of the disability market is really-- goal number eight, which is on employment-- and that includes-- things like the realization and reasonable ec-- accommodation in the workplace-- more mainstream opportunities promote-- productive employment of persons with disabilities. And one other thing that I think he-- he might find-- or might be-- linked to his presentation is the access to make loans in microfinance. So-- I'll leave it there and--

KATE MURPHY:

And so I get the honor of introducing Rich. So-- Rich and I first met when I read about him on the internet, and I did what I do in most situations was I wrote to him on LinkedIn (LAUGH) and asked if I could in any way get in front of him. And he graciously agreed. And for me, I think-- I am a person with a disability.

And like most people with disabilities, we struggle with our identity, our role in society and where we belong and how we belong. And I was blown away by Rich's work, and I think most of you will also be blown away by Rich's work, how he's redefining the market. I also think that you'll probably be turned on your head a little bit. I think Rich's approach-- we work in the land of conventions and-- policies and regulation.

And I think that what you'll hear will likely challenge that. And I-- it's been a great honor in my life to-- to-- that Rich replied to my LinkedIn message. (LAUGH) But I-- I couldn't think of-- of someone that I could be more excited to have here having this conversation with us. Rich spent the bulk of his career as a prop trader with B of A Merrill Lynch-- working in the markets, trading on securities.

In 2008-- or in 2006, he went on to found a group called Line Connect which has celebrated ten years of work and which is one of the leading disability-- nonprofit organizations working to place-- high performing individuals with disabilities into major corporations. Simultaneous to that, Rich also went on the begin his work in developing indices that invest in companies that tie into the disability market. And

Rich will be able to explain this to you much better than I can.

But as an investor and as someone who tracks the markets, Rich's products have outperformed the S&P. And so you have to ask yourself what is he doing? How is he doing it? And why is it that every person with a disability wants to be a part of it and-- and be empowered with it? So with that I'll stop talking and turn it over to Rich.

But-- thank you so much for being here today. And Rich will give his slides and then we'll-- kind of start with questions from the group. And-- Zach and I have some to-- to kick it off. But with that, I'll figure out how to get your slides back up on the deck.

RICH DONOVAN:

Well great-- Kate, thank you for that introduction. Now, (UNINTEL PHRASE), let's move on to it, right? So here we go. As we-- as we go (NOISE) through this because we're such a small group, please, if you have a question or you want to dive deeper on something, just throw something at me, we'll do that. This is not meant to be a lecture, meant to be a conversation.

So I will provoke you, I will pull you through a keyhole if I do my job well, and we can discuss all that good stuff. Okay. (COUGH) So before we go on to the first slide, this talk is titled Translating Difference into Value. So when we started this effort, we were focused 100% on disabilities.

And what we learned by doing our research and during our conversations is there was a commonality (NOISE) in disability amongst many other groups, that there were certain things and certain characteristics that made them different from the norm. That was common in all of these groups. So we started to play around with that. (UNINTEL) figured, okay, what are the variables that actually drive value based on these different characteristics.

And-- and we went into a strategic planning session one day and the leader of the group was provoking us. And we were spending an hour trying to figure out what the hell we did and tried to articulate that. And this got quite heated. And the facility director (UNINTEL) said, "Rich, what do you do?" And I said, "Well, we translate difference into value." And that's where this was born. Simple, to the point, talking about difference as something that's valued by society, as opposed to traditionally shunned.

So we're doing something that people with disabilities have started to do, embracing that identity and turning what was once a disability into an incredibly powerful advantage. Great. Any questions about that? Great. Let's go. (COUGH) (UNINTEL PHRASE) one day with a simple question: What would disability look like if it was a market?

Rather than being a social cause, rather than being something good to do, what would this look like if we put the traditional characteristics of a market (UNINTEL) and started to collect those numbers and do what a good trader does and figure out is there something there? And what I found stunned me. When I started to look at this the way we typically look at trading, putting numbers around government figures, I calculated 1.3 billion people.

And I couldn't make that jive with what was out there. Because the UN was claiming 600 million. And I don't like to be wrong by a factor of two. (LAUGH) It's not something a generally do. So I tried to break it. I threw everything I could trying to break this number. And I couldn't break it. So I started to put income data around that, we started to put traditional demographic data around it.

And we figured out that this was the largest emerging market in the world. If you looked at things outside of the (UNINTEL), if you looked at things outside of the traditional way that we define markets, this was a huge (UNINTEL) marketplace. If I said the word "disability" to you, what do you think of? Don't think too hard. (LAUGH)

FEMALE VOICE:

Usually physical, something physical.

RICH DONOVAN:

Right. What else? So typically people think the blue wheelchair, the white cane, and the hearing aid. Makes up less than 15 percent of this marketplace. And remember (UNINTEL) there are (UNINTEL PHRASE) in Toronto, one of the senior VPs of-- one of the banks, they came over to me quite-- quite shyly and whispered in my ear, "Rich, I only see two wheelchairs in the room. How do we know all these guys have disabilities?" My answer was, "You can't. You're looking for great talent."

And so-- so the mindset of this is small, is it backed up by the statistical analysis? Then (UNINTEL PHRASE) friends and family, so we said that every person with a disability has 1.85 people directly attached to them. Don't ask me how we come up with 1.85. It will bore the hell out of you. (LAUGH) But we (UNINTEL PHRASE) you get 53% of the population.

Think about that. 53% of the population-- the second largest market in the world, behind women. Not what you would assume disability is, right? Then we take another step. The U.S. census says that those above the age 65 had at least one disability. Baby boomers, the largest demographic income-wise in human history, are now starting to reach the age of 65. They're the wealthiest cohort ever in human history, and they will not be going to Florida like our parents to wait to die. They will be active consumers right up until the end.

So as they age into disability, their consumer identities will be maintained. And brands and governments and those institutions that we interact with on a daily basis have to adjust to that reality. There is no choice. This is the generation that created the teenager, that created the yuppie, that created the midlife crisis, and they're going to redefine what we think retirement is.

So there's a (UNINTEL PHRASE) large macro-demographic forces pushing this forward. That's where most people stop. The typical speech you hear in this space is all about this first slide, that they walk away, everybody goes back to their day jobs feeling good about themselves that they think they understand.

What we do is we then take the next step. How do you cause institutions to want to change? It's not theoretical, right? You've got these large, complex institutions full of human beings with their own agenda, their own mindsets, kids to feed, pools to pay for.

This is wholly unrelated to what (UNINTEL). So we have to figure out the connection between the macro and the micro. And what's missing today is the micro. Most people understand the macro, some better than others. Very few understand the micro. So we've spent the past eight years developing the micro. What I'm gonna show you today is a little bit of that. Next slide, please.

So every good market needs to be segmented. And what we do by nature in business, every market has its segmentation. We look at this a little differently. So disability-- it starts with disability. And as you've all articulated, most people think of the visible disabilities, the wheelchairs, the white canes and the hearing aids. That represents about 29% in the marketplace. This is all U.S. census data.

Non visible represents the bulk of the opportunity. Most institutions don't know they exist. And if they do, they don't know how to reach out to them. They don't know how to connect with them. Those two statements are incredibly complex, even though we talk about three seconds to say. There's a lot built into those three seconds in order to (UNINTEL).

Then, as I told you-- (NOISE) those folks have money (NOISE) to spend. You've read about this space as a poor, destitute space. And some parts of it absolutely are. But the bulk of this population has disposable income, has a consumer identity that may or may not be tied to disability.

In the U.S., they control over $650 billion in annual disposable income, the opposite of the charity message that you've heard for the last 40 years. There are ways to harness that power to cause institutions to want to change. As opposed to simply beating them over the head with regulation, which is the approach that we've taken for the last 30 years.

And I can speak to this. I've just been named the chairman of the regulatory board for disability in Ontario. I walked into the job interview, the first thing I said, "I don't believe in regulation." I thought they would say, "Thank you. There's the door." But they-- they gave me the job. So even government is starting to realize, hey, this isn't working.

We need to find a new approach to that. (UNINTEL PHRASE) controls about $3.9 trillion in disposable income in the U.S. Globally they did-- they could go over $8.1 trillion across the world, excluding Asia and Africa, mainly because I had no idea how to measure Asia and Africa. So the $8 trillion is a floor, not a ceiling.

We then think of (UNINTEL) stuff. We don't advocate for designing (UNINTEL) experiences for people with disabilities. We advocate learning for people with disabilities to improve the core experience for everyone. Why do we do that? Because when that gets done, the needs of people with disabilities get met and the returns on investment go way up (UNINTEL).

Because Ford will never sell an F-150 disability (UNINTEL)'cause nobody would buy the damn thing. But if they can figure out how to make it easier for somebody with very little arm strength to drive the F-150, they just made that product better for everybody. It's a process we call lead user innovation.

SEAN HINTON:

What is it called?

RICH DONOVAN:

Lead user innovation. Rather than studying the median, you study the tails. And you take from the extremes to bring it to the core. Most research today does the exact opposite where they take from the median and put the one thing that deviates from around the median and they try to learn from that. Well, okay, you'r not going to learn much there. It's pretty easy to understand. If you want innovation, you gotta go seek it out from the fringes. And people with disabilities are natural (UNINTEL) because they do things very differently (UNINTEL). Any questions on this? I won't bite. (LAUGH) Okay. Next slide.

SEAN HINTON:

Well, I want to come back to the regulation thing, but you'll-- you'll get there.

RICH DONOVAN:

Yeah. So what does this look like from a company perspective? People with disabilities don't need to change. They know what they're doing. They've been doing it for years. They understand the situation. The change-- the change has to happen at the institutional level. So why do companies exist? We call it the dual mandate. They exist to attract customers and talent and to perform for their shareholders.

Pretty simple, that's the reason why a public company exists. You could argue that's the reason why a not-for-profit company exists. We just change the definition of profit. You could even argue that's why government exists, to change the measurement of perofrmance. So we use this dual mandate to drive everything we do.

How do you leverage disability, non-traditional markets, women, culture, (UNINTEL) to do those two things?

And when you do that, when you put it into that context, you start to leverage demand. As opposed to pushing a string up a hill, people now want to pull that string up a hill. They want to change because they now understand it's in their best interest. Now, there's always gonna be leaders. There's always gonna be followers. This is not a light switch that you turn on and off. This is a process that we're now almost eight years into. So this is a slow, glacial pace of change until it's not.

Right? We're starting to have conversations now with investors like pension funds, commonwealth funds who are realizing they can use their dollars, they investable dollars and their power as investors to change corporate behavior. California teachers a month and a half ago invested about $500 million in an index focused on women, whose methodology is part of (UNINTEL).

So the-- the demand is there. Now we have to focus that demand on what actually causes change. Any questions on that-- that-- that mandate? (COUGH) The idea is if you treat people with disabilities as valued customers and valued employees, you empower them economically. You put cash in their jeans. You change self-worth and identity because a job and consumer identity are core to what we are as human beings, whether we like it or not. And you start to move the needle.

What you see up on that slide on the right is the top 100 companies in the U.S. for disability against the S&P 500. And that's output (UNINTEL) only the last four years about 200 basis points a year with the same risk of the market. For those of you who are financially inclined, or a financial geek like I am, that's the holy grail. (LAUGH) That's what you're always looking to find.

FEMALE VOICE:

So in terms of measuring those companies, the ones that-- that are-- targeting-- and including this, both on the employee and customer side, I'm just curious how you-- how you measure-- 'cause I would-- I don't know how easy it is to either this-- measure the employee, since that would be a voluntary-- probably--

RICH DONOVAN:

We'll g-- we'll get there in about five minutes.

FEMALE VOICE:

And then the customer, I d-- I'm not sure how you then show that you're targeting.

RICH DONOVAN:

Exactly, we'll get there in about five minutes. Next slide, please. So this is the first answer to your question. What do we actually measure? How do we-- how do we assess activity? We don't measure programs. We don't measure policies. We measure transactions. So a company basically is a collection of, depending on the size, millions or billions of thousands or hundreds of transactions, sales to customers, purchases from vendors, hiring of people, firing of people-- everything we do as an organization generates a transaction.

Transactions are visible. They're measurable. You can actually reach out and touch most of them, whether they're product, services, people, what have you, they-- there's something to measure that. They increase, they decrease in volume. They increase, they decrease in size and we can assess movements based on those factors. So we only measure things that do one of two things, lead to higher revenue or lead to reduce costs. Why? Because those two things drive value for shareholders.

So the important factor here isn't the social activity. It's the activity in the social field that drives revenue up or cost down. Why do we do this? Because that's what senior management and investors care about, and that's what will drive the organizations to change behavior, Any questions on that?

SEAN HINTON:

Better hires, can you talk about better-- are you gonna break these down? 'Cause I don't see how that's a cost.

RICH DONOVAN:

A little bit, a little bit. I-- I'll give you an example. Fast food industries, right, they typically hire young people. The turnover is around 120% for a typical fast food restaurant. There's an example in Canada of an owner of 12 franchises of Tim Horton's, roughly half of his staff has disabilities. His turnover is 44%.

The average cost to him of hiring a new employee is about $5,000. So by cutting his (COUGH) turnover by-- what, two thirds, the cost is cut. Now, there's multiple examples as you move up the value chain, but that’s a concrete example of cutting costs--

SEAN HINTON:

So better hires drives lower turnover, is that--?

RICH DONOVAN:

Yep. Yeah.

SEAN HINTON:

I see, okay. I see-- okay.

RICH DONOVAN:

But it also judges value-- and innovation, too--

(OVERTALK)

SEAN HINTON:

Yeah. I could see how it could be revenue or something like that. Okay.

RICH DONOVAN:

Right? Right. Any other questions on that? (UNINTEL).

FEMALE VOICE:

On reduced complexity, do you wanna touch on the Walgreens example, maybe?

RICH DONOVAN:

Yeah. We could do that now. So one of the things about-- ten years ago-- one of their senior vice presidents had a child with downs syndrome, and he wasn't-- I'm sorry, autism. And he wanted to do-- he came to this realization, "What am I gonna do with this kid when he hits 22, when he goes out into the workforce?" Right? I mean, is his life going to be over when he's ending school?

So he started to look at ways that he could integrate people with disabilities into his workforce. So he ran distribution for Walgreens. (NOISE) So he-- so he ran, I think, 16 distribution centers. And he decided he was gonna hire half of the staff to be people with disabilities. And what he discovered was three years later the cost-- the cost in the centers that did this was 20% lower than the cost of the centers who didn't do it. Why?

Well, they figured that because of disability people had to remove complexity from their job. So if you had a line that was 200-feet long and you had a guy with cerebral palsy working it and he couldn't walk very well, you condense that line into 12 feet or two feet. You cut cost and complexity to that line. You didn't have to power that line anymore. There was less mistakes because it was simpler.

All these things added up to over 20%, and this was 'cause of the-- Walgreens did it, P&G did it, Home Depot did it. They all saw the same kind of-- productivity. So (NOISE) two results happened. Socially, plenty of people with disabilities got jobs. Yay.

But profitability-wise, the company saved, with-- $38 million a year directly to their bottom line. Now, for Walgreens, $38 million is not a lot of money. They make $40 billion in revenue every year. So their real-- their real benefit should be on the customer side. But it makes for a great story. (LAUGH) Any questions? Excellent. Next slide.

So here's a model. Here's how we actually do it. And this isn't-- this isn't the total model, but it'll give you an idea of what we look at. So we break the (UNINTEL) down into three primary buckets: customer, talent, and operations. For most companies, customer is the biggest value driver. So if you (UNINTEL) the retail customer, like, a retail or a bank or-- (UNINTEL) company and you can drive your revenue up by two to 3% with this, the financial win is enormous.

Most of the talk in this base has been around talent. Companies don't exist to hire people. They hire people because they're a factor of production. We bring a company in-- there's talent companies hire, hire, hire without making the case of why. Why should I care about disability? Well, you care because if you get it right on the customer's side, you will drive value up.

Now, if you're a gold miner, you probably shouldn't be advertising (UNINTEL) to people with disabilities. But there's (UNINTEL) a great engineer may have a disability. So we overrate talent in that case. But depending on what the company does, these weightings change. We then break down these buckets into 30 factors, things like customer experience in retail, customer experience online, messaging, product development, all of the things that you typically see in a customer relationship.

On the talent side we do the same thing. Number of hires, size and scope of the pipeline, messaging to candidates, how you do relative to your regulatory regime. See, we don't totally ignore regulation. So once all of these factors are considered and they're actually measured, we-- we actually go out and play secret shopper. I've applied to more jobs than I'd care to tell you about. I have a list of aliases that are (LAUGH) (UNINTEL).

SEAN HINTON:

That means you've-- you've failed to be hired by--

RICH DONOVAN:

Exactly.

MALE VOICE:

--more people as well. That's-- that's--

RICH DONOVAN:

That's-- exactly.

MALE VOICE:

--that's quite an accomplishment.

RICH DONOVAN:

Exactly-- (LAUGH) So we're testing how companies actually act. We don't care what their policy. We don't care what their programs are. We care about what they're actually doing in the marketplace. I'll give you a good story. I got a call one-- one day from the chief diversity officer of a large global payment company.

And she spent about 20 minutes berating me because we don't include her company in our index. And she told me she just spent $3 million on this wonderful legal policy for hiring people with disabilities and serving them as customers. She said, "That's exactly what you (UNINTEL), isn't it?" And after she stopped I asked her a very simple question. I said, "Can your customers see that?" And the line was silent. And she said, "Well, if I invite them into my office, they'll see the (LAUGH) 30 million (?) in the book."

And I said, "Look, (LAUGH) I could argue that you just destroyed $3 million of shareholder value. Because what you did didn't actually impact your customers or your prospective employees. And it's one of the things that we-- we-- we routinely (UNINTEL PHRASE) prospect (UNINTEL) clients and anyone that we talk to, this is not about a conversation. This is about traction. This is about going out and reaching people, bringing them in.

You don't do that with policy unless you're a law firm. Maybe a law firm might attract people with their excellent policy. But for most companies, it's a brand approach. It's an approach of making yourself attractive so people will come to you so you can go out and pull them in. That's the essence of what we're preaching. But it's not enough to preach that. We have to hold people accountable for their activities. And that's what this model is intended to do. Any questions?

MALE VOICE:

I think you kind of answered it in part, but I was wondering if there's any kind of trends or correlations you saw between which companies talked about policy and kinda the returns-- or the ones that acted or was there a mix? Or what was, like, kind of the breakdown of those companies that stumbled upon this maybe by accident or ones that were very deliberate in doing this?

RICH DONOVAN:

So we have-- we've done this now-- this-- this will be our sixth cycle of Returns this-- this year. We have 225,000 data points (UNINTEL PHRASE) now. So last year we did a regression analysis of those data points versus monthly stock returns. And what we found was activity on the customer side had a higher correlation to stock return than any-- anywhere else in the world.

In fact, some of the-- some of the talent pieces actually correlated negatively with returns. So the mess-- the messaging on the talent side was really not a driver of value, right? But product development, customer experience, I'm-- I'm a stock guy-- a stock trader by trade.

When I see a correlation of 20, I throw a party, right? In the real world you don't look for 90 correlations. You look for-- for indications of linkages that would absolutely fall apart—at any Ivy League institution. But in the real world, they tell you what's really going on, right? So we get excited when we see these correlations in spots that we didn't expect to see them. So it's really on those customer-driven factors that are pushing companies to act more, specifically in technology.

Google, Microsoft-- IBM, Apple-- IBM less than the other three because their business model is a bit different, but those three large tech companies that face end consumers, the-- the real value drivers are in these product cycles and in these customer experiences. When Microsoft has now put disability at the core of their strategy going forward. Google has done the same, right? So these large tech companies have figured this out, and they're starting to roll it out in a meaningful way. Yeah.

FEMALE VOICE:

Yeah. First of all, thank you. I've never thought of-- well, I don't often think about markets, and certainly not in this light, so it's been fascinating so far. One of the things I was really interested was your analysis of the sort of monetary value of folks living with disability, both in Canada and the U.S. And I imagine some of that monetary value also is in the form of shares.

And so taking that idea with the idea that these changes have really been pushed by the customers, I wonder if shareholder activism has had any role in pushing some of the companies you mentioned or others into sort of thinking about things in this way.

RICH DONOVAN:

Not yet. We're not there yet. But in Canada and the U.S. specifically there are two 401(k) type programs for people with disabilities in their family. Canada is-- the potential is about $40 billion. In the U.S. the potential is about $2 trillion over the next five years. So as these programs grow and people with disabilities start to have more power as investors and that gets consolidated into-- providers and vehicles that they can invest in, that's when the activism starts to get real.

So in five years, there's going to be more people with disabilities on boards of directors. There's going to be more people with disabilities-- driving investor demands. All of these things will happen. It's just a question of just letting time and pounding the table (NOISE) will take its course, right? This is a well-worn path. Sustainability-- been doing this now for almost a decade, not incredibly well, but it's been doing it. And-- this will take that course as well. Yeah.

MALE VOICE:

I just-- a question about (THROAT CLEARING) the different ways this-- this can manifest. So you've given examples so far of, like, Walgreens where-- where their savings and their innovation came on the back end, not the consumer side. And then you just gave the example of Google and Apple and some of the other tech companies who are creating products on the customer-facing end that are appealing to people with disabilities.

So I'm curious if-- th-- you know, there's many different facets to-- to this question and the-- the presentation that you're-- you're giving. But are-- is it-- is it dependent-- on the industry or the product? Or are there correlations that you've found or trends where-- where one side is better or more important or where one leads to the other?

You know, like, should-- should companies first focus on, you know, creating products for-- and-- and, you know, focusing on that market? Should they, you know, work on hiring people and having policies, whether they come before the hiring or after the hiring, that company along with hiring people with disabilities-- and then that will drive things internally and that'll lead to the better customer outcomes? How does it sort of fit together?

RICH DONOVAN:

I'll give you a very ambiguous answer. It depends. (LAUGH)

MALE VOICE:

I thought that might be the answer.

RICH DONOVAN:

Every company, every culture is very different, right? So Google tends to move quickly. Google tends to adopt things and just go. That doesn't happen at an IBM, right? So it could come-- what typically happens, there's-- there's a champion internally that says, "I have a passion for this." That approach typically fails 'cause that champion moves. And it doesn't become institutional.

The Googles of the world, Microsofts of the world, the Apples of the world, this is embedded in what they do every single day. Right? That's sustainable. That's something that you can grow over time. These one-off championship efforts-- much like-- a soccer match, you may have a team today that's fantastic. The next year you're not gonna be able to duplicate it because somebody retires or somebody goes away, gets traded. Those tend to be unsustainable.

So what we-- what we see-- this is the way this is comprised is large companies that embed this in what they do are far more successful than a end around rush by a group of ten (UNINTEL) that really has no power.

FEMALE VOICE:

And-- I'm curious as to whether the SASB, the Sustainable Accounting Standards Board-- what you think about that. Because what I've heard from them, it's a similar approach which is to show how the social and environmental concerns or s-- or standards or indices that they've developed, if taken into account by companies, would drive shareholder value as well. And so-- I'm not totally familiar with all of their indices. So I'm wondering if-- what you think about them and if disabilities is part of that and if they're not sufficient or just--

RICH DONOVAN:

I was fortunate enough to get get invited to the Global Ref-- Global reporting initiatives conference last May in Amsterdam. And-- it was my first exposure to sustainability. They've been at this now for ten years. They've got metrics coming out the wazoo over there, right? And they can measure all kinds of different things. What I was stunned by was the honesty from the stage about the level of quality of the data.

I think the technical term they used many, many times was "crap." (LAUGH) So-- I think there's-- there's a missing link in the current approach, and that missing link is a link to value for individual companies. They come up on stage and say “this drives value!” Okay, prove it. If you're a CEO of a large institution, you have one boss, your board. That board is fiduciarily bound (UNINTEL) to do what's best for the investor.

So in order to make these organizations want to change at the board level based on that fiduciary bound, you have to make this valuable. You have to have not merely a passing link to value. You have to have a fiduciary link to value. And that may sound semantical, but fiduciary, in my work, is the toughest hurdle to overcome, okay.

If you're not able to meet that fiduciary hurdle, you're dead. I don't think sustainability's been able to do that yet. I think they're close. They're in the right direction, well, whether they're close or not I don't know. But directionally they're correct, right, they're moving in the right direction, but they haven't crossed that line. And I think that's the difference in what we're doing is we start there. We start with that fiduciary link because we know that that's what's gonna cause behavioral change. Yeah.

MALE VOICE:

You mentioned that-- basically that-- if I'm understanding correctly, that product innovation, right, and consumer ex-- and customer experience innovation drives value in a way that operational and talent-- drivers don't. And so I'm just curious-- and-- and you also mentioned-- sorry-- that because it's dependent on a champion that organizational change is harder to sustain.

But for the ones which have gotten over the hurdle but it's been institutionalized like-- a lead user innovation in the organization and operation, (THROAT CLEARING) once they get to that threshold, are they more likely at that point to-- to basically just have-- be more resilient, more profitable?

RICH DONOVAN:

That's-- yes-- easy. So I'll give you a good example. So telecom is one of the most regulated spaces in disability, right? The SEC and the COTC (?) have-- bespoke regulations with disability. They're bullshit. They-- they-- they don't impact corporate activity. They go through the regulatory framework within the company. (BUZZING) Lawyers react and build all of these programs and policies which are not more-- more disability-friendly.

One of our clients is a telecom. When they hired us, they didn't put us into the regulatory bucket. They put us right in the product-- product development, right? So we're dealing with the senior vice-president of product development as opposed to the senior vice-president of regulatory. The tone of that conversation, and the activity that comes out of it, goes into products and services, not into policies and programs. So it-- it's a very tactical shift (BUZZING) away from the (UNINTEL) world of policy into actually changing corporate action, corporate activity, products, services-- interactions with customers.

SEAN HINTON:

So I think my question earlier was-- going a step back, then, do you see companies that adopt a sort of policy on this (BUZZING) where the policy then results in people take-- people with P&L responsibilities or product development decisions making meaningful changes? Or is it actually realistically comes the other way around, which is that there's a champion, there's an individual, there's-- there's-- a sort of-- you know, a leader who gets an idea and sort of--

RICH DONOVAN:

There-- it happens both ways, right? So-- (LAUGH) we-- we have a rule of thumb in our research. We see a lawsuit from the government or from an individual, we can say with almost certainty that three years later that company now will be focusing on the customer, relative to disabilities.

SEAN HINTON:

You see a lawsuit?

RICH DONOVAN:

We see a lawsuit.

SEAN HINTON:

A lawsuit will often--

(OVERTALK)

RICH DONOVAN:

The lawsuit is what--

SEAN HINTON:

--how interesting.

RICH DONOVAN:

--the lawsuit is what makes people go, "Oh, we have a problem."

SEAN HINTON:

That's interesting.

RICH DONOVAN:

And it generally takes three years for them to figure out that the problem isn't regulatory. The problem is based in how they work with their customers and their employees. And it's fascinating to watch. The three years is pretty, pretty, pretty good in terms of a tight standard deviation, about-- I think there were 255 companies (UNINTEL) that have a lawsuit that we could find. And usually it takes three or four years to-- to get to some kind of market-facing activity.

SEAN HINTON:

And-- and you would see them translate that into some sort of customer result or--

RICH DONOVAN:

Maybe. The good ones would.

MALE VOICE:

I don't know if you looked at systems outside of North America, but do you find any difference in systems where fiduciary trusts-- don't prioritize or don't exclusively prioritize the shareholder, so stakeholder systems (BUZZING) and--

RICH DONOVAN:

So Europe is exactly that, right? So Europe tends to be far more reactionary to regulation. Canada also tends to-- historically react to regulation stronger than the U.S. The U.S. has a larger customer base, so they tend to be focused on the-- the customer a little bit more. But we're-- we're-- we're splitting hairs here. It's not-- it's not like-- this an obvious trend between one or the other. But--

MALE VOICE:

I mean in terms of performance.

RICH DONOVAN:

I-- I don't know. We haven't analyzed Europe yet. That's on the drawing board. But-- but definitely in Can-- between Canada and the U.S. there's a difference. I think I have a slide up there that will show you that. But there-- the scores are higher in the U.S. because they're reacting to market demand. In Canada they tend to react to regulation.

SEAN HINTON:

Yeah. But the really outrageous thing you said to me last time was that you actually can track the increase in legislation resulting in a decrease in performance on the measures you're looking for that actually far from having a positive result, actually people get distracted or-- or-- or sort of-- or reliant on compliance with those regulations which I find is very troubling.

RICH DONOVAN:

I have two-- I have two TELCO clients. One is focused on product development, serving their customers, both value-added drivers. The other is-- and the last six ones-- mapping out the accommodation process for their employees. They both spend exactly the same money, exactly the same time.

One is driven by customer performance. One is driven by regulation. Which one do you think is gonna outperform? (BUZZING) The one that's doing the customer-facing (UNINTEL). So it can be that stark and obvious to see how companies get this wrong. I've gotten phone calls from employees at the one focused on the-- the market side thanking me ridiculously for changing the mindset of the company in two years. They've gone from, "We can't get anything done in disability," to, "Now we can get anything done we wanna get done," all because they started to focus on their customers. It's astonishing to me.

KATE MURPHY:

So I guess with that, it's 1:15 and I wanna ask the group what would-- (BUZZING) I can see everyone, smoke coming out of everybody's (LAUGHTER) ears. I know it's also coming out of mine. So Rich-- and we could-- I-- I don't-- I don't know what would be best. Anyone who has to leave, please certainly-- please do that. But if-- if those wanna stay around who can quickly wrap up the slides and then in private conversation finish up the-- any questions people might have.

RICH DONOVAN:

Absolutely.

KATE MURPHY:

Great. So should I--

RICH DONOVAN:

So, any questions on the model itself? (LAUGHTER)

(OFF-MIC CONVERSATION)

MALE VOICE:

You said that there-- there was so much neg-- negatively correlated with talent or some of the talent variables negatively correlated with performance. But-- do you have any sense of why? Or--

RICH DONOVAN:

I think it's because the activities-- (BUZZING) also understand that the activity is so small that that negative correlation may not say much. But it may be an indicator of the culture, right? Right? You miss the activity, the qual-- the scores don't tell you the quality, but activity-- they just measure the activity, right?

So it may be simply cultural-- but I wouldn't assign much value to that correlation. But it also passes my smell test. I mean, if companies are focused on talent and talent alone, they're generally missing the boat. By the way, you don't want to see a stock trade of Walgreen's right now. It's not pretty, right? So keep that in mind.

FEMALE VOICE:

Next slide?

RICH DONOVAN:

Next slide. (BUZZING) So we then take the top performing (UNINTEL), and we analyze about 1,100 companies in the U.S. and 300 in Canada. Take the top 100 in the U.S., put them into an equal weighted equity vehicle. Don't ask me to explain the vehicle. We don't have the time to do that. (LAUGH) But needless to say, that's listed on the New York Stock Exchange September 11, 2014. This is us ringing the bell at the world's first disability-linked stock market index anywhere.

We think this is a model to follow for nontraditional markets to get investors in the door. This is primarily focused on institutional investors today, pension funds, sovereign wealth funds, endowments, through-- who want to drive this. My big "aha" moment at GRI was sustainability-- figured out environment. They figured out governance. They have no clue what to do with the social part.

VOICES:

With what? With the?

RICH DONOVAN:

Social-- social perspective. I actually saw people get nervous when the word "social" was up there. There is this-- quite funny just reading body language, right, it was-- they just don't know how to measure it. They don't know how to link it to performance. It's not that hard, it really isn't. So we (UNINTEL) with investors to get them-- focused on the-- the-- the market.

We also use this as a reward (NOISE) for courage. It's one thing for me to say this. It's another thing for the CIO of CalPERS to say, "Hey, I just invested $500 million in the disability index. What are you doing for disability?" When the CEO gets that phone call, watch the fur fly, right? That's how an institution changes. They don't react to averages. They react to investor demand. They react to customer demand too, but that typically lags.

SEAN HINTON:

Are there many indices that people could-- that companies could take action and as a result of that action they are-- they participate in? 'Cause most indexes-- I was just thinking most indexes are sort of, I mean, objective. They're industry, they are performance, they are-- you know, they're sort of determined by factors outside of the control of the company themselves. 'Cause there aren't many out there. What-- what are the sort of indices where you could sort of-- if you took behavior, you could self-select in?

RICH DONOVAN:

And they're typically backward looking-- they're typically based on activity that a year and two quarters old that you have no control over. This is a forward-looking concept, right?

SEAN HINTON:

No. But you must be measuring history-- 'cause you're measuring existing transactions.

RICH DONOVAN:

We're measuring existing transactions, but we're also forecasting where these transactions will lead to, right? So companies' activities today versus any financial measurements that were based on-- it would be at least a quarter old, right? Usually you're planning two years in advance for something that happens today, right? So a new launch for (UNINTEL) started two years ago, right?

SEAN HINTON:

Ah, so your tran-- one of the transactions you're tracking is new product development in this space. You're saying that will result-- oh, I see. That's interesting. So that--

(OVERTALK)

SEAN HINTON:

--results in f-- in forward-looking-- not forward-- but it's historical activity that has future-- financial implications, I see.

RICH DONOVAN:

But it's not-- it's not necessarily impactful yesterday. But it's going to be impactful once this market--

(OVERTALK)

SEAN HINTON:

But it's happened. So it's not-- it's not predictive?

RICH DONOVAN:

Exactly.

SEAN HINTON:

But the fact that-- that you could self-select into it-- 'cause the point with-- 'cause I think one of the points that I found really interesting is the carrot-- you know, you-- you're-- you're-- you're saying there's something about corporate behavior-- part of your theory of change is, you know, corporations have significant influence.

The things that drive corporate behavior are carrots and sticks. Regulation is a stick fairly ineffective, possibly negatively, but there is a carrot here that would in-- could incentivize corporates to make changes in their behavior. And the-- and the carrot here is-- at one level the recognition-- the participation in an index that's getting significant kind of--

RICH DONOVAN:

So there's two women's indexes out there today. SHE, which is the State Street product, and WIL, which is the Barclay's product. Both use basically the same methodology of percentage of women in senior management at the board level, 30%, right? (SIGH) I don't know what the hell that has to do with value. It's easy to measure. You can go to a annual report, count the number of women on the board and count the number of women in senior management. Is it above or below 30%? But what does it have to do with company value, right?

With these-- what we're trying to do is incent actual corporate behavior. How they're out there in their day-to-day activity changing what they do, does that happen in a week? No. Takes years to do. Right? Google's been at this for-- a-- a decade almost. It's at the core of what they do. Apple is the same way, right? So these changes tend to be glacial, but they get made and they-- they get their-- what we're trying to focus companies on is the activity, not the sentiment.

MALE VOICE:

This is a bit of a forming thought, so I apologize if it's unclear. Tom, I think you demonstrated clearly that the disability people's market-- is large. And those companies that cater to this perform very well. And I was wondering-- and I don't know if there's a data for this, but if you've seen a correlation between kind of government legislation that impacts the disability people's market.

So, I mean, even in Canada the-- the assisted suicide and kind of how these large government-- legislation impacting this market than impacts kinda the profitability of companies or the return and kind of trying to build a case to governments that this impact in the social sector has a lagging impact on companies down the road. So--

SEAN HINTON:

You're not gonna like the answer. (LAUGH)

RICH DONOVAN:

So we're talking about Sean's-- we're talking about Sean's favorite subject here. So there are-- there are various regimes in Europe, Canada and the U.S. around hiring quotas for people with disabilities, right? In Canada they've been around for 25 years. They're new in the U.S., about two years old. In European they've been around for ten years (UNINTEL PHRASE). Anywhere between one point-- they're also in Japan, by the way. For Japan there's a target of 1.6%. The U.S. has a target of 7%. Canada has a target that I still can't figure out. And Europe has targets ranging from 2% to 6%, right?

None of those targets have been realized, none. (BUZZING) But what it has done is its created a benchmark for companies to aim to. So what you get is you get policy statements, and I can send you hundreds of these things, on websites that say, "We will accommodate you to the best extent that we can as required by the law if you need accommodation for disability." Really attractive statement (LAUGHTER) (UNINTEL PHRASE).

Yeah. I wanna work there, right? So (BUZZING) the-- the quality of activity is terrible. And you get these companies that a Canadian banker spent $5 million a year for five years trying to hire people with disabilities, ended up hiring 12 people. Now, that's a pretty high per person cost hire, right, so-- the messaging-- the benchmark of regulation is so ridiculously unrelated to what actually brings people in the door that you end up with activity that's just wrong.

TD Bank figured out what they were doing wrong about three years ago. They stopped talking about regulation publicly and focused only on the business value. They did this internally, they did this externally. Their numbers went up by 50% in three years by making a simple change that costs them nothing, changing their language, right? So when you're bound by that regulatory mandate, the lawyers are your recruiters. And that ends up being a disaster, right?

(OVERTALK)

SEAN HINTON:

Yeah. Aargh-- so my problem is that-- (LAUGHTER) is that just because you have seen that the introduction of some of these pieces of legislation results in worst perform-- doesn't result in improved performance, actually results in worse performance, whether the companies are distracted or whether they are-- put resources into this instead of other things or whatever it is, doesn't mean that th-- that that is always true, doesn't mean that there isn't--

RICH DONOVAN:

Correct.

SEAN HINTON:

--that could be the effect of the legislation that's been-- so it doesn't mean that--

RICH DONOVAN:

What we do--

SEAN HINTON:

--with the right legislation--

RICH DONOVAN:

What we do see is the quantity of the activity under regulatory mandate is higher, but the quality of activity is lower. So there are more companies in Canada acting, but the quality of activity in Canada on average is lower than the quality of activity in the U.S.

SEAN HINTON:

And that's not just 'cause Canada's-- just the quality?

RICH DONOVAN:

Exactly.

SEAN HINTON:

All right. No, I can't resist. It's such a terrible Canadian accent. (LAUGH)

MALE VOICE:

Is there anything about maybe not regulations tied to employment, but regulations or legislation writ large for people with disabilities in society? So more recognition legally, nothing tied to companies or their employment and then just kind of the res-- so kind of tying the respect the society has for just-- just people with disabilities and improvements, or is that kind of too out there and not enough data points to kinda of draw a corr-- correlation?

RICH DONOVAN:

It's really hard to package that up, A) because-- Canada is a great example. Canada's a human rights code laws for 35, 40 years, right, disability part of that. It's only the last couple, five years that Canadian society has started to have this conversation through its disability in the mainstream.

No legal shifts have happened. No new laws have been enacted to cause that. But there's been a remarkable shift in the brand conversation around disability, right? Because people like me are starting to take over that identity. So in Canada and the U.S., you had your first laws in education in 1975 that mandated mainstreaming. That only really took effect in the '80s. So I'm on the front edge of that wave. If you go look at 20-somethings today who have my or other disability, they have totally different expectations than I had when I was 20. Right?

There was no me to look up to back then. (BUZZING) So you see a shift in people owning that identity because of regulation. There you go, Sean. (LAUGH) So-- so it's not just-- it's not just that regulation is bad. It's how do we-- how do we use it as a tool to shift society's thoughts, not wait 40 damn years for it to evolve through generations, right?

That's the real challenge here is how do you pull those levers to encourage economic behavior change, right? There are ways to do it. The environment has done it spectacularly the last five to six years. Solar power's the cheapest form of power in the U.S. now. You couldn't say that five years ago. And so there's learnings there that we can learn from.

FEMALE VOICE:

And I-- I would imagine that there are what I'm trying to think about this, it's just so fascinating, right, 'cause it's not something that you normally think about. So thank you for-- for-- you know, stimulating this. I would think that they're on the-- and I don't know if you see all of these companies. On the one hand they're the companies that actually cater to the disability-- market, right, in terms of-- I was just seeing about the wheelchair that-- that-- the new technology of being able to stand up on-- on the wheelchair and having way greater accessibility.

So th-- that-- that's a company that specifically targets, let's say-- disability. Then there are the ones who might accidentally, without knowing it, their products are actually quite-- accessible. And then there are the ones who may not have been realizing that and need to sh-- shift some sort of behavior in order to-- do a better job. And so I'm wondering do you-- do you-- is that right? Is that-- am I?

RICH DONOVAN:

Take a guess at what sector scores the worst in our ratings. What sector would you think is the worst score in our ratings? Healthcare. Healthcare scores the worst average score in our ratings. Which stuns me.

FEMALE VOICE:

Canada and the U.S.?

RICH DONOVAN:

Canada and the U.S. It's-- well, Canada, there's really no healthcare companies. But the-- of the few that there are, they scored the worst in our ratings. Why? Why do you think that is? Because their (UNINTEL) is a clinical diagnosis, not a customer approach, right?

I can almost look at a homepage of a healthcare company and tell you which company is a clinical scientific focus and which company is a customer focus and tell you that the customer focus will outperform the clinical focus every time on-- on average. Now, the clinical focus guy is-- from a financial point of view-- it's basically a lottery right, whatever-- you-- you're looking for a product to hit it big.

You got 20 products that-- that one's gonna do well, the other 19 are gonna fail and you're looking to-- it's a lottery. The guys with the customer focus are building a business. And it's one of the fascinating things that I never would've expected.

When I started this, people thought this was a healthcare index. And when I showed them what was in the index, they-- they were confused because there were very few healthcare companies in there, which is fun. (LAUGH) I enjoy making people think a little bit, right? So it's fascinating for me to see this-- this dichotomy of-- of companies that probably see this stuff all day, every day. And they get it so abjectly wrong. It's amazing.

MALE VOICE:

I have one question as well. I know we're going over. I'm just-- I'm going to go back to actually Eli's point on-- or the point you're talking about-- on education just because earlier today you-- you mentioned those who are financially inclined, and I am not. So I am probably the least financially inclined person here, so I'm learning a lot. (LAUGH)

But I will go back to another-- question I had. And I'm just wondering, you know, h-- has any-- have any of these companies ever-- looked at an association or-- or backwards into-- not backward-- back into education of other-- of their future employees? It seems like, you know, if we look at the developing world where there's a huge disparity in-- in education among-- among people with disabilities and also in-- in the U.S. or in the U.K., for example, in higher-- I just know from my own state, but in higher institutions for people with intellectual disabilities it's more expensive to even attend the universities in our state. It's-- it's almost triple the cost.

And I'm just wondering has there been any kind of pressure back on companies that have made the shift to, say-- to-- to talk about, you know, that-- the-- the disparity in education that's-- that's, you know, not allowing their employees to have that fair-- competition-- when they're applying for the--

RICH DONOVAN:

Excellent question. Education is something the disability actually has right in North America. If you look at graduation rates of universities, high schools, they tend to be higher for people with disabilities than typical population-- which-- which is fantastic, right?

One of the things that we do measure is this notion of pipelines. So are you building a pipeline so that you can have future harvests of talent, right? So Google does this. Google has scholarships. Google-- reaches right down into the high schools to grab these guys and pull ‘em out-- disability's part of that, right? So companies-- good companies foster and build their pipelines like it was-- it was their very-- their very-- their core of what they do, right?

It's core to their talent strategies to make sure you foster this pipeline. At the end of the day, does it drive value? A little bit. But it's not the ultimate driver of value, right? So we tell our clients, yes, by all means do it, but this can't be your only strategy.

SEAN HINTON:

Your-- the index-- do you anticipate-- I mean, obviously this is very rosy sort of future to look at. I know this is not the problem today, but-- but in theory, over time as this became standard behavior, the ability to distinguish yourself should erode over time.

RICH DONOVAN:

Hopeful-- hopefully.

SEAN HINTON:

Yeah. I mean, obviously it's--

RICH DONOVAN:

Hopefully, if we do our job right. I mean, when I was at Merrill Lynch, we-- our average trade was on for two weeks. Because it got valued quickly, right. This not gonna be two-- so hopefully we value this-- if this is valued-- if this becomes the S&P 500, we're done. We can-- we can move on to something else.

SEAN HINTON:

Something else, yeah. That's good.

RICH DONOVAN:

What's the next trade?

SEAN HINTON:

High class problems.

RICH DONOVAN:

Yeah. (LAUGH)

SEAN HINTON:

Great stuff.

KATE MURPHY:

Well, just being conscious of time, I think it probably makes sense to wrap up. I-- I just want to say thank you for-- for coming in to speak with us and thank you for taking my random LinkedIn message. I-- I think that you say you enjoy making people think, and I think that all of us have a lot of thinking to do.

And I think our-- our minds-- have really been shaped by this conversation. And I'm sure there's many who disagree and many agree or many who agree in parts and disagree in parts. But I think that the conversation has started. And I so appreciate you taking the time and energy to be with us. Because--

RICH DONOVAN:

My pleasure.

KATE MURPHY:

--it's-- it's really something to be in your presence. So thank you.

(OFF-MIC CONVERSATION)

* * *END OF TRANSCRIPT* * *