

How We Can Beat Venture Capital's Diversity Problem

Minorities and females are yet to be fully integrated into the venture-backed technology world. So, what can we do?

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The contrast between minority and majority startup founders is stark. It's so stark that Sen. Elizabeth Warren, D-Mass., made inequality a significant part of her presidential campaign in June when she cited University of California research showing that the typical black entrepreneur starts a business with just \$35,000 in capital – a *third* of the startup capital for the typical white entrepreneur.

Related: Out of \$85 Billion in VC Funding Last Year, Only 2.2 Percent Went to Female Founders. And Every Year, Women of Color Get Less Than 1 Percent of Total Funding.

The UC data backed up what is already evident in the venture capital world: that there seems to be little room for minorities. Take this report by Harlem Capital, which identified just 105 entrepreneurs of color who had raised at least \$1 million, for a total of \$2.7 billion. That fund-raising took place over a number of years, among firms that together comprise our nation's *\$100 billion* VC industry.

Clearly, people of color take home only a tiny slice of that VC pie.

This is something that hits close to home for me, a black entrepreneur from Chicago. While I've personally overcome the

obstacles to found two ventures that have raised more than \$1 million, I've seen elements of venture capital that make things tough for entrepreneurs who are minorities or females or both.

Let's unpack what the industry needs to do to ensure venture capital is for all rather than the few.

Diversity difficulty

Venture capital is actually one of many industry categories in which there is a lack of diversity. Whether it is investment banking, "big" law, technology or other specialized areas, there remains a severe under-representation of non-white participants. Holistically, the reasons for this could be many: Perhaps there simply are not a large enough number of minorities pursuing these fields, or the reason could be systematic and explicit bias. The numbers, however, speak for themselves: Minorities and females are yet to be fully integrated into the venture-backed technology world.

A recent analysis by *The Journal* blog of venture capital diversity statistics found that 70 percent of venture capital firms' personnel are white. Further, a Rate My Investor report from earlier this year found that the overwhelming proportion of venture dollars is invested in companies run by white males. Further about three-quarters of U.S. venture capital firms still have zero women partners. These are shocking statistics, and the fact remains that diversity remains low when it comes to startup founders.

The Rate My Investor report, which covered venture capital investment over 2017, focused on the top 135 firms by deal activity. Those firms, respectively, invested in 4,475 companies, which in turn included almost 10,000 co-founders. Of those co-founders: 9 percent were women, 17 percent identified as Asian American, 2.4 percent identified as Middle Eastern, 1.9 percent identified as Latinx and 1 percent

identified as black.

This probably comes as no surprise to any reader of minority background. Every minority or immigrant I've ever met has said he or she was taught from birth of the need to be twice as good in order to have a chance. Many feel they need to go the extra mile to impress – and of course the good news is that there *is* space for us in venture capital. However, people of minority backgrounds know they may need to take a slightly different approach. And here, patience, creativity and a higher level of pain tolerance help.

The problem: “There is no problem”

Part of the issue may be convincing the industry that it actually *has* a diversity issue. As per Morgan Stanley, the majority of investors believe women entrepreneurs and entrepreneurs of color are getting enough funding already! This is far from the reality: Investors report that they are capitalizing multicultural and women-owned businesses at 80 percent less than businesses overall.

Related: 5 Organizations Helping Minority Startup Founders Succeed

This reality gap, then, can be frustrating for those of us trying to break in, but thankfully there are ways to overcome the whiteness of technology and venture capital overall. Here are some ideas for minority entrepreneurs seeking VC investment:

Align with a venture accelerator.

Many accelerators – including Y Combinator, Techstars and others – have partners focused on increasing diversity. Most accelerators give their portfolio exposure to many more investors than a single entrepreneur can typically meet on his

or her own. This offers entrepreneurs a level of credibility difficult to achieve, again, on their own; and it includes a world of partners, networks and contacts.

This can be the sign that gets investors comfortable with an individual team, leading to further partners and, hopefully, further interest.

Build networks and contacts.

If you look at a lot of Silicon Valley success stories, many of the first investors that founders brought in were their friends. Regardless of who the average person is – whether minority or female or both – he or she simply does not know a ton of people who have started companies with multi-million dollar exits. Another thing lacking: sufficient business acumen and credibility.

This means that minority founders must ensure that they build their networks early and consistently. Whoever you are and whatever background you have, venture capital is about networking and spreading your message. If your immediate circle does not include the backers you need, you'll need to work harder to expand your contacts.

Focus on raising money from investors in more progressive areas of the country.

Many criticize Silicon Valley firms for their lack of diversity, but in fact there are a number of firms talking about this issue and working on it in real time. The Bay Area remains a particularly progressive region compared to most of the country. And, although there aren't that many minority or female VCs (yet), there are far more there than anywhere else. Other areas, like Atlanta, seem to be moving quickly to

embrace diversity in technology as well.

Whom am I speaking about here? Black and female investors on West Coast include Osei Van Horne of Wells Fargo, and Arlan Hamilton, Backstage Capital founder and managing partner. Backstage Capital is a capital seed fund investing exclusively in startups that are led by underrepresented founders.

At the end of the day, anyone trying to find success in the venture-backed startup sector will probably have to pitch more people. Perhaps as a minority founder, that may mean pitching double the amount others pitch, but in any case, it will mean a greater and wider effort. Being minority or female, you're probably going to find it more difficult to attract support and dollars, period.

So, get comfortable with that reality before starting. Every founder, regardless of background, needs to hone his or her pitch and to be realistic about the industry.

2020 and beyond

It's a good sign when a presidential candidate talks about diversity in venture capital as part of her election campaign. Anything is a step in the right direction when only just over 100 entrepreneurs of color have raised at least \$1 million. In fact, that number should be many times larger when compared to minorities' proportion of the overall population. At this point, however, it's extremely low, so any effort to increase it is positive.

Any change in attitude regarding minority or female founders needs support from the sector as a whole, and governmental focus on this area might also help. For example, automakers were probably not going to raise their vehicle mileage without government pressure via CAFE standards. This forced those automakers to comply with higher fuel standards than they

would have had to without government action.

Roughly the same could be said about diversity within venture capital. Political pressure often helps to enact industry change.

Then there is the action limited partners and investors could take to create diverse portfolios – and that goal is possible only with data allowing us to make the case for higher diversity. As the *Harvard Business Review* has pointed out, research shows that homogeneous teams lead to poorer decision-making and worse investment outcomes than do diverse ones. Reason? The report noted that uncertain competitive environments require creative thinking and that teams composed of diverse collaborators are better equipped to deliver it.

Related: How this Asian Woman Entrepreneur is Redefining the World of Venture Capital

With data like this to prove that diversity actually improves bottom lines, driving change is always going to be easier – right up until the day when minority companies can claim their rightful, proportional pie of the VC pie.

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