



BRIDGING THE STARTUP FUNDING GAP

FOR WOMEN, BLACK AND LATINX ENTREPRENEURS

WASHU OLIN BROOKINGS COMMISSION | FUNDED BY THE BELLWETHER FOUNDATION

April 20, Washington, DC

BROOKINGS



**WashU Olin
Business School**

Setting the stage

The venture capital system has...

- Generated explosive growth.
- Created investment returns.
- Driven amazing innovation.
- Created wealth and fame for founders.
- Fueled university endowments and pension plans.



Setting the stage

The venture capital system has...

- Generated explosive growth.
- Created investment returns.
- Driven amazing innovation.
- Created wealth and fame for founders.
- Fueled university endowments and pension plans.

But it doesn't include everyone...

- Women, Black and Latinx founders are disproportionately excluded.
- As a result, equity, innovation and money are left on the table.



Agenda for today

The Commission's Process

The Data

Why This Matters

Friction Points

Recommendations

Introduction: The commission and process

The **Olin Brookings Commission** is a three-year initiative that brings together policy experts, industry leaders, Brookings Institution scholars and Washington University's Olin Business School faculty.

Objective

Examine ways to improve quality of life by addressing universal issues.

Funding

The Bellwether Foundation Inc., a St. Louis-based charitable organization that supports innovative programs.

Accomplishments

Each year, the commission focuses on a different issue. In 2021-2022, the inaugural commission addressed ways to curb the US prescription opioid crisis using artificial intelligence.

Introduction: The commission and process

2022-2023 Commission Members



Lori Coulter

Co-Founder and CEO of Summersalt



Charli Cooksey

Founder and CEO of WEPOWER and Member of The Black Economic Alliance



Morgan DeBaun

Founder & CEO of Blavity and Advisory Board
Member of The Black Economic Alliance



Martin Hunt

CEO of Swanlaab USA Ventures



Akeem Shannon

CEO and Founder of Flipstik



Andre Perry

Senior Fellow at The Brookings Institution

Introduction: The commission and process

WashU Olin researchers, faculty and students

Doug Villhard

Professor of Practice in Entrepreneurship,
Academic Director for Entrepreneurship

Gisele Marcus

Professor of Practice in DEI

Dedric Carter

Professor of Practice in Entrepreneurship, Vice
Chancellor for Innovation and Chief
Commercialization Officer

Daniel Elfenbein

Professor of Organization and Strategy

Ming zhu Wang

PhD student in Strategy and Entrepreneurship

Aditi Vashist

PhD student in Organizational Behavior

Introduction: The commission and process

St. Louis: September 2022

Met to define and frame the problem and explore possible causes.

Washington, DC: November 2022

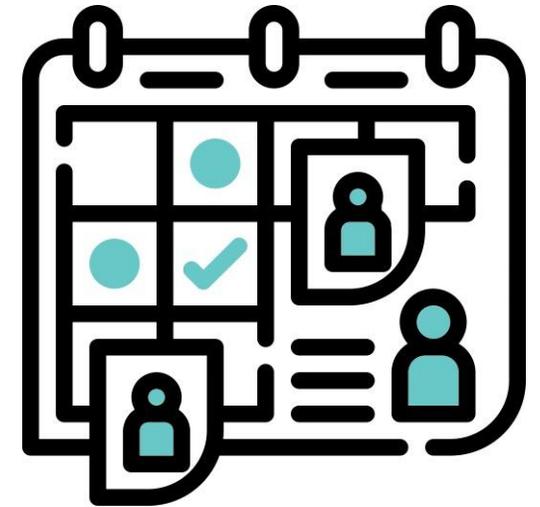
Heard from researchers in this field of study to aid the development of potential solutions.

Silicon Valley: February 2023

Socialized potential policy solutions with Silicon Valley practitioners.

Washington, DC: April 2023

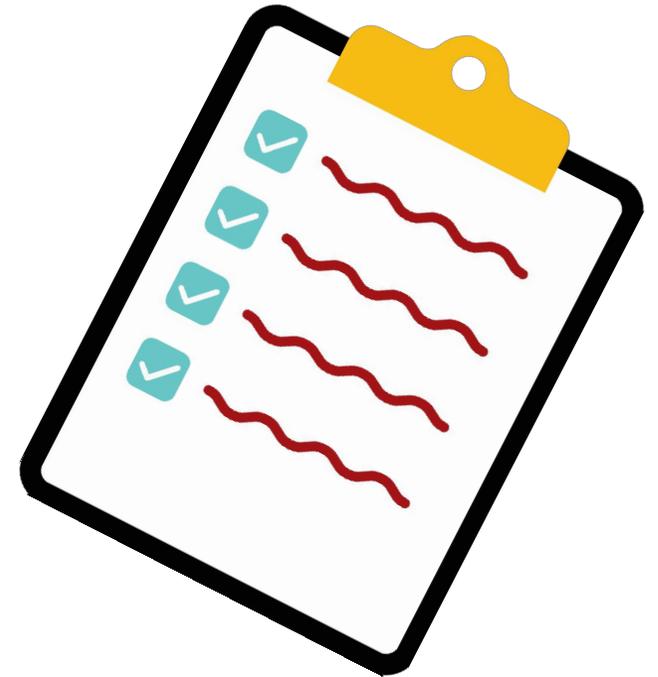
Goal: Present our perspectives and issue a call to action.



Criteria to become a VC-funded company

VCs look for companies that have...

- ✓ Aggressive growth potential
- ✓ Large total addressable market (TAM)
- ✓ Ability to disrupt proven industries for VC investment
- ✓ Initial traction
- ✓ A defensible moat to combat competitors
- ✓ A clear exit strategy
- ✓ An experienced team
- ✓ Founders who have been funded before



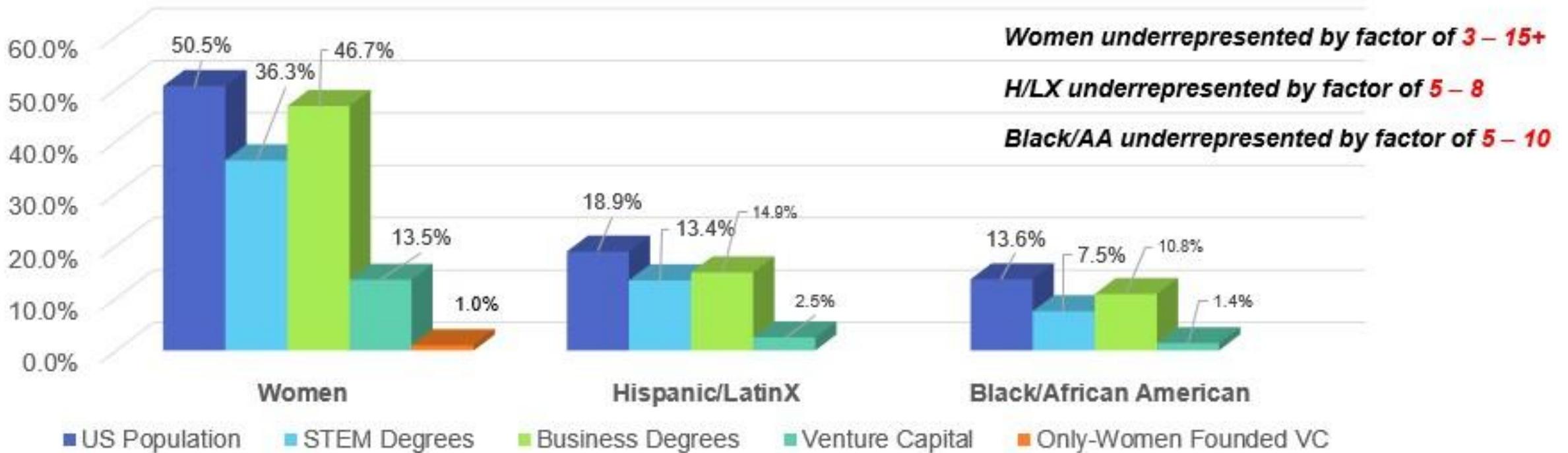
In the end, VCs fund 1 in 1,000 pitches they hear.

Some well-known VC-funded companies and founders



In 2021-22, women, Black and Latinx founders received small proportions of US VC funding

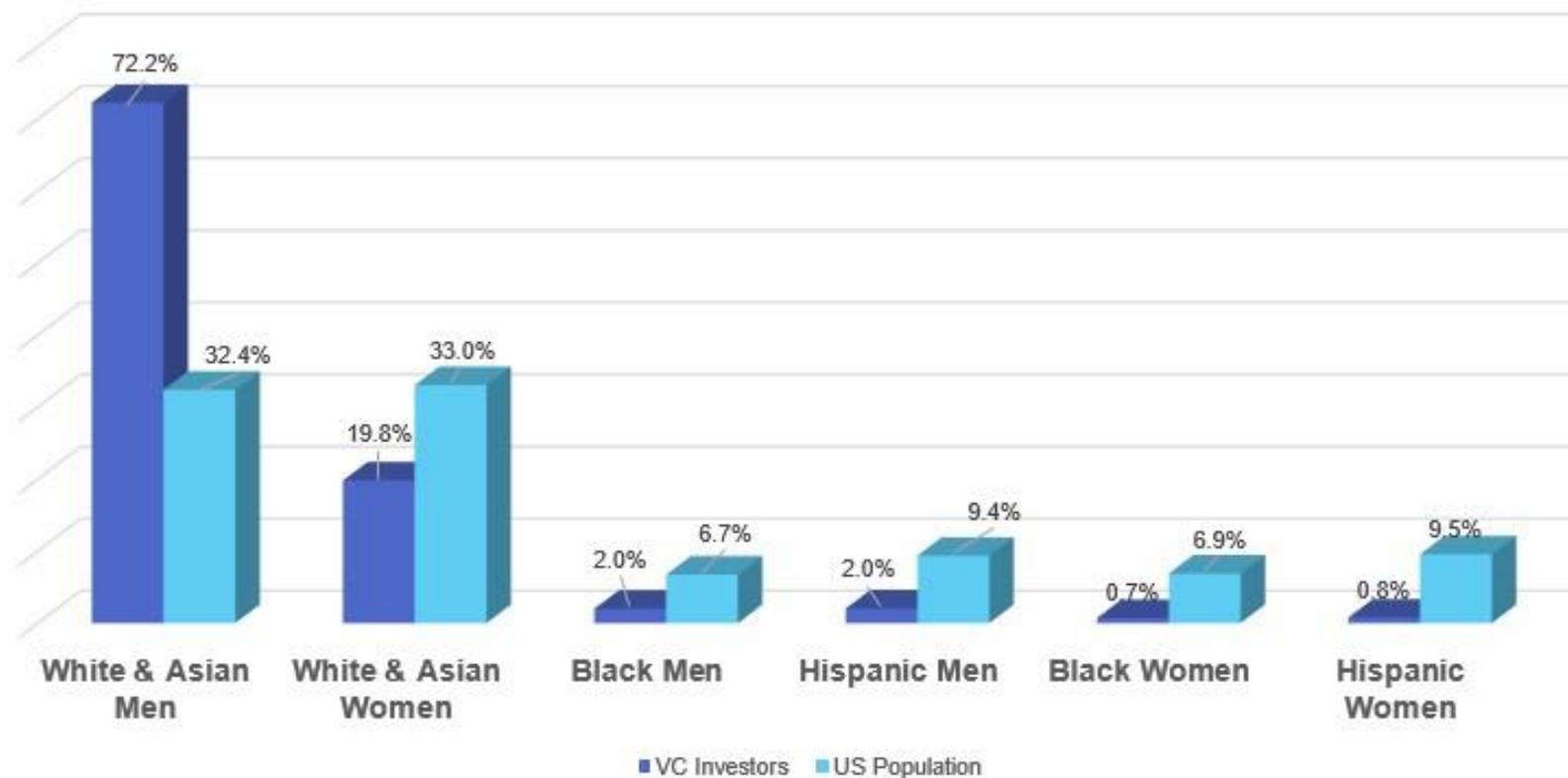
2021-22 VC Funds Raised by Race and Gender Compared to Proportion of Population and STEM / Business Education



FRAMING THE ISSUES

Decisions-makers in VC-firms are more likely to be white and Asian men

2022 Survey Data on Ethnicity and Gender of Senior VC Investment Professionals



FRAMING THE ISSUES

Between 2011 and 2021, women were less likely to get VC funding ...

Count of VC-Funded Startups

Only male founder(s):
55,054 (80.3%)

At least one woman
10,058 (14.7%)

Teams with all women
3,455 (5%)

*This data is not readily available for URM*s

Founding Team Size	0 women	1 woman	2 women	3 women	4 women	5 women or more
1	20,737	2,683				
2	20,714	3,560	672			
3	9,366	1,575	311	87		
4	3,060	623	134	31	9	
5 or more	1,177	256	85	22	6	4

Women comprise 9% of all funded founders during this period (11,601 / 130,507)

FRAMING THE ISSUES

... and those who got funding received less

Money raised by team (2011-21, millions)

Only male founder(s):
\$18.9 million

At least one woman
\$7.9 million

Teams with all women
\$4.8 million

*This data is not readily available
for URM's*

Founding Team Size	0 women	1 woman	2 women	3 women	4 women	5 women or more
1	\$ 11.8	\$ 4.6				
2	\$ 19.1	\$ 7.0	\$ 5.8			
3	\$ 25.8	\$ 10.6	\$ 8.5	\$ 3.4		
4	\$ 33.0	\$ 14.7	\$ 13.0	\$ 7.0	\$ 3.5	
5 or more	\$ 48.1	\$ 19.7	\$ 16.1	\$ 11.9	\$ 89.2*	\$ 1.3

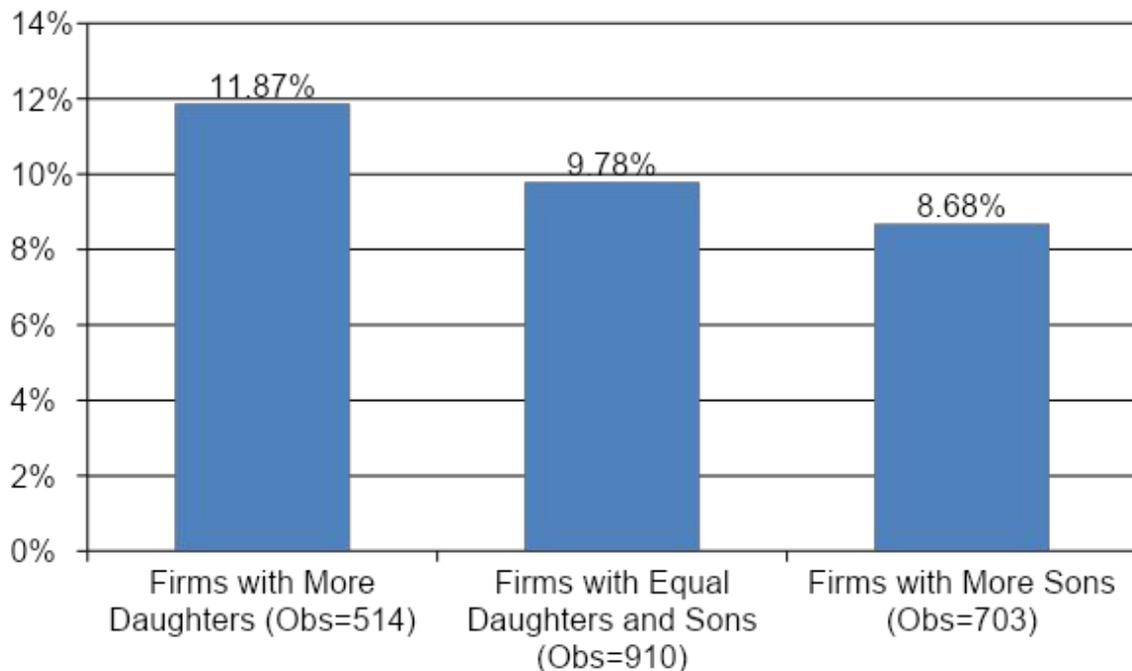
Less capital?
Lower valuations?
Both?

Source: Commission analysis based on Crunchbase data
* The startup Figure raised \$1.5 Billion

FRAMING THE ISSUES

Recent research suggests that greater diversity improves the bottom line

Female Hire Percentage (Senior Partner's Children)



Calder-Wang and Gompers (2021) find parenting daughters leads to more gender diversity.



Greater gender diversity improves the bottom line

Women Hired 10% → 15%

Deal Success 25% → 30%

Fund Net IRR 14% → 18%

This is better performance by one standard deviation

This is the difference between the top quartile fund and the next quartile!

Source: Calder-Wang, S. and Gompers, P.A., 2021. And the children shall lead: Gender diversity and performance in venture capital. *Journal of Financial Economics*, 142(1), pp.1-22.

Why this matters

The disparate funding distribution for women, Black and Latinx founders has many disadvantages and consequences:

Hinders innovative ideas from the growing majority.

Contributes to wealth divide and furthers inequity.

Makes inclusive entrepreneurial ecosystems unlikely.

Low or lack of startup capital is strong indicator of business failure.

The missing businesses would have created jobs and expanded the economy.

Missing out on opportunities that solve female- and minority-focused problems.

Perpetuates the wealth and income gap.

Friction points

- 1** Data transparency
- 2** Homophily/industry practice
- 3** Following established patterns
- 4** Access to seed funds
- 5** Can't afford to fail

1. Lack of transparency

Data about gender and race in the industry is often hard to come by in a systematic and reliable way

- *Media reports rely on research*
- *Researchers rely on extraordinary tools (brute force, AI algorithms) to identify gender and race among founders*
- *Leading trade outlets don't collect, or they rely on optional self-reporting*

transparency

[trans-pair-uhn-see] *noun*

the quality of being easy to perceive or detect

2. Biases that reinforce the status quo

Homophily impacts how referrals are made, who is seen as legitimate and what business opportunities are pursued.

- *Form relationships with similar entrepreneurs*
- *Rely on traditional "who you know" networks*
- *Networks historically closed to w/B/L founders*
- *Networks not diverse and w/B/L founders less likely to benefit*
- *Women founders viewed from a prevention lens*

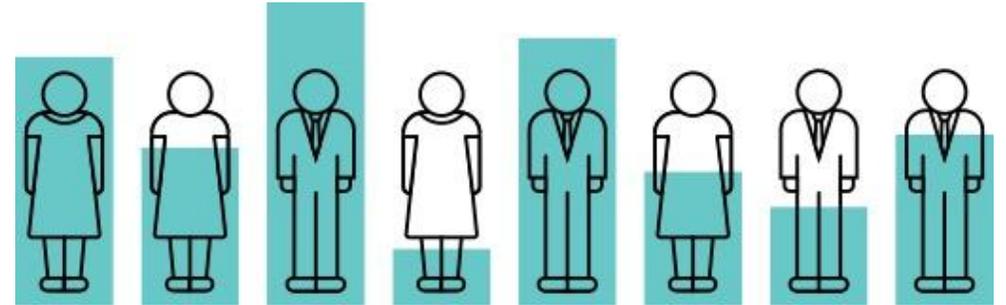
homophily

/hə'mäfələ/ *noun*

the tendency to form social connections with people who share one's defining characteristics, as age, gender, ethnicity, socioeconomic status, personal beliefs, etc.

3. Following well-established patterns

There is a lack of w/B/L representation in traditional VC industries, especially in sectors where VCs have proven expertise, experience and results, such as tech, science and medicine.



- *Focus heavily on tech/STEM/pharma industries; excludes other industries*
- *Female founders valued less, receive less in male-dominated industries*

4. W/B/L access to seed funding

Often, w/B/L lack seed funding for the development of a business idea or to establish a proof-of-concept and run market tests.

- *Racial wealth gap hampers startup creation*
- *Limited pre-seed funds from savings or family/friends*
- *Difficult for f/URM to get loans, credit and cash advances, and early-stage investors*



5. W/B/L founders often can't afford to fail

Non-wealthy w/B/L founders lack the safety net to pursue their entrepreneurial dreams, and often self-select out.

Additionally:

- *Lack of childcare and healthcare*
- *No safeguards against hardship or adversity*



Recommendations to address this inequity

Transparency

Government support

Public awareness

Recommendations to address this inequity

Transparency

Encourage data leaders (e.g., PitchBook & Crunchbase) to:

- Create options for expanded self-reporting in leading databases
- Provide a straightforward way for researchers and stakeholders to access and analyze data through secure platform interface or data sharing agreements

Activate investors and mentors to:

- Encourage founders to self-report information in leading databases in a respectful way

Government support

Public awareness

Recommendations to address this inequity

Transparency

Encourage data leaders (e.g., PitchBook & Crunchbase) to:

- Create options for expanded self-reporting in leading databases
- Provide a straightforward way for researchers and stakeholders to access and analyze data through secure platform interface or data sharing agreements

Activate investors and mentors to:

- Encourage founders to self-report information in leading databases in a respectful way

Government support

Drive equitable distribution of VC capital

- Promote transparency and equity in the granting process
- Use federal grants to states (SSBCI-MBDA)
- Include equitable workforce development initiatives in regional tech hubs established through CHIPS and Science Act
- Increase use of tax credits (including enhanced childcare credits)
- Create Community Reinvestment Act for VC

Scale alternative solutions to VC capital

- Increase access to other types of financing such as loans and revenue-based financing (e.g., WEPOWER)

Public awareness

Recommendations to address this inequity

Transparency

Encourage data leaders (e.g., PitchBook & Crunchbase) to:

- Create options for expanded self-reporting in leading databases
- Provide a straightforward way for researchers and stakeholders to access and analyze data through secure platform interface or data sharing agreements

Activate investors and mentors to:

- Encourage founders to self-report information in leading databases in a respectful way

Government support

Drive equitable distribution of VC capital

- Promote transparency and equity in the granting process
- Use federal grants to states (SSBCI-MBDA)
- Include equitable workforce development initiatives in regional tech hubs established through CHIPS and Science Act
- Increase use of tax credits (including enhanced childcare credits)
- Create Community Reinvestment Act for VC

Scale alternative solutions to VC capital

- Increase access to other types of financing such as loans and revenue-based financing (e.g., WEPOWER)

Public awareness

Fund an advocacy group

- Amplify data findings and influence public policy
 - Ongoing media relations
 - Social media campaigns
 - Events and conferences exploring additional solutions
- Create a public dashboard for venture funds and their investors with accountability for diversity metrics

Summary

The Data

- All-male founding teams outnumber all-female teams 12:1
- All-male founding teams raised 3.6 times more than all-female teams
- In 2021-22, w/B/L received relatively small proportions of venture capital: ~3%
- Decision makers at VC firms are more likely to be white and Asian men

Frictions

- 1 Data transparency**
- 2 Homophily/industry practice**
- 3 Following established patterns**
- 4 Access to seed funds**
- 5 Can't afford to fail**

Recommendations

Transparency

Government support

Public awareness

WASHU OLIN BROOKINGS COMMISSION 2022-23

*Bridging the Startup Funding Gap
for Women, Black and
Latinx Entrepreneurs*



**WashU Olin
Business School**

BROOKINGS



Find the Olin Brookings Commission's full report online at olin.wustl.edu/obcommission