BRIDGING THE STARTUP FUNDING GAP
FOR WOMEN, BLACK AND LATINX ENTREPRENEURS
WASHU OLIN BROOKINGS COMMISSION | FUNDED BY THE BELLWETHER FOUNDATION

April 20, Washington, DC
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.
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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
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

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

Akeem Shannon
CEO and Founder of Flipstik

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

Martin Hunt
CEO of Swanlaab USA Ventures

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

[Images of Apple, Google, and Facebook logos and founders' photos]
In 2021-22, women, Black and Latinx founders received small proportions of US VC funding.

Source: Commission analysis based on Crunchbase data.
Decisions-makers in VC-firms are more likely to be white and Asian men

Source: Commission analysis based on survey by The Information
FRAMING THE ISSUES
Between 2011 and 2021, women were less likely to get VC funding …

<table>
<thead>
<tr>
<th>Founding Team Size</th>
<th>0 women</th>
<th>1 woman</th>
<th>2 women</th>
<th>3 women</th>
<th>4 women</th>
<th>5 women or more</th>
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</tr>
<tr>
<td>2</td>
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<td>3,560</td>
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<tr>
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<tr>
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<td>623</td>
<td>134</td>
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<td>9</td>
<td></td>
</tr>
<tr>
<td>5 or more</td>
<td>1,177</td>
<td>256</td>
<td>85</td>
<td>22</td>
<td>6</td>
<td>4</td>
</tr>
</tbody>
</table>

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 URMs

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

Source: Commission analysis based on Crunchbase data
### Money raised by team (2011-21, millions)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>1</td>
<td>$11.8</td>
<td>$4.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>$19.1</td>
<td>$7.0</td>
<td>$5.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>$25.8</td>
<td>$10.6</td>
<td>$8.5</td>
<td>$3.4</td>
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<td></td>
</tr>
<tr>
<td>4</td>
<td>$33.0</td>
<td>$14.7</td>
<td>$13.0</td>
<td>$7.0</td>
<td>$3.5</td>
<td></td>
</tr>
<tr>
<td>5 or more</td>
<td>$48.1</td>
<td>$19.7</td>
<td>$16.1</td>
<td>$11.9</td>
<td>$89.2*</td>
<td>$1.3</td>
</tr>
</tbody>
</table>

Less capital? Lower valuations? Both?

*The data is not readily available for URMs*

**Only male founder(s):**
$18.9 million

**At least one woman:**
$7.9 million

**Teams with all women:**
$4.8 million

Source: Commission analysis based on Crunchbase data

* The startup Figure raised $1.5 Billion
Recent research suggests that greater diversity improves the bottom line.

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.
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
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

<table>
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<th>Transparency</th>
<th>Government support</th>
<th>Public awareness</th>
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## Recommendations to address this inequity

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**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
### Recommendations to address this inequity

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**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

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**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

WashU Olin Brookings Commission
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
Bridging the Startup Funding Gap for Women, Black and Latinx Entrepreneurs

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