
On February 22, 2018, the Aspen Institute Center for Urban Innovation hosted “A More Inclusive Approach to Venture Capital,” a day-long convening of fund managers, angel investors, entrepreneurial support organization leaders, and philanthropic funders to discuss strategies to make venture capital more inclusive for people of color and for women. The convening included off-the-record conversations about how venture funds dedicated to supporting women and people of color can be smarter about measuring and bolstering their investment returns, and how the venture capital system can be more inclusive and accessible to a wide range of founders. Participants also met in small breakout groups to identify pressing next steps. Below is a summary of what the breakout groups identified as priorities for specific actors in the venture ecosystem.
VENTURE CAPITALISTS

Many people who care about equity and inclusion have insisted that the world of venture capital needs a significant culture change. Our participants, which included people who themselves make VC or angel investments, identified very specific steps along the path to culture change.

Immediate changes VC firms can implement:

- VC firms can create a code of conduct to guide how the firm treats women and people of color, both employees and potential and current investees.
- VC firms can create clear guidelines for portfolio companies, with respect to diversity.
- VC firms can move away from happy hours and toward informal events that do not emphasize alcohol consumption.
- VC firms can be transparent about processes and criteria for funding.
- VC firms can give specific feedback to companies that did not get investments about why not, and move away from feedback based on whether a company has hit specific milestones.
- Fund managers and others can stand up and speak out against biased comments, educating people who might not know that their remarks were inappropriate.
- VC firms, GPs, and others in the ecosystem can stop classifying entrepreneurs of color as discounted investments, or continuing the narrative that entrepreneurs of color get “support” or “resources” while white entrepreneurs get actual dollars.

Near term changes:

Diversifying the pipeline of venture capitalists themselves:

- Investors in VC funds should create carve-outs for emerging fund managers (aka GPs).

Diversifying portfolio companies:

- VC firms should create intentional apprenticeship opportunities within funds and internships/associate positions for individuals of diverse backgrounds.
- VC firms should be thoughtful about the criteria used to judge fund managers, making sure it is reasonable and focused.
- VC firms should seek out mentoring and coaching to help partners overcome unconscious bias. The responsibility for change cannot rest solely on entrepreneurs, philanthropy, and other ecosystem actors.

Medium term changes:

The VC market needs more liquidity, especially since it is overdue for a market correction that will create headwinds for investors. More liquidity lowers the cost of VC money and reduces the risk of having a VC stake, both of which can facilitate more inclusive investments.

- Sophisticated investors and funds could create secondary markets for VC shares, which would allow existing VC limited partners a way to sell out of their positions.
- VC firms should buy out company leads with ownership stakes.
**ECOSYSTEM ACTORS**

Immediate changes ecosystem actors can implement:

- All actors in the entrepreneurial ecosystem can stop classifying entrepreneurs of color as discounted investments, or continuing the narrative that entrepreneurs of color get “support” or “resources” while white entrepreneurs get actual dollars.
- Ecosystem actors can embrace the discomfort that comes with change and listen to the people they are trying to serve.

Near term changes:

- Ecosystem actors can educate entrepreneurs about the vast funding universe, not limited to VC, including structure, limitations and benefits of each, and paths to access. They can also stop encouraging entrepreneurs to accept venture capital when it is not the best fit for their needs.
- Ecosystem actors can help entrepreneurs understand the roadmap of entrepreneurship and provide support networks for each phase.
- Ecosystem actors can develop training for investors on bias and policies and procedures for creating an inclusive environment.
- Ecosystem actors can expand their networks and competencies of people within their organization by adding staff diversity, asking founders of color what they need, leveraging networking opportunities, and diversifying homogeneous networks.
- Ecosystem actors should go beyond toolkits and create in-house services for technology advancement and marketing.

Medium term changes:

- Ecosystem actors should invest in other sources of capital accumulation including royalty financing, quasi-equity loan funds, minority/female purchase of existing companies, employee-stock ownership plans, and crowdfunding.
- Pension funds should make investment decisions based on diversity of founding team, similar to the way that they now use ESG (environmental, social, governance) scans.

What will drive VCs to behave differently?
As one participant noted, the data that shows that investing in companies led by women and people of color is a successful strategy is not, by itself, driving widespread changes in investor behavior.
PHILANTHROPIC LEADERS AND PROGRAM OFFICERS

Immediate changes decision-makers in philanthropy can implement:

• Funders can find mentors for entrepreneurs within their organization, their grantees, or their networks (and cover the cost of time for grantees who agree to mentor).
• Funders can educate their peers in philanthropy about what works and what does not in terms of diversifying venture capital opportunities.
• Funders should raise awareness about the inclusion gaps in impact investing.

Near term changes:

• Funders should hire experienced entrepreneurs, early-stage investing experts, and women and people of color who have direct experience with the problems of venture capital and the challenges of entrepreneurship to run their own venture investment portfolios.
• Funders can allocate dollars towards pre-seed capital and support, to fill the friends and family funding gap.
• Funders can support research into implicit biases of ROI measures.
• Funders should work more closely with technical assistance advisors.
• Funders should invest in alternative financing methods and education about what those are.
• Funders should cultivate a more diverse set of investors.
• Funders should invest in research and storytelling to promote diverse entrepreneurs and their investment readiness.

Medium term changes:

• Funders should finance and catalyze new capital products that target underserved entrepreneurs and products that integrate them into traditional vehicles.
• Funders can use their expertise and networks to curate problems for the market to solve, and connect entrepreneurs and investors drawn to those problems.

Is there a tension between creating a “parallel universe” of funds and support specifically for women and people of color and building on-ramps to mainstream funds and support systems and working to change mainstream practices? How can people who care about this issue balance both imperatives? Should they?

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