



ACCELERATING DIVERSITY

Building Stronger Founder Ecosystems

“The companies of tomorrow should represent the world today”

- Catherine Lenson

Managing Partner, CHRO and Head of Social Impact, SoftBank Investment Advisers



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FOREWORD

The Founders Forum ecosystem, alongside our allies and sponsors such as SoftBank Investment Advisers, must do more to leverage our unique global connectivity to improve the lack of representation of diverse founders.

Our mission is to back the best founders at every stage of their journey. And as part of that, we need to work harder to find the best founders. Once found, we need to work relentlessly for them in ways that proactively address the inequities they may come up against.

This is a long-term effort that must maintain its momentum even as news cycles shift. This is not a moment, but a movement; a movement that must take bold action to address all facets of diversity.

As an industry, tech needs to take a leadership role in providing diverse founders with the platforms needed to launch and scale their businesses. Accelerators must make advisory and network capital a core feature of their offering. But financial capital is ultimately crucial to rebalancing the inequities experienced early on in founders' journeys.

It matters a great deal that we get this right. The data spotlighted in this whitepaper is a glimpse of the momentous collective potential of diverse founders to change the way we live for the better. And let's not underestimate the size of this opportunity for a turbocharged start-up landscape either: diversifying the funnel is not just the right thing to do socially - it's good for business.

At Founders Forum, we have worked hard to facilitate change across the spectrum, with initiatives such as Founders Factory's Power to Black Founders office hours, accelerateHER, Black Tech Fest, and the Champions of Change Coalition. But we realise that Founders Forum, like others, still has room to grow.

The hope is that this whitepaper builds on the actions that are already being taken by other leading organizations and inspires more to do the same with the help of these tangible recommendations. Accelerators are key catalysts for early-stage ventures; we now need to ensure that access to and tailoring of the programs for underrepresented founders takes centre-stage.



Brent Hoberman CBE

Co-Founder and Executive Chair
Founders Forum, firstminute capital, Founders Factory,
Founders Intelligence



FOREWORD

Central to SoftBank's strategy is the belief that investing in the technology of today can unlock even greater opportunities for the economies and societies of tomorrow. For this to be achieved, we need to bring everyone along with us to share in the opportunity.

In 2019, we established the Emerge accelerator program with our partners at WeWork Labs to help minority founders to access the networks and tools they needed to grow their start-ups. The first cohort was run out of the US and set us on a journey with 14 founders of diverse backgrounds. They joined us for eight weeks of mentoring and networking that culminated in a live showcase event attended by more than 100 investors.

I'm humbled to say that in partnering with these exceptional founders, we

learned much about ourselves as investors and were inspired to explore ways to do even more through the program. We will shortly be launching applications for our second cohort, this time in EMEA, and I am excited by the prospect of working with some of the most visionary entrepreneurs in the region.

Given their potential to improve start-up outcomes, accelerators have an important role to play in addressing systemic imbalances and creating new opportunities. This report sets out some important principles which can help accelerators, early-stage investors, and founders drive positive change across the tech industry. Sustainable change will require a collective shift both in how we invest and how we run our own companies. We are committed to taking action and doing our part, and hope you'll join us in this critical endeavor.



Catherine Lenson

Managing Partner, CHRO and Head of Social Impact,
SoftBank Investment Advisers



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EXECUTIVE SUMMARY

The U.S. and European tech industries fail to represent the societies they serve and operate in. These inequities span every stage of a founder's journey. From navigating opaque information networks on how to build start-ups most effectively to securing the financing to scale businesses, the entire tech ecosystem has a duty and an opportunity to drive tangible change to rectify the imbalances.

Accelerators, as an early gateway into the ecosystem, have the opportunity to augment their practices to ensure that they proactively attract and empower founders. Founders Intelligence, the strategy and innovation arm of Founders Forum, had the opportunity to meet with the leadership of the Emerge program by SoftBank Vision Fund and WeWork Labs, an accelerator dedicated to connecting underrepresented founders with the tools and networks to help them scale, as part of the work that underpins this whitepaper. Their work and those of the many others we connected with in the ecosystem highlights the unique role accelerators can play in supporting founders in light of systemic challenges.

In order to drive sustainable impact, accelerators need to:

- _01** **Proactively source underrepresented founders** – removing the dependency on often biased and unreliable signals, breaking down the barriers to allow founders to commit full-time, and building trust among underrepresented founders is a critical first step.
- _02** **Help diverse founders 'break into the club'** – once founders join an accelerator program, strengthen the peer-to-peer networks so that they outlive the duration of the program. Empower founders with social capital through deep, meaningful connections that convert into anchor clients and early-stage investments.
- _03** **Support in financing the gap** – take bold action to ensure that every decision is based on scientific and transparent processes and that the investment teams better reflect the world they operate in through clear public commitments and OKRs.

Only through bold and collective action can the ecosystem begin to eliminate a culture of systemic exclusion – one that has failed founders by exacerbating societal inequities and which is preventing investors achieving their full potential. The industry imperative is to cultivate a pipeline that supports opportunity for these founders through every stage of the investment lifecycle, creating a new set of sector champions and role models for the future.

INTRODUCTION

The tech ecosystem across the U.S. and Europe – from the companies that receive backing to the investors that back them – fails to represent the world it operates in. This crisis of systemic exclusion in the industry has been well-documented. European women-only founding teams received only 1.7% of capital raised in 2020,¹ and diversity from an ethnic perspective is also in a dire state. In the UK, minority ethnic-only teams received only 1.6% of all venture capital funding between 2009-2019.²

Simultaneously, underrepresented founders are fundamentally underestimated founders. In the U.S., diverse founders who receive funding drive higher returns on average – generating 3.3x realized multiples on exit benchmarked against only 2.5x realized multiples against their counterparts.³

Solving the issue is a challenge, to say the least. Diversity is complex, nuanced and takes on various forms: gender, ethnicity, sexual orientation, socio-economic background, age, neurodiversity and more.

Underrepresented founders are often spoken of as a singular 'community', but they also experience diverse challenges that cannot be solved with a one-size-fits-all solution. While brilliant work is being done by a growing number of organizations across Europe and the U.S. to build out the ecosystem and aggregate intersectional networks for underrepresented founders, it's important to note that many founders may still find themselves without a specific 'community'.

Tech needs to make critical changes to root out systemic exclusion and benefit from the value that greater inclusion can unlock. The ecosystem, as a unique source of wealth and job creation, cannot simply wait for broader societal reforms and must take action now. Many organizations and leaders are leading admirable work in rebalancing these inequities.

¹The State of European Tech 2020. Atomico. 2021.

²Diversity Beyond Gender. Extend Ventures. 2020.

³Comparing diverse founding teams with white founding teams. Exits are including IPOs and acquisitions. Deconstructing the Pipeline Myth and the Case for More Diverse Fund Managers. Kauffman Fellows. 2020.

⁴66% of UK start-ups found that their participation in an accelerator or incubator program was significant or vital to their success. Further, accelerator participation directly correlates with start-up survival, employee growth and funds raised. The Impact of Business Accelerators and Incubators in the UK. 2019.

At the most elementary level, the mantra first coined by Tiffani Ashley Bell (Founder & Executive Director, The Human Utility), “Make the hire. Send the wire,” embodies the change that is required. Shaking the status quo and creating that path forward, as the data continues to show, is challenging.

While inequities in the tech ecosystem exist across the funding continuum, from the very early stages of founding a company through to the later stages of growth capital, we believe that accelerators play a critical role. Accelerators may seem like a lightweight marketing exercise for founders and investors from privileged backgrounds but they are also a fault line at the early stages of systemic

exclusion. **Accelerators’ value goes beyond solely being a resource for training and education: more importantly, accelerators are reservoirs for network capital and gateways to funding.**

Accelerators, first and foremost, can serve as a far more inclusive top of the funnel for the VC ecosystem. They can enable founders at a stage where 66% of start-ups deem accelerators vital to their success and survival.⁴ Leaders in this space can take **tangible action – from attracting underrepresented founders to empowering them with the networks to scale their businesses –** creating a meaningful first step to achieving more widespread change.



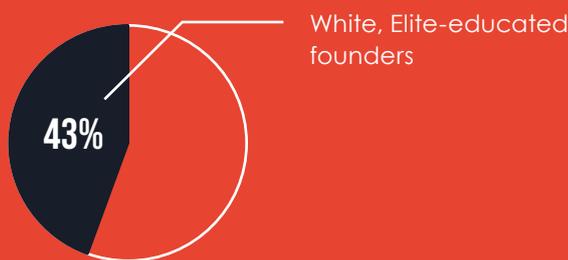
Chapter One

SOURCING UNDERREPRESENTED FOUNDERS

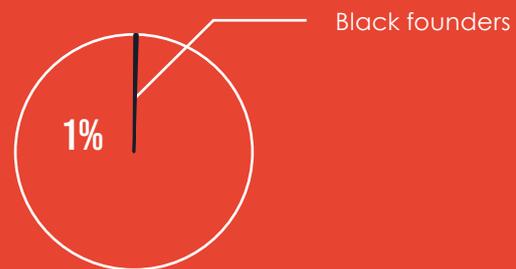




SNAPSHOT OF THE PROBLEM



In the UK, elite-educated founders received an overwhelming 43% of venture money. 90% of that funding goes to white founders.⁵



Only 1% of US venture-funded founders (of either gender) are Black.⁶

LOWER DEPENDENCY ON UNRELIABLE SIGNALS

Underrepresented founders consistently prove to be more effective and capital-efficient than their less diverse counterparts: for every dollar of funding, **women-led start-ups generate 78 cents in revenue - over twice as much as the 31 cents that male-led start-ups return.**⁷

So when accelerators fail underrepresented founders across the ecosystem, they also fail their LPs in missing these investment opportunities. Selection and investment committees over-index on unreliable signals that amplify systemic bias (e.g. attending an elite university or fundraising traction). Some are well-documented: in the UK, less than 1% of the population attended Oxbridge, while teams with an 'elite' educated founder

⁵ 'Elite' is classified as Oxford, Cambridge, Harvard, Stanford and their respective business schools. Diversity Beyond Gender. Extend Ventures. 2020.

⁶ Underrepresented Founders & VC Funding Raised. Transparent Collective, Forbes & CNN. 2017.

⁷ Why Women-Owned start-ups Are a Better Bet. The Boston Consulting Group. 2018.

receive 43% of venture funding. Out of those 43%, over 90% of the funding went to white founders.⁸

Other biases in venture signals may be less apparent to the tech ecosystem. For instance, an underrepresented founder might build their business more slowly due to other work commitments they cannot put on hold and so take longer to commit to their business full-time, by which point they might have become ineligible for beneficial EIS⁹ schemes, notes Rumbi Makanga (Funding Manager, Kwanda). Another underrepresented founder might have gone through multiple accelerators, not due to poor product-market fit, but as a means to secure non-dilutive financing in a challenging VC environment.

Selection committees need to better integrate scientific principles into their processes based on transparency, data and measurability, says Frida Polli (CEO & Co-founder, pymetrics). The inequities in sourcing talent have deep parallels with how

recruitment applications processes operated decades ago, before more robust HR systems were introduced to better control for biases. No one we spoke to as part of this research proposed that selection committees should entirely eliminate the human dimension of their decision-making processes, but controlling for human error by **introducing clear, transparent and data-driven selection criteria will be an important step.**

To do this, decision-makers need to unpack their decision-making, control for bias and apply a degree of sensitivity to the circumstances under which founders build their businesses. This will help curb the over-reliance on 'culture fit', which risks being a catch-all for rejections built primarily on bias. As in other fields, if decision-makers relied more deeply on data than on the heuristics of thought and pattern matching, the founder ecosystem would more accurately reflect the world we operate in.



“Underrepresented founders are underestimated founders”

– **Danielle Sheerin**

Programs and Strategic Initiatives, Barclays Innovation

⁸ 'Elite' is classified as Oxford, Cambridge, Harvard, Stanford and their respective business schools. Diversity Beyond Gender. Extend Ventures. 2020.

⁹ The Enterprise Investment Schemes (EIS) are UK government-sponsored programs designed to help small companies raise funds and grow by offering private investors tax breaks. To qualify for the Seed EIS scheme, a start-up must have traded for a maximum of two years - often disqualifying start-ups that take longer to get off the ground. Use the Enterprise Investment Scheme (EIS) to raise money for your company. GOV.UK. 2021.

REDUCE BARRIERS FOR UNDERREPRESENTED FOUNDERS TO COMMIT FULL-TIME

89% of first-time European entrepreneurs fail.¹⁰ A defining trope of being a founder is the ability and necessity to take risks - and taking risks is much easier when you start from a position of financial strength. From carrying responsibilities in multi-generational households to having weaker safety nets, systemic inequities significantly amplify the risks for underrepresented founders to commit to the entrepreneurial journey full-time. **In the UK alone, people from Black, Asian and other minority ethnic communities are twice as likely to lose their jobs during a pandemic-ridden economy.** This is compounded by the fact that they often have smaller asset bases to raise early-stage funding against.¹¹ And globally, women earn less, can save less, hold less secure jobs, and are more likely to be employed in the informal sector.¹²

Enabling part-time commitment to accelerators is therefore crucial. While the virtual element of accelerators during COVID has enabled a more diverse group of founders to participate, the industry needs to

ensure programs are designed to be as inclusive as possible – notably in the form of financial stipends and childcare support. The pandemic has only exacerbated these pressures, with the UN warning of a potential mass migration of women from the workforce as men shoulder less of the responsibilities for care.¹³



CASE STUDY

BACKSTAGE CAPITAL

Backstage Capital is a leading VC firm that has backed 150+ companies led by underrepresented founders across the US and Europe. Christie Pitts (General Partner) highlights the importance of “maintaining the mentality that we are here to support the founders. Their success is our success.” With the experience of launching their global accelerator, Christie emphasized the importance of an intentional program design that lets the founders scale their impact. This includes child care stipends, lighter programming commitments and a focus on key milestones - not fundraising requirements.

¹⁰ Start-up failure in Europe. Styber & Crunchbase. 2020.

¹¹ Underrepresented founders tend to have a weaker safety net to rely on. In the UK alone, people from Black or minority ethnic backgrounds are 50% more likely to be renters and so benefit less from mortgage holiday programs. Institute for Public Policy Research (IPPR). 2020.

¹² Policy Brief: The Impact of COVID-19 on Women. United Nations. 2020.

¹³ Policy Brief: The Impact of COVID-19 on Women. United Nations. 2020.



“Losing a bit of cash flow can mean the difference between **being housed or not**”

– *Ashleigh Ainsley*
Co-founder, *Colorintech*



BUILD TRUST AMONGST UNDERREPRESENTED FOUNDERS

Given the poor track record of accelerators and investment vehicles in backing underrepresented founders, it is no surprise that **founders may feel less welcome or self-select themselves out of consideration if the odds appear stacked against them due to systemic bias**. Leading accelerators have intakes that lag demographics and have been so slow to change that an ecosystem of accelerators has sprung up to expressly focus on diverse intakes.

Flagship accelerator Y Combinator is often a focal point of debate given their access to some of the world's leading start-ups. Their recent S20 cohort, for example, had an intake of only 9% female founders, and 4% Black founders.¹⁴ While their leadership has actively been working to increase the diversity of their cohorts in recent years (including support on visibility once selected),¹⁵ YC's experience as a leading player struggling with this is emblematic of the missed opportunity to back more diverse founders.

¹⁴Y Combinator Releases Data On Black, Latinx And Woman Founders. Crunchbase, 2020.

¹⁵Startup fund Y Combinator increases global reach, diversity of entrepreneurs. Reuters, 2021.

For accelerators that are truly committed to tackling this problem, strong support from senior leadership is essential. They are uniquely positioned to set the cultural tone for the accelerator and champion change across the organization. “The drive for change has to come from the very top,” says Louis Warner (COO, Founders Factory), who has helped to establish an ambitious new agenda and strategy for improving diversity at their leading start-up accelerator and venture studio (a sister company to Founders Intelligence).

Once the accelerator has secured senior buy-in to drive change, creating partnerships (based on a fair value exchange) with relevant organizations or key opinion leaders (where strong community networks are not available) is critical to building trust in the accelerator’s proposition. It is about “being authentically present in the community” states Marta Krupinska (Head of Google for Start-ups UK).

Mainstream accelerators trying to tackle the diversity issue without collaborating with diversity-focused organizations risk limiting their impact and becoming “the antithesis of what they’re trying to solve, because small organizations at the heart of the community are working on this,” notes Ashleigh Ainsley (Co-founder, Colorintech). These organizations have built trust within their ecosystems and have unique access to communities that may not yet be aware of or self-select out of programs from mainstream providers.

And, as noted in our introduction, being specific and focused about your target audience really matters. “The word minority

is too broad. Clarity of purpose was essential,” says Shu Nyatta (Managing Partner, SoftBank Group International) of his experience building the SB Opportunity Fund, a U.S.-based \$100M venture fund dedicated to Black, Latinx and Native American founders. A specific and transparent focus avoids making an accelerator or fund a ‘catch-all’ net, makes fundraising easier, and enables targeted and diverse pipelines to flourish.

Only once an accelerator creates trust, can it begin to meaningfully engage with the founders it seeks to attract.



CASE STUDY

atomico^o x DIVERSITY VC

When VC firm Atomico was approached by their portfolio companies asking for help with Diversity & Inclusion, they understood that the best course of action was to collaborate with Diversity VC: a non-profit partnership that shares Atomico’s mission of making venture capital and tech more inclusive. The two firms realized there was a lack of actionable advice and resources that address diversity-related issues. By joining forces, the two firms created a practical playbook¹⁶ with actionable insights for entrepreneurs to “help them build companies that have diversity and inclusion at their core”.

¹⁶ Diversity & Inclusion in Tech - A Practical Guidebook for Entrepreneurs. Diversity VC & Atomico. 2019.



“Partnerships with diverse advisors are essential to create trust and learn with open minds about what it takes – big and small – to create programs that are welcoming, tackle unconscious biases head-on and **allow diversity to thrive.**”

– *Kirthiga Reddy*

Partner, SoftBank Investment Advisers





RECOMMENDATIONS

To Source Underrepresented Founders

- _01** **Set the agenda** at the leadership level
- _02** **Instill an internal culture** of transparency and diverse leadership internally
- _03** **Create a transparent focus** on the type of underrepresentation your accelerator is tackling¹⁷
- _04** **Partner** with relevant leaders, groups and organizations supporting social mobility for gender, ethnicity and/or socio-economic background
- _05** **Collaborate** with a diverse range of universities, such as HBCUs¹⁸, to drive more inclusive pipelines
- _06** **Introduce financial incentives**; childcare and other related stipends

¹⁷ Mostly applicable to diversity-focused accelerators and investment funds

¹⁸ HBCUs (Historically Black Colleges and Universities) can act as a sourcing gateway to new generations of highly talented yet underrepresented founders. HBCUvc, for example, is a leading platform for founders and investors that are traditionally overlooked

Chapter Two

BREAKING INTO THE CLUB

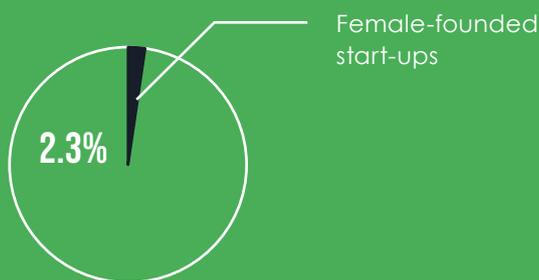
Being a founder is hard. But being an underrepresented founder is even harder: every challenge is amplified in magnitude -- and it is not getting any easier. In 2019, 31% of underrepresented founders found it more challenging to raise venture capital than the year prior; this number increased to 62% in 2020.¹⁹



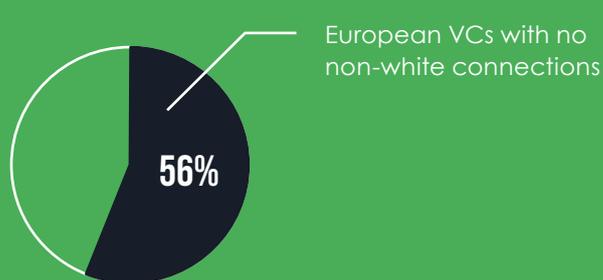
¹⁹ The State of European Tech 2020. Atomico, 2021.



SNAPSHOT OF THE PROBLEM



Only 2.3% of global venture funding went to female-founded start-ups in 2020. This represented a drop from just 2.8% in 2019.²⁰



56% of white European VCs have virtually no non-white connections in their trusted network (<5%).²¹

The tech ecosystem is riddled with information asymmetry. From ad-hoc learnings on who to partner with for PR or branding to specific networks for hiring great talent, **underrepresented founders without strong founder networks may experience further hurdles in growing their businesses.** Founders benefit from being part of ecosystems and networks to build support groups, identify opportunities, meet potential hires and raise capital.

It is at the earliest stages of financing where the gap begins to emerge: "the social capital of privileged founders means that you simply don't have the same struggle to tide the business over the early stage; you have a network of family and friends who can provide not only financial capital, but legal, technical, and publicity skills," notes Ezechi Britton (Founding Member, Principal & CTO, ImpactX Capital). We see accelerators as a potential key to unlocking established networks, structuring informal ones, and creating new ones from the ground-up.

²⁰ Global VC Funding To Female Founders Dropped Dramatically This Year. Crunchbase. 2020.

²¹ The State of European Tech 2020. Atomico. 2021.

BUILD ROBUST PEER-TO-PEER NETWORKS

Accelerators are well-positioned to build strong peer-to-peer networks that will pay long-term dividends to underrepresented founders. Those accelerators that are intentional in tackling underrepresentation should build their cohort holistically at the selection stage to maximize their chance of creating the organic serendipity that defines a strong cohort, where founders support each other throughout - and well beyond the conclusion of - the program.

SoftBank Vision Fund and WeWork Labs' Emerge, for example, was intentional about this from the outset. The program's architects, Catherine Lenson (Managing Partner, CHRO and Head of Social Impact), Dami Osunsanya (Director, Emerge by SoftBank Vision Fund) and Elizabeth Scallon (former Head of WeWork Labs), helped nurture a genuine, safe environment from day one. The message was clear: "we understand what it means to work through adversity and how to make that adversity your value proposition,"

says Elizabeth. The strong bonds that ensued among the founders became a defining feature and a value proposition for future cohorts.



CASE STUDY



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In H1 2020, SoftBank Vision Fund and WeWork Labs jointly hosted the first cohort of the Emerge accelerator Program in the US. With the goal of connecting and empowering underrepresented founders, the eight week program included decisive actions to ensure a safe space for participants to share their experiences, learn from operational experts and pitch to an extended network of leading VCs. The Emerge leadership had faced similar barriers to the founders, they hired diversity experts to ensure that every workshop was as impactful as possible, and they encouraged openness from the founders throughout their fireside chats. The program culminated in a showcase event with over 100 Silicon Valley VCs, SoftBank Investment Advisers also invested in each of the participant founders.

However, building these networks is not just a role for accelerators. At Founders Forum, the private network for leading European entrepreneurs and investors from which Founders Intelligence emerged, we observed that the status quo of the late-stage ecosystem was primarily male and white. To help rebalance the population towards underestimated founders, we created

two groups to help build founders' networks both with peers and investors. Founders of the Future identifies and supports promising underrepresented founders at the earliest stages of their careers; and accelerateHER is a group and forum dedicated to creating networks for intersectional female founders and investors.



“In a traditional accelerator, you might not say that you think there might have been some type of bias in their [investors’] tone because you wouldn't want to introduce that. And **we got to more freely talk about those things, which actually really did help us navigate stakeholder engagement, investor engagement,...”**

– **Ugwem Eneyo**
Co-founder & CEO, SHYFT Power

TURBO-CHARGE START-UP SALES TRACTION

While underrepresented founders run more efficient businesses than their counterparts (companies with a female founder performed 63% better than investments in all-male teams),²² being locked out of specific networks of information can slow down their journeys significantly. From picking up easily deployable marketing hacks to powering through company legal questions, accelerators are well-positioned to solve for this at scale.

Andy Davis (Co-founder, 10x10) has focused on coaching founders in his portfolio and network on fundraising best practices – from tactical aspects such as deck templates to more strategic matters like term sheet advice and helping to craft impactful fundraising strategies. That this has resonated with founders should be no surprise, given 85% of Black founders lack access to early business support and pre-acceleration.²³ Much of this type of early support is spoken of as “the small things” that founders with stronger networks might take for granted.



“You’re talking about nitty-gritty stuff that [at a] general accelerator no one on their staff would be able to answer”

– **Ugwem Eneyo**
Co-founder & CEO, SHYFT Power

²²Numbers are based on the performance of First Round's investments in companies with at least one female founder vs. their investments in all-male teams. First Round 10 Year Project. First Round Capital. 2015.

²³The Black Report - Their Startups. 10x10 & Google for Start-ups. 2020.



“The accelerator needs to be that rich uncle”

– Ezechi Britton

Founding Member, Principal & CTO, ImpactX Capital

The Emerge Accelerator by SoftBank Vision Fund saw a similar window of opportunity to address some of the small things as part of their value proposition to drive impact. While there has been a degree of commoditization in what accelerators can offer founders (58% of UK incubators and 85% of accelerators provide vaguely defined “mentoring”),²⁴ SoftBank Vision Fund drew on its core assets and competitive advantage as a leading tech investor. Beyond the conventional content on go-to-market strategies, SoftBank Vision Fund was able to **share perspectives across a range of operational areas** and the program culminated with a live showcase event for founders to pitch their businesses directly to over 100 Silicon Valley VCs.

Building impact at scale for accelerators can be a challenge. “Money is not enough. Post money is important. You have to think very carefully about what you do” notes Shu Nyatta (Managing Partner, SoftBank Group International), highlighting the need for

scalable service lines that can take the form of training on building sales teams or on product management, for example; these can help ensure a lasting impact that transcends a few short weeks in an accelerator program.

Accelerators need to be that well-connected “rich uncle” who can turbo-charge start-up access to anchor customers. **Access to procurement networks is often an overlooked dimension of the inequities in social capital amongst underrepresented founders** – especially as it relates to the lack of socio-economic privilege. Beyond introductions, barriers to securing anchor clients, such as minimum cash-in-bank requirements and references, frustrates the speed at which founders can accelerate their businesses. While corporations have an opportunity to build procurement sandboxes, accelerators can help remove friction for early-stage founders looking to signal credibility to the market.

²⁴Business Incubators and Accelerators: The National Picture. BEIS. 2017.

IMPROVE ACCESS TO INVESTORS

Investors such as Atomico are committed to breaking out of the homogenous networks that drive systemic exclusion. Some first steps include operating open office hours to attract a more diverse pipeline of founders and help nurture more heterogeneous networks that drive progress. However, as these schemes gain traction across the ecosystem, it is critical that they are built on genuine trust rather than performative allyship²⁵ - one that

can ultimately translate into an investment - or underrepresented founders risk becoming over-mentored while remaining underfunded.

Once on the accelerator program, sponsoring the visibility of founders that might otherwise be overlooked is key. Accelerators should take a conscious approach to ensuring that their team (and broader stakeholders) can actively promote those founders in high visibility networks beyond simply giving advice.



²⁵ Performative allyship is a form of allyship that drives personal gain to the non-marginalized individual/organization and/or harms the interests of the marginalized group in question



RECOMMENDATIONS

For Breaking Into The Club

- _01** **Adopt a holistic mindset when building accelerator cohorts** to maximize diversity
- _02** Create meaningful and **trusted safe spaces** that empower founders
- _03** Provide **access to value-added best practices** that build on your accelerator's competitive advantage to drive value to the founders
- _04** **Sponsor underrepresented founders** once on the program – beyond mentorship, ensure underrepresented founders secure high visibility²⁶
- _05** **Build scalable service lines** for founders where possible to maximize impact
- _06** **Drive introductions** and remain in the thread to ensure that introductions materialize

²⁶This research builds on accelerateHER's leading work in driving gender parity in tech

Chapter Three

FINANCING THE GAP

A founder may check all the boxes to be considered “investment-ready” but still find that access to financing is not guaranteed. The systemic disadvantages that these underestimated founders face strongly suggest that the tech ecosystem needs to change how underrepresented founders are evaluated and backed.

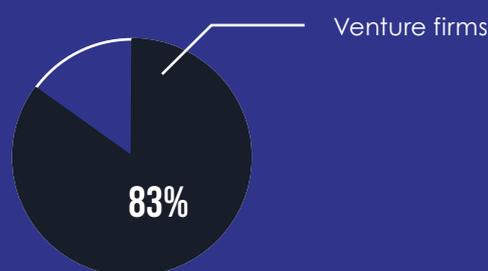




SNAPSHOT OF THE PROBLEM



The 22% of Black founders in the UK that receive financial support from friends and family receive an average total of £9,500.²⁷



83% of venture firms report no women in their investment committees.²⁸

PULLING THROUGH THE FRIENDS & FAMILY ROUND

The friends & family round is an important stage in a company's fundraising journey. Personal networks typically have the strongest information edge / munificence to make a calculated bet on a founder's vision. It provides the pre-seed liquidity to get a venture moving, but it's also a luxury that many underrepresented founders don't have access to.

Investors should take into account the fact that underrepresented founders

have less access to friends and family capital at the earliest stages and less access to outside capital at the scaling stages, says Monique Woodard (Founder & Managing Partner, Cake Ventures). Those challenges mean that founders often supplement their capital deficit by participating in multiple accelerators and/or pitch competitions - "for traditional investors, these capital access 'hacks' may be viewed unfavorably, but contextualized to the capital constraints of underrepresented

²⁷The Black Report - Funding. 10x10 & Google for Start-ups. 2020.

²⁸Diversity in UK Venture Capital. Diversity VC & Silicon Valley Bank. 2019.

founders, this is a way to keep moving forward while bypassing the bias of traditional capital allocators," notes Woodard.

Early-stage inequities in access to funding compound over time through the early-stage VC screening process. **Conventional screening metrics used in the earliest funding rounds can put underestimated founders at a disadvantage**, given that entrepreneurs from more privileged backgrounds can afford to work on their ventures full-time and raise funding accordingly. The result is that "accelerators with traction requirements like this will naturally select out underrepresented founders," argues Christie Pitts (Partner, Backstage Capital).



“People think that we just know rich people”

– **Yaprak DeCarmine**
Co-founder & CEO, Game Jolt



“Capital access 'hacks' may be viewed unfavorably, but contextualized to the capital constraints of underrepresented founders, this is a way to keep moving forward while bypassing the bias of traditional capital allocator”

– **Monique Woodard**
Founder & Managing Director, Cake Ventures

DRIVE A MINDSET SHIFT AMONG INVESTORS

Venture capital is, despite data-driven intentions, an inherently speculative and conviction-driven discipline. With less to go on than they'd like, early-stage investors rely on patterns and signals that appear to correlate with past successes. But underrepresented founders often do not neatly match those patterns.

One signal that is commonly thought to determine success among investors is prior entrepreneurial experience. But underrepresented founders are less likely to conform to this mould relative to their non-diverse counterparts due to “limited access to capital” – given that 75% of venture capital rounds go to non-diverse teams in the U.S.²⁹ And indeed, investments in repeat founders do not perform significantly better than investments in first-timers, primarily because the initial valuations tend to be over 50% higher.³⁰ Ironically enough, pattern matching of this nature not only overlooks some founders but is also negatively impacting VC returns - a less than ideal double whammy.

Investors, as well as accelerators, need to break out of the “people like us” theory, Professor Susan Marlow’s thesis that decision-makers are more likely to identify with and select those that look like themselves.³¹ The first step, of course, is to truly recognize and tackle those internal biases head-on. For example, one common investor bias is the tendency to ask female founders prevention questions (e.g. how to manage customer retention), whilst asking male founders promotion questions (e.g. how to drive customer acquisition).³² Stronger D&I training alongside more consistent, carefully phrased diligence questions can help to solve for these biases.

A similar conscious approach to shift the mindset is also required in how accelerators and investors perceive and evaluate companies founded by underrepresented founders. A “reframing of the conversation” is required, says Dami Osunsanya, adding that “these are founders that we believe have created amazing companies that just happen to be underrepresented – Black, Latinx, LGBTQ, or Female founded”. Having worked closely with the Emerge founders over the course of the program, SoftBank Vision Fund followed through on that conviction and invested in each of the participant companies.

²⁹ Deconstructing the Pipeline Myth and the Case for More Diverse Fund Managers. Kauffman Fellows. 2020.

³⁰ First Round 10 Year Project. First Round Capital. 2015.

³¹ Cited in Creating Inclusive High-Tech Incubators and Accelerators: Strategies to Increase Participation Rates of Women and Minority Entrepreneurs. J.P. Morgan Chase & Co and ICIC. 2016.

³² Male and Female Entrepreneurs Get Asked Different Questions by VCs — and It Affects How Much Funding They Get. HBR. 2017.



“The companies of tomorrow should represent the world today”

– Catherine Lenson

Managing Partner, CHRO and Head of Social Impact, SoftBank Investment Advisers



BUILD INVESTMENT TEAMS THAT REFLECT THE WORLD THEY OPERATE IN

8 1% of VC firms in the U.S. do not have a single Black investor in their team.³³ The resulting environment is a ‘mirror-tocracy’, in which VCs only invest in founders that look like themselves. This creates a world in which investors cannot understand the founders who are excluded from the fundraising space, as well as the large underserved markets they may be targeting. And the problem persists even when businesses show significant traction: as an example, Wish (an

ecommerce platform for affordable products) was repeatedly rejected by investors who did not see a market for consumers wanting to purchase unbranded goods at a lower price; they’re now listed on NASDAQ with a valuation of ~\$19B.³⁴

“The number one challenge women founders tell us they face is accessing capital. They often lack the network that opens the door to investment in the first place. They then have to

³³ Where Did you Go to School? Equal Ventures. 2018.

³⁴ The Invisible Half. Peter Szulczewski. 2016.

navigate the multitude of layered biases that affect investment decision-making,” notes Laura Stebbing (Co-CEO, accelerateHER). “Investors are often uncomfortable funding things they do not use, understand or personally value” adds Laura.

Tackling the systemic bias against underrepresented founders through fundamentally more inclusive hiring practices can help tackle a trillion dollar blind spot.³⁵

One approach adopted by Founders Factory, a global accelerator and venture studio (and sister company of

Founders Intelligence), has been to make a strong public commitment³⁶ to tackle the lack of representation, especially in regards to gender and ethnicity, with specific measurable OKRs. Likewise, as an investor, SoftBank Vision Fund has implemented the Rooney Rule³⁷ in its hiring and established an internal Diversity Steering Group made up of Managing Partners and Partners to drive the diversity agenda.



“The number one challenge women founders tell us they face is accessing capital due to the multitude of layered biases they have to navigate throughout the investment process”

– **Laura Stebbing**
Co-CEO, accelerateHER

³⁵ The Trillion-Dollar Blind Spot. Morgan Stanley. 2018.

³⁶ Founders Factory Diversity Commitments. Founders Factory. 2020.

³⁷ How HR Can Tackle Diversity Using the Rooney Rule. Visier.

MAKE THE FINANCIAL COMMITMENT

Performative allyship is a real concern to underrepresented founders. Many accelerators have the ability to write cheques, but instead decide to run financing-free programs that are primarily focused on mentoring. If there is a clear but inexplicable lack of financing, diverse founders are left with the impression that the accelerator is using them as a marketing tactic.

In building towards a Demo Day, some accelerator leaders are taking bold action in ensuring legacy players with no track record of investing in underrepresented founders do not crowd out investors that are committed to those shared values. "Accelerators have a duty to introduce their companies to the investors who are most likely to invest in the companies they put on stage at Demo Day

and as such, they should de-prioritize those investors who haven't shown a serious commitment (with dollars and term sheets, not words) to investing in all founders - and that must include underrepresented founders," states Monique Woodard (Founder & Managing Director, Cake Ventures).

Writing the cheque, where possible, fundamentally signals to other funds that the start-up is a venture-backable opportunity - and that the support is not just a reactive marketing ploy or altruistic decision. And it is especially critical for the largest players in the ecosystem to send a signal to the broader industry that later-stage funding for underrepresented founders is, and will be, readily available as start-ups transition to scale-ups and beyond, so that any such lingering questions of 'backability' can be put to rest.



“We want to help be more inclusive’ you hear a lot of this stuff and then you realize that it's actually a marketing gimmick”

- *Yaprak DeCarmine*
Co-founder & CEO, Game Jolt



RECOMMENDATIONS

For Financing The Gap

- _01** **Set targets and publish your progress** – establish internal OKRs for Diversity & Inclusion and share your commitments. Monitor and share these highlights
- _02** **Be sensitive to the founder's operating context** – apply a degree of sensitivity to the conditions under which a founding team built their venture
- _03** **Financially commit** – while true for all investors, this is especially true for the largest players in the ecosystem who have the unique opportunity to signal to the market that they need to back underrepresented founders

CONCLUSION

The way forward in tackling a culture of systemic exclusion across the tech ecosystem requires bold action across the range of stakeholders that influence a founder's journey – from accelerators that help lay the foundations of a start-up to later-stage investors that help them scale.

There is a fast-growing and inspiring movement driving change.

Accelerators, while only one piece of the puzzle, are strategically positioned to drive a far more inclusive top of the funnel for the VC-backed tech ecosystem.

Beyond serving as a resource of knowledge, they can ambitiously serve as an equalizer in cultivating the social

capital that can help a start-up win an anchor client or secure funding. From more inclusive sourcing and cultural practices to strengthening financial commitments, we believe these recommendations build on the best work happening across the industry and are truly implementable for organizations committed to change.

The ecosystem – and this includes Founders Intelligence, Founders Forum and SoftBank Investment Advisers – all have a collective duty to play in levelling the field and contributing to the movement. There is much to do - the good news is that there are early indications that implementing changes today can make a lasting difference. Acting now is not only a moral imperative, it will also drive better business for all.

THANKS

Our work would not have been possible without the insights, experiences and wisdom from a large number of generous contributors who share a deep commitment to addressing the systemic challenges in tech. We are grateful for your support and contribution.

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Senior Researcher - Nesta

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Co-founder & Co-CEO - accelerateHER

RESOURCES

Organizations

10x10

50inTech

accelerateHER

Coding Black Females

Colorintech

Emerge by SoftBank Vision Fund

Foundervine

Founders of the Future

01 Founders

NEF+ in partnership with Founders Forum

Champions of Change Coalition

Hatch Enterprise

Kwanda

Love Circular

OneTech

UKBlackTech

YSYS

Reports

10x10 and Google for Startups. The Black Report

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Diversity VC and Atomico. Diversity & Inclusion in Tech - A Practical Guidebook for Entrepreneurs

Diversity VC & Silicon Valley Bank. Diversity in UK Venture Capital

Are you ready to start building stronger Founder Ecosystems?

WE'D LOVE TO TALK

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We understand and work with the most innovative start-ups and technology companies across every sector and translate how large incumbents can partner with and learn from them.

We are part of Founders Forum, a **private network of the world's most successful founders** and venture investors.

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