

Finding What Works:

Pathways to Improve Diversity in Venture Capital Investment



SQW

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Foreword

Access to venture capital today is not a level playing field. However, through consistent and meaningful action, the venture capital industry can drive change to unlock the huge untapped potential of diverse entrepreneurs across the UK.



Foreword

The journey of raising venture capital can be challenging – but for underserved entrepreneurs, the barriers can be far higher. While the industry acknowledges that issues persist, there is little existing research on what specific actions work for UK funds to improve diversity in venture capital investment.

I am delighted to be sharing this report which provides three clear, actionable, and evidence-based pathways for UK funds to improve diversity in venture capital investment which I hope will both stimulate discussion and action to improve outcomes for underserved entrepreneurs and the wider UK economy.

Working with our partners, we are committed to unlocking potential to ensure talented entrepreneurs can access the finance they need regardless of where and who they are. By improving our own data collection and transparency, sharing best practice on how to reach underserved founders, and considering how our

programmes can be part of the solution, we are working to break down existing barriers and unlock the full potential of the UK's diverse entrepreneurs.

Collaboration across the venture capital industry is vital to levelling the playing field in access to finance. The Investing in Women Code now has over 200 signatories, 70% of which are in the venture capital industry, who are committed to making capital more accessible for female entrepreneurs. We're delighted to be working with this huge network of changemakers in the UK financial industry and I would like to see this continue to grow year on year. When we invest in and support businesses led by a diverse group of founders, we not only level the playing field and create a more equitable society, but we also reap the economic benefits of tapping into a wider pool of talent and ideas that can drive innovation and growth across the UK.

Together, we can create the systemic change needed to unlock the full potential of talented UK entrepreneurs, wherever or whoever they are.

Louis Taylor
CEO, British Business Bank

Headlines

Venture Capital plays a critical role shaping the innovation economy of today and the future.

It provides a vital source of funding for high-potential, innovative companies that can respond quickly to new opportunities created in the market, allowing them to scale up and address emerging and long-term global challenges.

However, there are large demographic groups that receive a starkly low share of venture capital investment, including women, people from Ethnic Minority groups, and those from lower socio-economic backgrounds.

This significant underinvestment in a broad, diverse community of founders represents huge untapped talent and economic growth potential. The British Business Bank has a strategic objective to harness this growth opportunity by ensuring talented entrepreneurs can access the finance they need to start and grow their businesses, regardless of who and where they are.

Unlocking this potential will enable more businesses to deliver the innovations that can drive sustainable and inclusive growth.

There is strong appetite in the venture capital industry to drive this change, but a limited evidence base on what is truly effective to improve diversity and inclusion in venture capital investment.

Our research adds to this evidence base to guide venture capital investors on effective actions that they can take to improve the diversity of their portfolios. We examined three key diversity characteristics – gender, ethnicity, and education as a measure of socio-economic status – gathering evidence from literature, qualitative interviews with venture capital firms, a survey of entrepreneurs, and analysis of secondary data.

This research has found three pathways for enhancing diversity in venture capital investment: promoting diversity at the top, fostering inclusion in the investment pipeline, and embracing transparency and accountability.

These pathways were derived from the experiences of firms with a clear commitment to, and success in, investing in a diverse group of entrepreneurs, and validated by other research sources. Importantly, these pathways are not mutually exclusive. Ultimately, venture capital investors need to adopt a tailored approach that works for their firm, and commit to that approach with meaningful and consistent action over a sustained period.

Executive Summary

Venture capital investment plays a critical role in starting and scaling innovative companies that shape the economy of today and the future. Equity-backed¹ businesses in the UK directly supported 2.2 million jobs and generated 11% of gross domestic product including impact on suppliers and consumers². High growth businesses contribute a large share of employment growth in the economy, with some estimates of up to half³. The UK has long been the birthplace of world-changing innovative companies – our technology sector alone attracts more funding and produces more startups and unicorns than its peers anywhere in Europe, ranking third in the world⁴. Access to the venture capital resources that enable innovative companies to grow can shape the future of our economy.

Despite some progress, diversity in venture capital investment remains extremely low. For example, the share of equity deals made to all-female teams increased from 5% in 2011 to 9% in 2022⁵, but their

share of total equity investment remains at just 2% and hasn't improved over the period. While there is limited data on the share of investment received by teams in terms of their ethnicity and socio-economic status, estimates indicate that all-Ethnic Minority teams receive less than 2% of UK venture capital investment value, while 43% of seed stage funding goes to graduates from 'elite' universities⁶.

However, there are some nascent signs of progress. Information on first-time deals can be a useful indicator of the strength of the investment pipeline and in 2022, 13% of first-time equity deals went to all-female teams and 10% to all-Ethnic Minority teams. All-female teams received 6% of first-time investment, and all-Ethnic Minority teams received 19%. In 2022, teams with at least one female founder accounted for a record 27% of deals (compared to 17% in 2012), while their share of investment reached 15% (compared to 13% in 2012)⁷.

The lack of diversity is symptomatic of underlying problems in the venture capital market that are specific or more acute for underserved founders.

These include⁸: the availability and transfer of information between founders and potential venture capital investors⁹, access to investment and business networks^{10,11}, lack of diversity within venture capital firms and funds¹², and founders being unaware of or discouraged from seeking venture capital investment¹³.

The scale of under-investment in large demographic groups suggests the UK could have significant untapped talent and economic growth potential.

In addition to this growth opportunity, there are numerous potential benefits of greater diversity and inclusion in venture capital investment. Diverse founders and teams in all parts of the economy can bring different perspectives, information, and competencies, which may help to make better decisions. In venture capital this can ultimately improve financial performance, both in terms of fund returns and profitable exits, on average¹⁴. It is core to the British Business Bank's mission and strategic objectives to unlock this growth potential by increasing the distribution of capital across all talented UK business owners and entrepreneurs.

The lack of investment reaching a diverse group of entrepreneurs leading high growth businesses is widely recognised and understood as both a problem and a growth opportunity.

Nonetheless, there is limited and sometimes inconclusive evidence on how to achieve greater diversity in investment. In this context, this report provides new evidence on what works to improve diversity in venture capital investment, with pathways and actions that can be adopted by UK venture capital firms.

While there is no 'silver bullet' to improve diversity in venture capital investment, this research has found that venture capital firms with the most success reaching underserved founders typically coalesce around three different pathways, which are validated by the other data sources considered in this research.

- **Pathway 1: Diversity at the Top.** These firms focus on increasing diversity among key decision makers, particularly the Investment Committee. A broader range of views 'at the top' can result in a larger number of investments into underserved founders.
- **Pathway 2: Inclusion in the Pipeline.** These firms place a greater emphasis on increasing the pipeline of investment opportunities from underserved founders. They actively seek out diverse founding teams in various ways, for example, engaging scouts with their own diverse networks to source investment opportunities, and using incubators and accelerators for earlier stage firms.
- **Pathway 3: Transparency and Accountability.** These firms subscribe to the notion that 'what gets measured gets done'. They view accountability for measuring and delivering progress as essential, supported by strong emphasis on external communication, genuine commitment, and active participation in industry-wide data collection.

These pathways are not mutually exclusive: the most important message for venture capital investors is to choose a tailored approach that works for their firm and commit to that approach with meaningful and consistent action over a sustained period. The evidence base from this research shows that a range of approaches can be effective in improving investment diversity but meaningful action, and avoiding tokenism, is critical to success.

This research was conducted using a thorough methodology that involved: reviewing literature to identify 14 actions for improving diversity and inclusion in venture capital; interviews with 40 venture capital firms and 124 venture capital-backed or venture capital-ready entrepreneurs¹⁵ to evaluate the perceived effectiveness of these actions; and analysis of secondary data from Beauhurst. The findings were synthesised and tested with industry experts and the British Business Bank.

The fieldwork targeted venture capital firms with the most success in reaching a diverse group of entrepreneurs by share of deals, and those with a clear commitment to diversity as proxied by high levels of engagement with the Investing in Women Code¹⁶.

The firms themselves had more gender diverse leadership than the wider market. As such, these firms have particularly valuable perspectives on the relative effectiveness of different actions, and play an important role in sharing best practice with their peers.


The entrepreneur survey targeted a diverse group of founders who had either received venture capital investment (venture capital-backed) or were a private, independent UK company that has received between £50k - £1m in total equity investment – and has not been involved in any announced equity investment deals involving Venture Capital or PE or investors (venture capital-ready).

This research focused on three diversity characteristics: gender, ethnicity, and education as a proxy for socio-economic status. These characteristics can play an important role in founders' ability to access venture capital investment, they are often more visible or easily identifiable, and there is sufficient literature and data available to support an understanding of the barriers that founders experience because of these characteristics (and to potentially monitor change). This is not to the exclusion of any other diversity characteristic; the British Business Bank's report

'[Alone, Together](#)', published in 2020, set out the profound and intersectional impact on businesses outcomes of not only gender, ethnicity, and socio-economic background, but also place, income, age, deprivation, disability and ill health. The British Business Bank will continue to lead and commission research on diversity in small business finance with increasing scope, to shape debate and action on this topic.

This report was developed by the British Business Bank and SQW (including an Expert Panel), supported by Beauhurst and Qa Research. In addition, an external Steering Group from the venture capital industry provided guidance throughout the study. (See [Acknowledgements](#)).

Key Findings



Overall, the evidence from all the strands of research (literature review, interviews with venture capital firms, survey of entrepreneurs and analysis of secondary data) reveal a range of actions which can be effective if implemented with genuine commitment and meaningful action.

The findings from the literature review set out a breadth of evidence on the lack of diversity in venture capital investment. While suggestions are made on how to improve, there is limited evidence on the effectiveness of specific actions aimed at increasing diversity. Where this evidence is available it tends to focus on gender, which highlights a clear need for further research into actions to support other underserved communities. The literature review suggests that very few actions have been tested in practice and evaluated. Where the evidence reviewed was more robust, this was primarily

based on statistical analysis of secondary data (e.g. regression analyses of Crunchbase data).

This research has contributed new evidence by asking investors and entrepreneurs to share their experiences of the most effective actions. By interviewing venture capital firms with a strong track record, or clear commitment to, improving diversity in their portfolios, and entrepreneurs who have sought or secured VC investment, this research harnesses the evidence of real-life experience. Our analysis of interview responses revealed three groups of venture capital firm consultees with common views on the effectiveness of actions. This suggests that, when it comes to stimulating a more diverse community of venture capital-backed entrepreneurs, there are at least three different 'pathways' to success that venture capital firms have taken. These firms were some of the highest ranked in the industry in terms of investment into underserved founders and commitment to diversity.

These firms focus on increasing diversity among key decision makers, particularly the Investment Committee. A broader range of views 'at the top' can result in a larger number of investments into underserved founders.



Pathway 1
Diversity at the Top



Pathway 2
Inclusion in the Pipeline

These firms place a greater emphasis on increasing the pipeline of investment opportunities from underserved founders. They actively seek out diverse founding teams in various ways, for example, engaging scouts with their own diverse networks to source investment opportunities, and using incubators and accelerators for earlier stage firms.



Pathway 3
Transparency and Accountability

These firms subscribe to the notion that 'what gets measured gets done'. They view accountability for measuring and delivering progress as essential, supported by strong emphasis on external communication, genuine commitment, and active participation in industry-wide data collection.

Venture capital firms who informed these findings recognised that current issues with diversity in venture capital investment are not the responsibility of founders, but of the venture capital firms themselves.

Furthermore, success could depend more on execution and monitoring than the specific characteristics of each venture capital firm, as there is currently no evidence of consistent characteristics between firms that take a particular approach. This is a clear area where further research would be valuable, that can be taken forward through industry initiatives such as the Investing in Women Code and the Diversity VC Standard. Reporting of actions taken across all three pathways could be analysed in relation to firms with similar characteristics (such as investment stage, for example).

While these pathways have been derived from venture capital firm interviews, survey responses from entrepreneurs validate these approaches and offer further detailed insight for venture capital firms.

We highlight the following findings from surveyed entrepreneurs:

- Venture capital firms and entrepreneurs agree on the importance of diversity within venture capital firms themselves and the potential influence it can have on investment reaching a diverse group of entrepreneurs.

- Entrepreneurs place high value on feedback and cross-referrals to other venture capital investors.
- The role of the Limited Partner (LP) community is key to encouraging adoption of actions and accountability.

The nuances highlighted in entrepreneur responses help shed light on which actions could be effective in reaching different groups of underserved founders, although there was more consistency than variance in responses.

This suggests actions to improve diversity of investment can impact a breadth of underserved entrepreneurs. The differences are not statistically significant, possibly due to small sample sizes, but provide an indication of views and experiences among different groups of founders.

- Female and younger founders particularly emphasised the importance of diversity among senior decision-makers at venture capital firms, with around 80% of women and 30–39-year-olds suggesting this was effective in improving diversity.
- Female, Ethnic Minority and younger founders were also more likely to highlight the effectiveness of reporting data and monitoring progress.

- For founders who have not attended university, venture capital firms' communication of investment strategies, provision of feedback and commitment to diversity on their websites along with cross-referrals were seen as particularly effective. This could reflect the importance of building networks for these founders.

['Evidence on Each Action' in section four](#) sets out more detail on differences in responses by gender, ethnicity, educational background, age, and whether an entrepreneur is venture capital-backed or venture capital-ready. Further research would benefit from considering the intersectionality between different groups where sample size allows.

Table 1 summarises the insights from the surveys with venture capital firms and entrepreneurs, with actions listed in order of perceived effectiveness by venture capital firms, combined with the share of entrepreneurs that assessed them to be 'effective' or 'somewhat effective'.

Table 1

Actions tested through venture capital firm interviews and entrepreneur survey

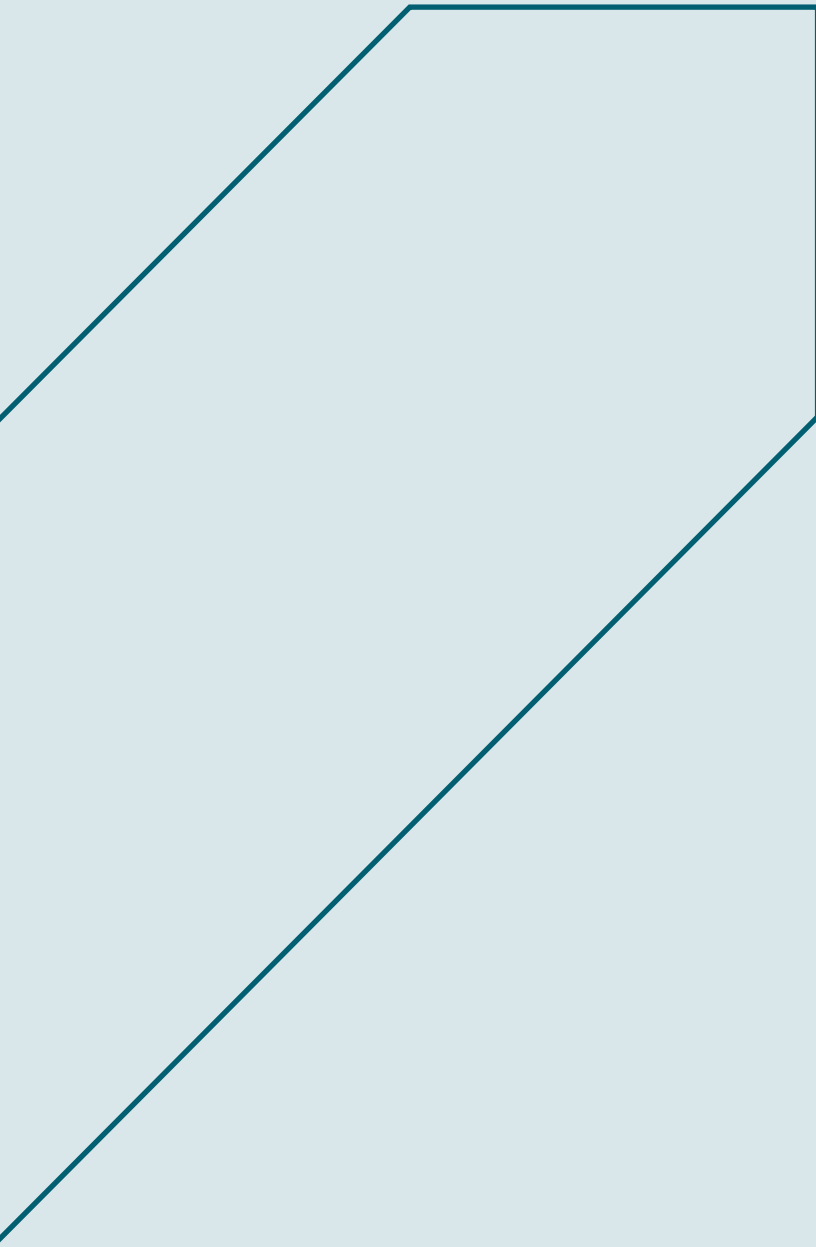
Action ranked in order of perceived effectiveness	Rank	
	Venture capital firms	Entrepreneurs
Venture capital firms should ensure senior decision makers, including Investment Committees, are made up of people from a diverse set of backgrounds	1	4
Venture capital firms should take steps to increase the diversity among those involved in the identification of potential propositions	2	1
Limited Partners should encourage venture capital firms to monitor and report progress in supporting diverse entrepreneurs	3	3
Venture capital firms should participate in industry-wide surveys and make D&I data on their investments public	4	5
Venture capital firms should use 'office hours' to network with and provide support to diverse entrepreneurs	5	10
Limited Partners and venture capital firms should design funds that are targeted specifically at diverse entrepreneurs	6	13
Venture capital firms should provide constructive feedback on the quality of propositions and reasoning behind investment decisions	7	2
Venture capital firms should use scouts to access diverse networks and identify quality propositions	8	7
Venture capital firms should use accelerators as a referral mechanism to identify and support diverse entrepreneurs	9	8
Venture capital firms should use incubators as a referral mechanism to identify and support diverse entrepreneurs	10	9
Venture capital firms and other intermediaries should encourage cross-referrals to other funds that may be interested	11	6
Venture capital firms should clearly communicate their investment strategies and commitment to diversity via their website and social media	12	11
Entrepreneurs should actively engage on social media to raise awareness of their business/proposition and connect with venture capital firms	13	12
Venture capital firms should actively monitor social media to identify strong propositions from a diverse pool of entrepreneurs	14	14

Contrasting findings have been found across sources relating to the use of social media. From the review of academic literature, there are two robust studies that show, in the United States, venture capital firms that use social media to engage with potential investment opportunities can see a positive impact on the diversity of their portfolios. These studies contrast with findings from our own venture capital firm and entrepreneur surveys where social media was perceived to be of low value and may potentially even reinforce existing biases. Venture capital firms should be aware of this tension and proceed carefully.

Findings from analysis of Beauhurst data and observations on venture firms collected by SQW support some actions, although need to be considered in context of the depth of insight from the qualitative surveys.

- Firms who make public commitments to diversity – proxied by signing the Investing in Women Code – have a higher proportion of investments in both female and Ethnic Minority founders. Firms who state a commitment to diversity on their website are more likely to invest in female founders, but not Ethnic Minority founders. These results are mixed but give some indication that external commitments have an impact.
- Analysis of the correlation between founder diversity and investor diversity (using the gender mix of key people for the venture capital firms listed on Beauhurst – up to 50 per firm – as a proxy), identified a small, positive correlation. This suggests that more gender diverse founding teams tend to attract investment from more gender diverse investing teams. Although a positive effect exists, the magnitude of the effect is very small. There were no statistically significant findings for ethnically diverse founders¹⁷.

Recommendations



For venture capital firms: This report provides a blueprint to the industry on pathways to improve diversity in venture capital investment. We recommend firms consider the pathways set out in this report, choose an approach that works for them, commit to that approach with consistent action over a sustained period, and track and monitor progress. Meaningful action, and avoiding tokenism, is critical to success. Joining initiatives such as the Investing in Women Code¹⁸ and the Diversity VC Standard¹⁹ are examples of ways to take action with support from others in the industry on a similar journey.

For entrepreneurs: We recommend entrepreneurs look for venture capital firms to back their companies that have an investment thesis that matches their business, and actively seek feedback and further referrals.

For impact measurement: More rigorous evaluation of actions should be undertaken to formally assess their impact on diversity outcomes. Evaluation of actions should also seek to assess whether different actions are more/less effective for different groups of entrepreneurs and for different types of venture capital firm. Detailed research with venture capital firms to understand the barriers to implementing actions and to investing in entrepreneurs from underserved communities would help support and drive the adoption of actions by the industry.

How the British Business Bank is taking action



For the British Business Bank: As the biggest venture capital Limited Partner in UK, the British Business Bank is committed to ensuring equity in opportunities and support for all talented entrepreneurs and would-be entrepreneurs across the UK through the investments we make, through our own internal practices, and through our capacity to shape the attitudes and actions of the wider market.

The Bank is committed to a range of actions in line with the findings of this report to help achieve this:

a. **Sharing the report findings with industry and the wider ecosystem:** The Bank will engage with the venture capital industry to disseminate the findings of this report. We will support our partners and funds across the UK to adopt the right approach to diversity and inclusion for them. Whilst this report focuses primarily on venture capital firms, we will engage

with and acknowledge the significant role of players in the wider finance ecosystem who influence diversity in venture capital investment, including business support organisations, accelerators, advocacy groups, and crucially other Limited Partners.

b. **Further research focused on tracking actions through the Investing in Women Code:** The British Business Bank deliver the venture capital arm of the Investing in Women Code, an initiative run by the Department for Business and Trade. Signatories make annual data returns on their investments disaggregated by gender, with the option to also return ethnicity data, and a description of the actions being taken to improve diversity of investment. Actions can now be tracked in line with the recommendations in this report to assess their ongoing impact.

c. **Transparency on diversity in our investment**

portfolio: We have begun asking our delivery partners to report on the diversity (including gender and ethnicity) of their organisation at all levels, as well as the diversity of their funding recipients and applicants. From 2024 we will report this data publicly alongside the data we publish on the state of markets overall through our ongoing research and data publications. We ask potential recipients of Bank funding to demonstrate diversity at all levels of their business as part of our investment processes, and view organisations with a clear commitment to diversity and inclusion more favourably in our investment decision making.

d. **Diversity among our senior leaders:** The British Business Bank is a signatory to the Women in Finance Charter and has targets to achieve and maintain 50% gender diversity among senior leaders. We are committed to bringing in new targets on ethnic diversity, and applying the same diversity principles to our Investment Committees. We publish a mandatory gender pay gap report and will begin voluntary ethnicity pay gap reporting from 2025.

e. **Diversity in our investment teams:** We have launched an internal programme on inclusive leadership to support the progression of colleagues across the business. We recently updated our Diversity, Equity, and Inclusion Policy to strengthen our commitment to internal best practice, and we have launched a diversity dashboard to monitor progress. Key metrics such as pay, promotion, access to opportunities (such as our leadership development programmes) and exits, are all monitored through a diversity lens. We recruit for capabilities, rather than experience; tactics include minimising overly-specific experience requirements in our job advertisements, and emphasising our interest in capabilities and transferrable skills.

f. **Internal accountability.** The British Business Bank has recently revised its corporate performance framework around four strategic objectives, one of which is “unlocking potential in the UK economy by supporting entrepreneurs to access the finance they need, no matter who or where they are”. We will continue to report to our Board and to our Shareholder, the Secretary of State for Business and Trade, and our

performance will be assessed on the extent to which we can make progress on this objective, including through delivering the recommendations in this report. We recognise that we are on a journey in partnership with the wider industry. We are committed to continually learning and improving, both as an employer, and as an investor supporting innovative entrepreneurial talent across the length and breadth of the UK.

1

Understanding the landscape

The story so far on
diversity and inclusion
in venture capital





1.1

Why diversity and inclusion matters

Venture capital investment into high growth companies helps shape the economy of today and the future.

In this context, Brodnock and Lenhard (2023)²⁰ state: “VCs are the kingmakers of our digital age. They filter who gets money to build companies and bring ideas to market.” **Better Venture, 2023**

Similarly, the British Business Bank emphasises the value of diversity and inclusion in the economy:

“Breaking down structural barriers within our industry is not only the right thing to do but also leads to improved outcomes. As the largest domestic investor in venture capital firms, we take our responsibility as a Limited Partner very seriously. We recently became a signatory of the Investing in Women Code, one of the first institutional investors to do so. This initiative supports the advancement of female entrepreneurship in the UK

by improving access to finance. We are committed to using our position as an LP to drive greater diversity within General Partners’ teams as well as in the wider ecosystem of businesses we invest in.”

**Catherine Lewis La Torre,
CEO, British Patient Capital, 2023**

Diversity and inclusion matters in venture capital because of the benefits that it can accrue to investors, companies, and the economy. Diverse teams can bring new insights, perspectives, information, and competencies, which may help them make better decisions and financial returns in an often uncertain and competitive environment (Financial Reporting Council, 2021; Harvard Business Review, 2018).^{21,22} While it can be challenging for diverse teams to process different perspectives and information, those that are actively managed and exhibit high levels of inclusion can lead to positive performance (Peterson, 2020).²³ For example:

- i. Diversity can improve financial performance on measures such as profitable investments at the individual portfolio-company level and overall fund returns (Harvard Business Review, 2018)²⁴.
- ii. There is also a positive and statistically significant²⁵ association between board diversity and firm innovation; in this, the interplay between cognitive diversity (experience and expertise) and demographic diversity (e.g. gender, ethnicity) is important (Makkonen, 2022)²⁶.

The benefits of diversity and inclusion are widely recognised, but the evidence is mixed and often inconclusive on how to achieve them. Giving venture capital firms a blueprint for how to improve could have a major impact on the UK economy through the latent potential not yet attracting the investment it should.

1.2

The current diversity and inclusion landscape

The overall growth in the UK venture capital market has been a positive development but overall, it has been skewed toward groups with common characteristics.

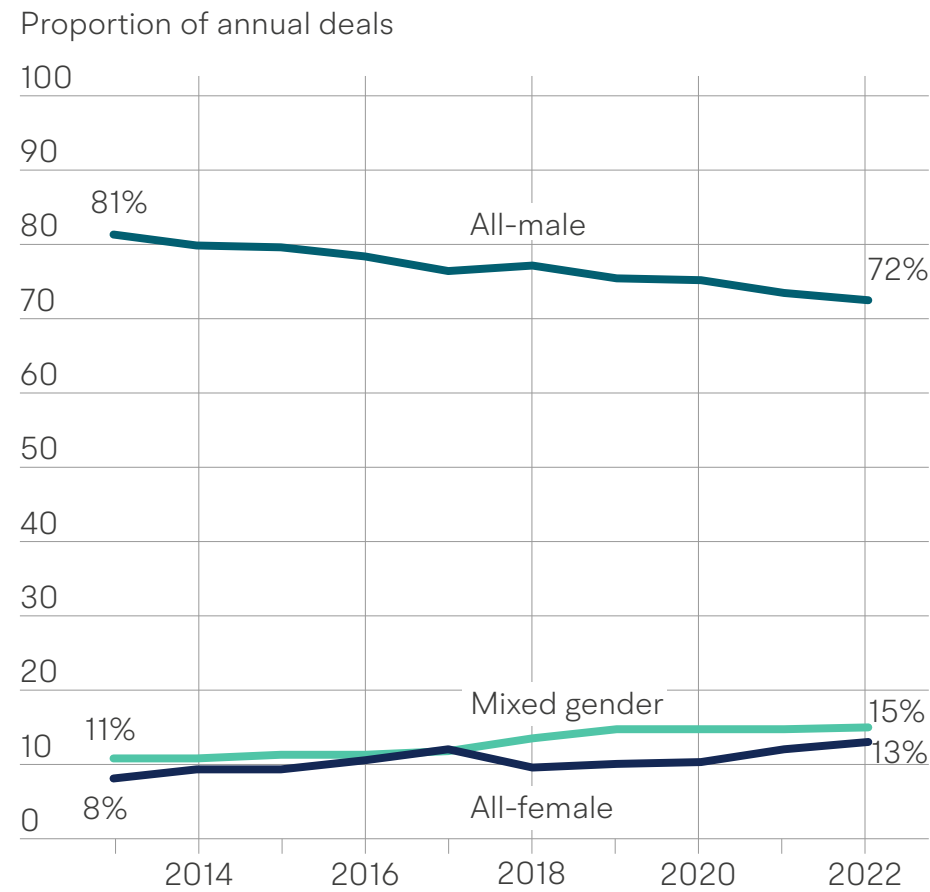
Venture Capital plays an important role in starting and scaling innovative companies. The UK has the largest venture capital market in Europe, larger than France and Germany combined²⁷.

The ratio of venture investment to GDP in the UK has almost quadrupled from 0.27% in 2015-17 to 0.97% in 2020-2022)²⁸. This investment is mainly in software, fintech, R&D intensive and deep tech sectors.

There have been nascent steps towards greater diversity in the investment pipeline: founding teams that raised equity for the first time have become slightly more diverse in terms of their gender and ethnic composition in the past decade. For example, the proportion of all male founding teams involved in first-time deals declined from 2013 to 2022 by around 10 percentage points from 81% to 72%. The same was true for the share of all-White founding teams which declined from 84% to 74%. The proportion of all Ethnic Minority founding teams rose by five percentage points²⁹. (Figure 1-1 and Figure 1-2).

Figure 1-1
Share of first-time equity deals by gender of founding team, 2013-2022

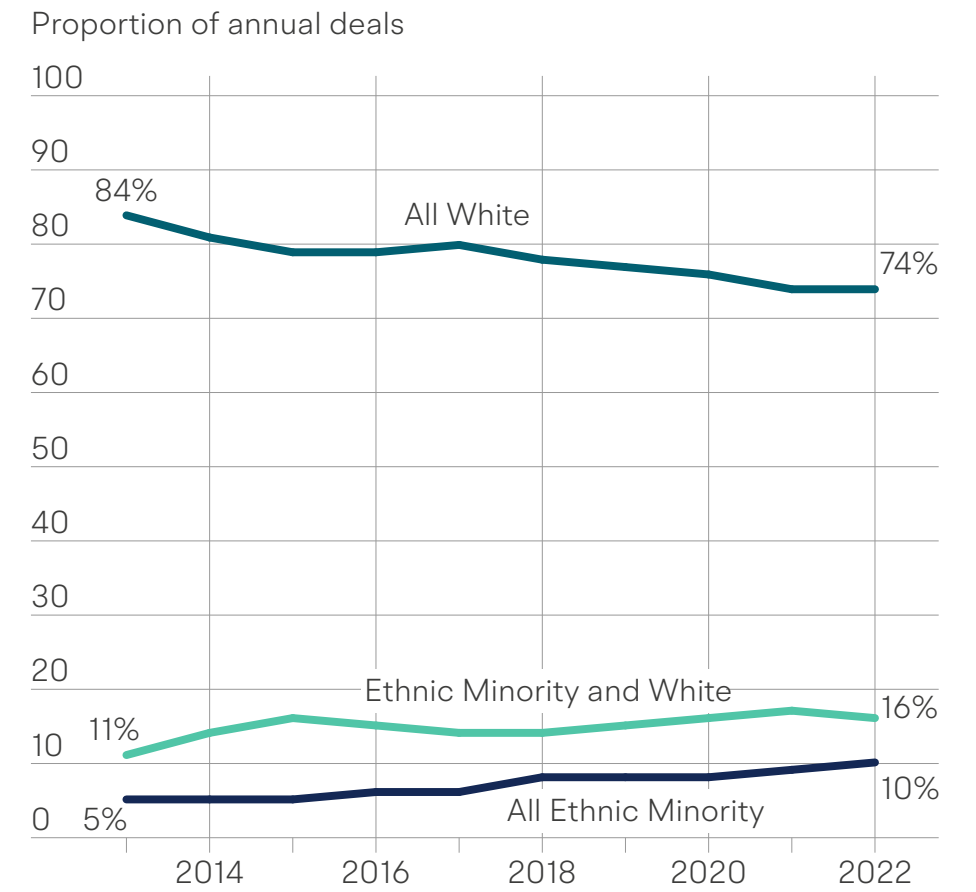
Source: SQW analysis of Beauhurst data



NB: deals involving companies that do not have founders have been omitted from this analysis. Deals involving companies with founders with unknown gender have also been omitted.

Figure 1-2
Share of first-time equity deals by ethnicity of founding team, 2013-2022

Source: SQW analysis of Beauhurst data



NB: deals involving companies that do not have founders have been omitted from this analysis. Deals involving companies with founders with unknown ethnicity have also been omitted.

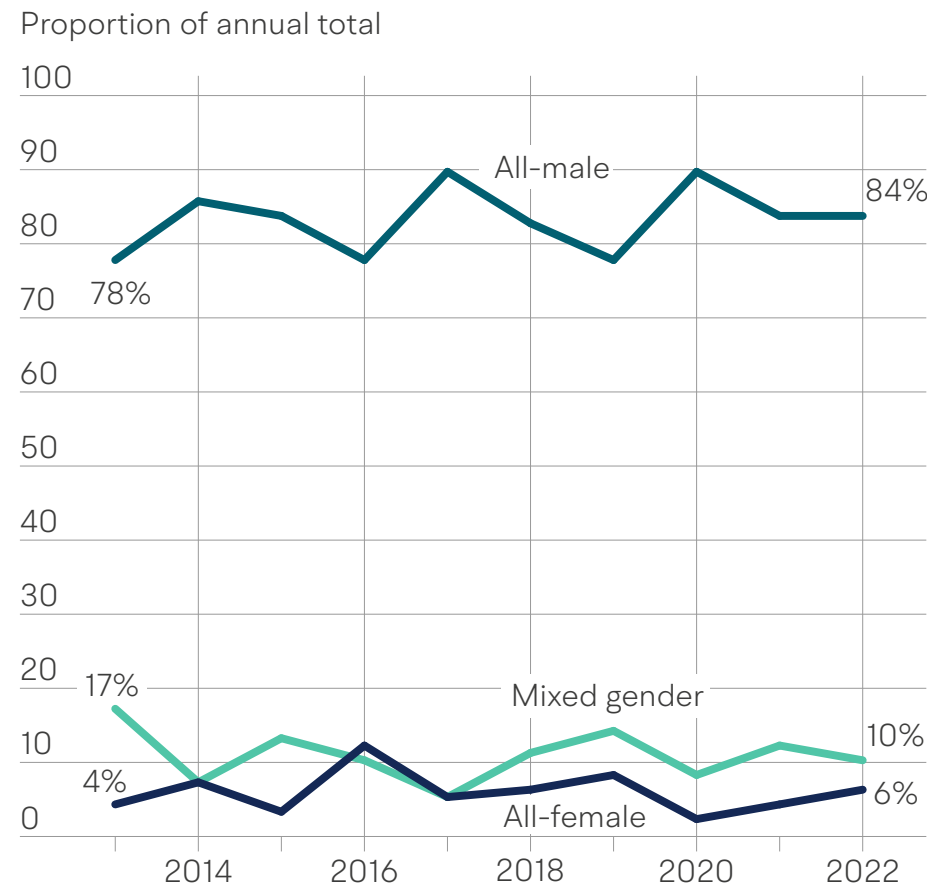
However, female founders' share of the market for first-time deals, in terms of investment value, has remained relatively static at around 6% in 2022, while the value of deals to mixed gender teams declined to 10% in 2022, from 17% in 2013 (Figure 1-3).

In contrast, teams with at least one Ethnic Minority founder made up 42% of investment value of first-time deals in 2022, with all-Ethnic Minority teams accounting for 19% (Figure 1-4).

First-time deals indicate the strength of the pipeline. Focusing on first-time deals provides an indication of diversity at the start of the investment funnel, where barriers to entry can be highest, including access to networks, lack of track record and information asymmetries between founders and investors.

Figure 1-3
Share of first-time equity investment value by gender of founding team, 2013-2022

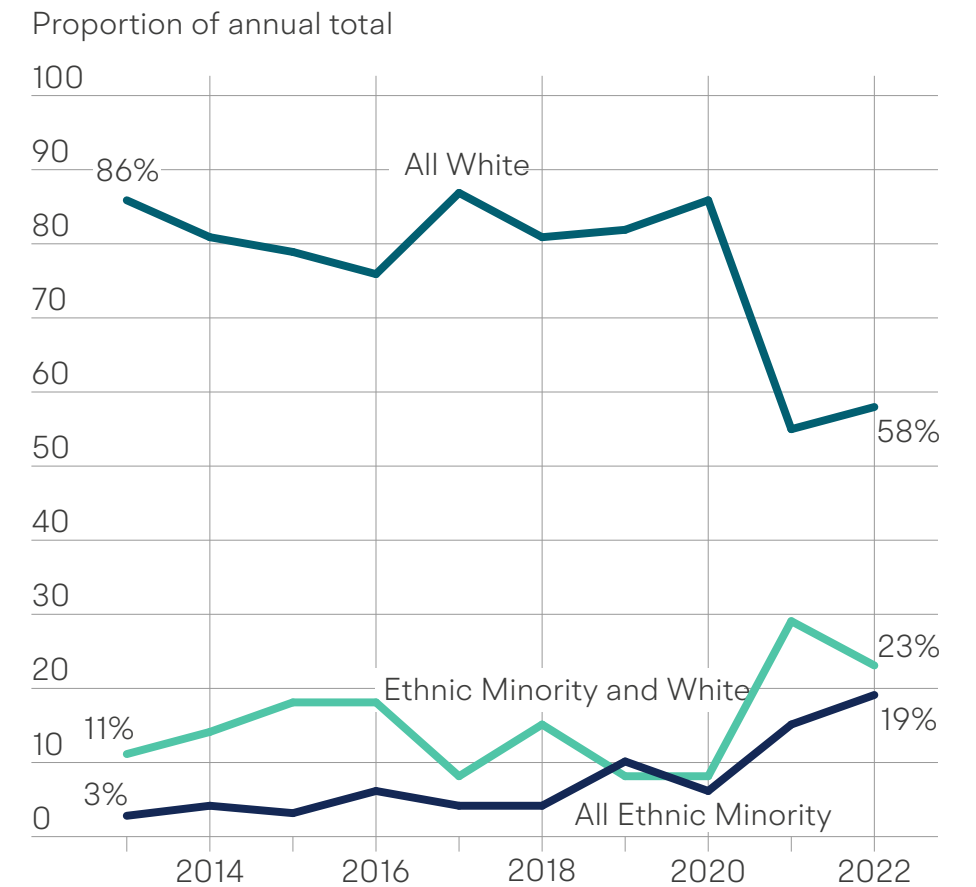
Source: SQW analysis of Beauhurst data



NB: deals involving companies that do not have founders have been omitted from this analysis. Deals involving companies with founders with unknown gender have also been omitted.

Figure 1-4
Share of first-time equity investment value by ethnicity of founding team, 2013-2022

Source: SQW analysis of Beauhurst data



NB: deals involving companies that do not have founders have been omitted from this analysis. Deals involving companies with founders with unknown ethnicity have also been omitted.

Research by Extend Ventures (2020)³⁰ paints a sobering picture of the lack of diversity in UK venture capital investment:

- Only 0.24% of venture capital funding between 2009 and 2019 went to Black founders;
- Only 10 Black female entrepreneurs received venture capital investment (0.02% of the total amount invested) over 10 years from 2009 to 2019;
- Over 40% of the total venture capital invested at seed stage between 2009 and 2019 went to founding teams with an elite education³¹.

Diversity is also limited within venture capital firms. Research from BVCA and Level 20 (2023) shows the proportion of women in senior investment roles remains low (14%), while only 10% of senior investment professionals are from an Ethnic Minority group. Just 3% of those in senior roles (investment and non-investment) are women from an Ethnic Minority background, with no senior Black women identified in the UK survey³².

The lack of diversity in venture capital is symptomatic of several systemic, underlying market problems. These problems are specific or more acute for underserved founders compared to the average, and include:

Information is gold but networks provide security.

There is information asymmetry between entrepreneurs and potential venture capital investors, particularly for early-stage investments, reflecting the relatively fixed cost of due diligence and a lack of objective and measurable information to assess track record and founders' prospects for success. This means investors rely heavily on signals of entrepreneurial quality. In place of objective information, investment decisions are partly based on trust and connections between parties. As a result, investments tend to occur within a (closed) network³³ comprising of entrepreneurs and investors with similar characteristics such as gender, ethnicity, and education.

- This preference for individuals to gravitate towards others with shared characteristics (known as homophily) leads to a cycle of investment in the same communities.
- The narrow networks of venture capitalists and the tendency to invest through 'warm' introductions³⁴ has implications for identifying and investing in diverse prospects.
- The connections and networks (formal and informal) help to source deals, syndicate, and make quality investment decisions³⁵ and are important for individuals to enter, and progress in, the venture capital industry, which has been historically male-dominated and White-dominated.

Diversity starts with the firm. The limited diversity among venture capital investors means that the investment community is not representative of the breadth of businesses seeking funding. This results in social distance between underserved groups and the investor population and can impact on which businesses get funded³⁶. Furthermore, most venture capital firms are small, which can make it more difficult for them to become diverse (Harvard Kennedy School, 2019)³⁷. This is partly due to some small venture capital firms having less structured processes, for example, in relation to HR and Diversity, Equity and Inclusion data collection.

Discouraged but not defeated. Many entrepreneurs from underserved communities experience ‘discouraged demand’. This refers to entrepreneurs that want or need venture capital investment, but are discouraged from applying due to a perceived likelihood of rejection. This can arise from stereotypes around successful entrepreneurs or, in some cases, having experienced being turned down for finance.

In view of the above issues, the structure and practice of the venture capital industry has resulted in a bias for the ‘status quo’ (Harvard Kennedy School, 2019)³⁸. The nature and scale of the problem means that venture capital firms need effective solutions available to them, if they are to help improve the investment environment for founders from underserved communities.

2

Finding what works

Overview and approach



2.1

Research scope

The objective of this study is to provide evidence on what works to improve diversity in venture capital investing, suggesting pathways and actions that can be adopted by the UK venture capital industry and promoted by the British Business Bank.

We focused primarily on three diversity characteristics: gender, ethnicity and education as a proxy for socio-economic status (we also recognised other characteristics, where relevant)³⁹.

All characteristics, especially those protected by the Equality Act (2010), are relevant to the venture capital industry, as in any other community or commercial setting. The scope of this research focuses on gender, ethnicity, and socio-economic status for three main reasons: they play an important role in founders' ability to access venture capital investment; they are often more visible or easily identifiable; and there is sufficient literature and data available to support an understanding of the barriers experienced because of these characteristics (and to potentially monitor change).

This is not to the exclusion of any other diversity characteristic; the British Business Bank report '[Alone, Together](#)', published in 2020, set out the profound and intersectional impact on businesses outcomes of not only gender, ethnicity, and socio-economic background, but also place, income, age, deprivation, and disability and ill health. The British Business Bank will continue to lead and commission research on diversity in small business finance with increasing scope, to shape debate and action on this topic.

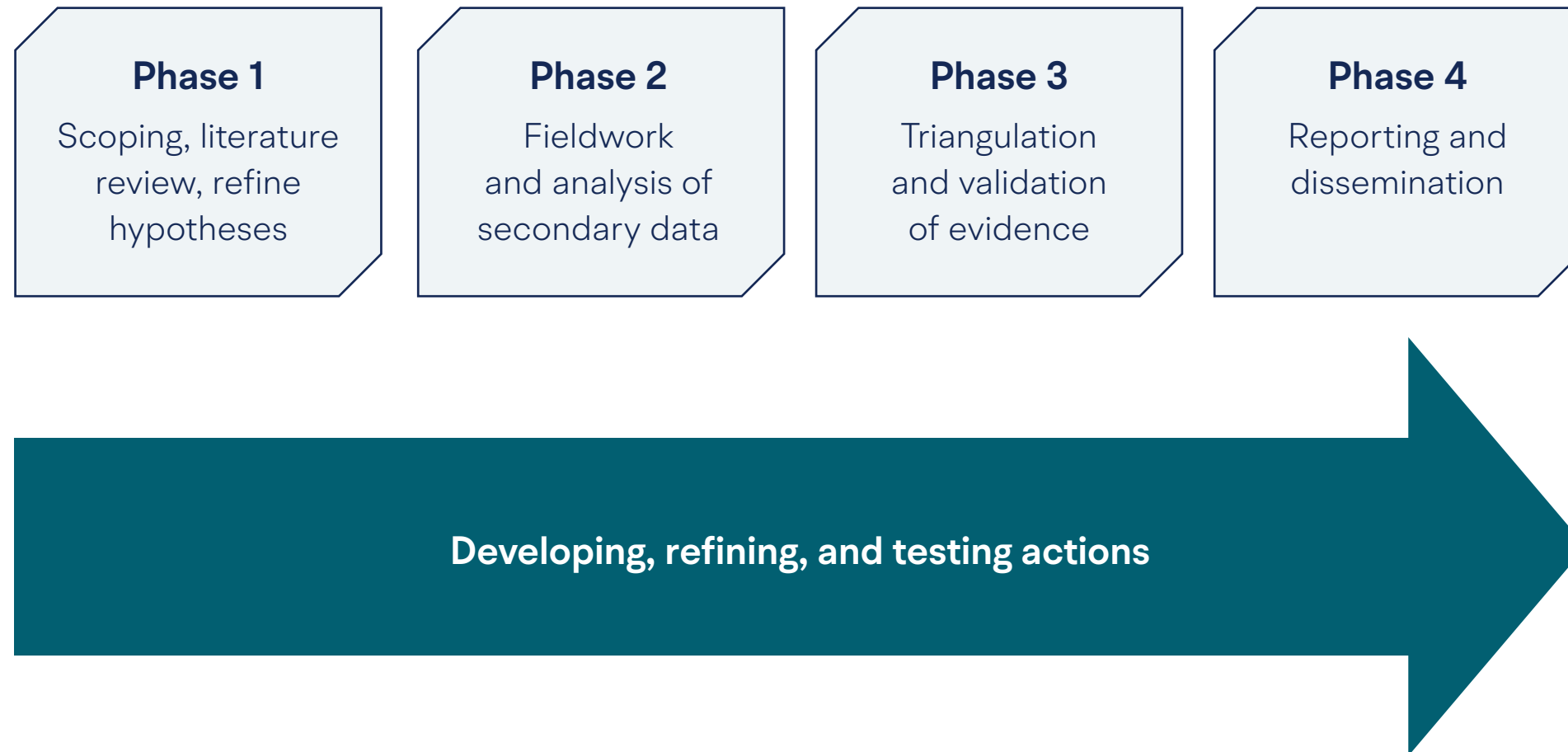
The British Business Bank has looked extensively at place-based gaps in access to finance and how to unlock the potential of entrepreneurs across the UK nations and regions, including through publications such as our [Nations and Regions Tracker 2022](#). This will continue to be an ongoing area of analysis, with the 2023 tracker due to be published in the autumn.



2.2

Research methodology

Our methodology involved four phases of work:



We identified a shortlist of 14 actions that were supported by existing literature and initial scoping interviews as having the potential to generate impact in increasing diversity in venture capital investment. When selecting the actions we took into account the amount, strength and robustness of the evidence (e.g. opinion versus causal analysis). There was a review of over 40 documents, identified by the study team (including the British Business Bank, SQW and the Expert Panel) and sourced from bottom-up online research. Based on the findings, a long list of 28 actions was developed and subsequently refined into a shortlist of 14 actions to be tested with venture capital firms and entrepreneurs.

The actions were categorised into three ‘focus’ areas for increasing diversity: connecting and information sharing between venture capital firms and entrepreneurs (7 actions); decision making processes at venture capital firms (4 actions); and availability of data and accountability (3 actions).

Table 2

Actions to improve diversity in venture capital investment

Action
Connecting and information sharing between venture capital firms and entrepreneurs:
Venture capital firms should clearly communicate their investment strategies and commitment to diversity via their website and social media
Venture capital firms should actively monitor social media to identify strong propositions from a diverse pool of entrepreneurs
Entrepreneurs should actively engage on social media to raise awareness of their business/proposition and connect with venture capital firms
Venture capital firms should use incubators as a referral mechanism to identify and support diverse entrepreneurs
Venture capital firms should use accelerators as a referral mechanism to identify and support diverse entrepreneurs
Venture capital firms should use 'office hours' to network with and provide support to diverse entrepreneurs
Venture capital firms should use scouts to access diverse networks and identify quality propositions
Decision making processes for firms:
Venture capital firms should provide constructive feedback on the quality of propositions and reasoning behind investment decisions
Venture capital firms and other intermediaries should encourage cross-referrals to other funds that may be interested
Venture capital firms should take steps to increase the diversity among those involved in the identification of potential propositions
Venture capital firms should ensure senior decision makers, including Investment Committees, are made up of people from a diverse set of backgrounds
Availability of data and accountability:
Venture capital firms should participate in industry-wide surveys and make D&I data on their investments public
Limited Partners should encourage venture capital firms to monitor and report progress in supporting diverse entrepreneurs
Limited Partners and venture capital firms should design funds that are targeted specifically at diverse entrepreneurs

Actions were tested through interviews with 40

venture capital firms. The sample was drawn from those with a high proportion of deals with entrepreneurs from underserved communities – identified using Beauhurst data – as well as firms with high levels of engagement with the Investing in Women Code⁴⁰. The venture capital firms interviewed are themselves more diverse than the wider market – the average and median representation of women among key contacts listed on Beauhurst is c.30%, compared to 20% for the wider market⁴¹. This adds weight to the interview findings, as they are based on the experiences of those with a strong track record in this area and can inform development of best practice across the industry.

Interviews were held via video call and used Q-sort methodology. Venture capital firm consultees were asked to consider the effectiveness of the 14 actions identified through our review of existing evidence. Our findings from this strand of research are based on the experiences and observations of consultees, and so reflect the perceived relative effectiveness of different

actions. We combined formal statistical and qualitative approaches to the analysis of collected data, which allowed us to identify patterns and combinations of actions that, in venture capital firms' experience, are effective for increasing diversity among venture capital-backed entrepreneurs. The evidence collected through interviews with venture capital firms was analysed in three stages:

Stage 1: Descriptive analysis of the data on the effectiveness of the 14 actions (the ranking by the average score, graphical analysis of the distributions of scores given to each action).

Stage 2: Identification of groups of responses with common patterns using factor analysis techniques – statistical methods of 'grouping' variables (in this case views of consultees).

Stage 3: Qualitative analysis of the reasoning provided by consultees to gain a deeper understanding of the narrative for each of the groups.

The **Q-sort methodology** puts emphasis on ensuring objective data collection, despite the inherently subjective nature of the research question, and allows for a direct comparison of experiences and observations across research participants.

This was achieved by asking consultees to sort the 14 actions into five categories that reflected the relative effectiveness of those actions. There were limits on the number of actions that could be placed in each category. These limits were derived from a quasi-normal distribution.

This approach ensured that all interview participants treated the one to five effectiveness scale the same way, considered all actions on the list (rather than focus on a single experience, e.g. the most recent one or ‘most vivid’) and lowered any social pressure to give ‘the right’ answer (e.g. to say that an action is effective because it is on trend).

The factor analysis of responses was implemented in specialised statistical software Stata using the qfactor

module⁴². The analysis was executed iteratively by varying the number of factors (that determined the number of pathways discussed in Key Findings), the type of factor rotation (orthogonal vs oblique to allow a correlation between factors given the context of this analysis) and the criteria for determining differentiating statements – i.e. actions that ‘define’ each pathway relative to other pathways. This tactic allowed us to identify a factor model that fit the data the best.

Q-sorting form for survey participants

1 – Not very effective	2	3	4	5 – Highly effective

124 entrepreneurs were surveyed (via telephone and online), comprising 86 venture capital-backed and 38 venture capital-ready entrepreneurs⁴³. The sample was identified from Beauhurst data, with founders from underserved communities (women and Ethnic Minorities) prioritised. Education as a proxy for socio-economic status couldn’t be identified ex-ante; ex-post, responses were compared for those who attended ‘elite and extended elite’⁴⁴, Russell Group⁴⁵, or Top 100 universities, against those from other universities or no university (the latter group making up the greater share of the sample). The sample was not completely weighted toward gender and ethnic diversity, in an effort to capture a sufficient sample of education levels as a proxy for socio-economic status.

Entrepreneurs were asked to rank the effectiveness of 14 actions identified⁴⁶. The majority of firms were already venture capital-backed, with the remaining share venture capital-ready, meaning they had attracted some equity finance, such as angel investment, but were yet to attract venture capital investment. Due to the sample size, all subgroup analyses (e.g. by respondents’ age, ethnicity, and education) were carried out descriptively rather than using formal statistical tests.

As part of the venture capital firm interviews and the entrepreneur survey, participants were asked if there were any additional effective actions which were not included in the list of 14. Their suggestions broadly fit the three focus areas and generally took a slightly different stance on the existing actions, validating the scope of the study.

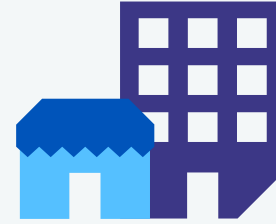
The figures to the right summarise key characteristics of the venture capital firm and entrepreneur samples.

Analysis of secondary data from Beauhurst, Extend Ventures, and the Investing in Women Code was conducted to provide additional insight and/or evidence of correlations to support the actions tested. The data on deals covered the 2018-2022 period and venture capital and private equity investments only. Findings from analysis of Beauhurst data support some actions, although should be considered in context of the depth of insight from the qualitative surveys. Triangulation of all these research strands were consolidated into this final report in consultation with a Steering Group and SQW Expert Panel (see [Acknowledgements](#)).

Sample of venture capital firms:

40 firms interviewed

- 35 IWC signatories
- 65% seed stage
- 70% venture
- 43% growth
- 77% head office in London/SE
- 23% head office outside London/SE (East of England, Yorkshire, WM, NW, NE, Scotland, Wales)



44 individuals interviewed

- 59% female
- 36% male
- 5% did not answer
- 81% White
- 14% Ethnic Minority
- 5% did not answer



Sample of entrepreneurs:

Population

- Total sample of 5,037 firms:**
- 1,484 VC ready firms (29%)
 - 3,553 VC backed firms (71%)



Primary key person in Beauhurst data:

- 1,482 female (29%)
- 3,459 male (69%)
- 96 unknown (2%)

Sample

Responses were collected from 124 firms:

- 38 VC ready firms (31%)
- 86 VC backed firms (69%)



Survey respondents (124):

- | | |
|----------------------------|-------------------------------------|
| – 49 female (40%) | – 24 elite and extended elite (19%) |
| – 75 male (60%) | – 3 Top 100 (2%) |
| – 90 White (73%) | – 26 Russell Group (21%) |
| – 33 Ethnic Minority (26%) | – 60 other (48%) |
| – 1 did not answer (1%) | – 11 did not answer (9%) |

3

Detailed findings

In this section we present detailed findings on the actions to improve diversity in venture capital investment: a detailed description of each 'pathway' and the evidence found for and against each of the 14 actions tested.



3.1

Pathways to success for venture capital firms that want to invest in more underserved founders

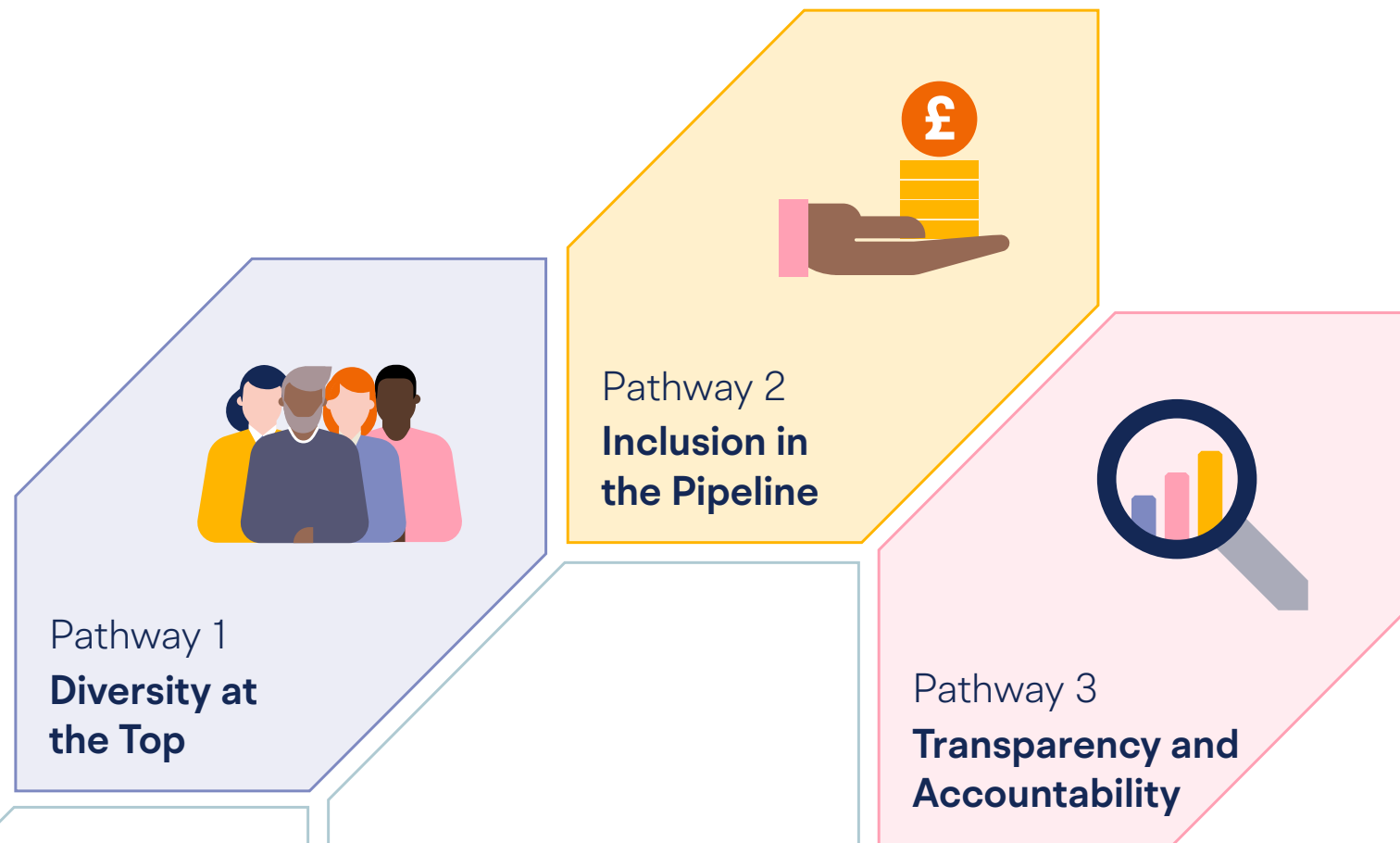


Our analysis of interview responses revealed three groups of venture capital firm consultees with common views on the effectiveness of actions. This suggests that, when it comes to stimulating a more diverse community of venture capital-backed entrepreneurs, there are at least three different pathways to success that venture capital firms have taken.

These pathways are each associated with a – sometimes overlapping – selection of the 14 actions that were tested through interviews with venture capital firms. These firms were the highest ranked in the industry in terms of investment into underserved founders, so qualitative findings reflect what has been effective for the most successful firms.

We analysed characteristics of venture capital firms whose approach to improving diversity in their investments aligned with each of the three pathways, considering the number and percentage of deals they made with diverse founding teams, stage of their investments, and their location.

We also analysed personal characteristics of consultees – such as their age, ethnicity, and education – against the pathway with which they most aligned. There is no conclusive evidence of common characteristics, suggesting success could depend more on execution and monitoring than the specific characteristics of each venture capital firm. However, this is an area where further research would be valuable, given the sample size of 40 venture capital firms interviewed for this research. Further exploration of this can be taken forward through industry initiatives such as the Investing in Women Code and the Diversity VC Standard, which require reporting of actions taken across all three ‘pathways’ and could be analysed in relation to firms with similar characteristics.



A dark blue geometric shape, resembling a trapezoid with a slanted top edge, containing the text '3.2' in white.

3.2

Pathway 1

Diversity at the Top

Table 3 summarises venture capital firms' views of the most and least effective actions associated with **Pathway 1: Diversity at the Top**.

Table 3
Actions perceived as effective and less effective for Pathway 1

Effective actions		
Venture capital firms should ensure senior decision makers, including Investment Committees, are made up of people from a diverse set of backgrounds	Venture capital firms should take steps to increase the diversity among those involved in the identification of potential propositions	Limited Partners should encourage venture capital firms to monitor and report progress in supporting diverse entrepreneurs
Less effective actions		
Limited Partners and venture capital firms should design funds that are targeted specifically at diverse entrepreneurs	Venture capital firms should actively monitor social media to identify strong propositions from a diverse pool of entrepreneurs	

According to the venture capital firms aligned with **Pathway 1: Diversity at the Top**, the first step on the diversity journey is recognition that the lack of diversity in their portfolio (in terms of characteristics of founders) is a reflection of low diversity within venture capital firms themselves.

These firms observe that increasing internal diversity of venture capital firms, especially at the level of key decision makers, will have two effects. First, it can broaden the views 'at the top' and lead to better investment decisions, free from biases that may be typical for a single homogeneous group. Second, it can foster a culture of inclusion both for diverse founding teams, who will find it easier to communicate with people they can relate to, and for venture capital staff at all levels.

The latter effect is particularly important. The literature suggests that diverse teams can be characterised by a certain degree of conflict (due to a greater variety of views). When that conflict is managed well i.e. there are clear procedures in place on how consensus is reached and processes that ensure everyone gets the same level of attention irrespective of their background, diverse teams tend to outperform their non-diverse

Note: Outlined boxes indicate the most and least effective actions for this pathway. Source: SQW

counterparts⁴⁷. A ‘critical mass’ of minority groups may be required to ensure the psychological safety needed to challenge the status quo and prevent assimilation to the majority group. If diversity is reached in a ‘box ticking manner’, the benefits are unlikely to be realised.

Furthermore, our analysis of Beauhurst data provided some evidence that could be interpreted as supporting the effectiveness of actions associated with **Pathway 1: Diversity at the Top**. Specifically, we found a positive statistically significant correlation, albeit weak, between gender diversity of founding teams of businesses that secured venture capital in the period between 2018 and 2022 and gender diversity of investors (proxied with the gender mix of key people listed on Beauhurst – up to 50 per firm) suggesting that more gender diverse founding teams tend to attract investment from more gender diverse investing teams. Although a positive effect exists, the magnitude of the effect is very small⁴⁸. There were no statistically significant findings for ethnically diverse founders. The creation of funds designed specifically for investments into diverse founding teams was not supported by firms aligned with **Pathway 1: Diversity at the Top**. This view was based on the argument that the

existence of targeted funds reinforces the false narrative that diverse founding teams require special conditions to perform well. Overreliance on targets was also suggested to have the potential to narrow the scope of an investment fund to the degree where the fund may not perform well due to the limited number of investment opportunities at a given point in time. This could later be misinterpreted as an indication of poor performance of companies set up by founders from underserved communities.

Instead of making investments through targeted funds (or using any other form of targets), in consultees’ view it would be more effective for Limited Partners (LPs) to play a key role in holding firms accountable for increasing diversity of investment.

Diversity at the Top is often considered an important governance factor in all kinds of organisations to mitigate the risk of groupthink. This research focuses on the impact **Diversity at the Top** can have on diversity of investment, which is related to but different to the case for good governance.



I am a big believer that when [diversity at the investment committee level] is done correctly, it creates challenge, and gets to the best investment decisions [...]. As with anything, people tend to seek out like-minded individuals. But you have to be careful here that there is no tokenism and people on investment committees truly have valuable experience.”

Venture Capital consultee

Case Study

Pathway 1: Diversity at the Top

Anthemis

Overview of the firm

Founded in 2010, Anthemis is one of the leading global fintech investors, it is both sector-focused and thesis-driven, and invests in companies that build, distribute, or are enabled by financial services. This is in early (including concept and pre-seed) venture and growth stages. Anthemis have invested in over 200 portfolio companies since their inception. Anthemis is a signatory of the UK Government's Investing in Women Code.

Why is diversity at the top important?

Anthemis was founded with a core belief that a diverse team has the potential to outperform the market.

As such, Anthemis have strived to create an inclusive firm which promotes the best ideas and backs diverse founders.

The significance of diversity within Anthemis extends beyond mere representation. By actively fostering diversity within the investment committee, the firm recognises that these individuals hold the key to pivotal



decisions and are uniquely positioned to champion emerging talent within the team. Moreover, they possess the ability to drive meaningful change and shape diversity across the firm's portfolio. Their presence not only serves as a testament to Anthemis' commitment to inclusivity, but also empowers them to be allies, advocates, and catalysts for a more diverse and equitable venture capital ecosystem.

How has diversity at the top been achieved?

Intentionally building a diverse team has influenced Anthemis' recruitment and onboarding processes. For example, the firm does not hire for cultural fit as studies have shown that these types of programmes can lead to unconscious bias and homogenous teams. The firm has been deliberate in hiring people who will be culturally additive.

Alongside this, the firm recognises the importance of inclusion and belonging practices. One of the firm's values is for employees to be great collaborators but also respectful contrarians. By recruiting a team with diverse backgrounds and worldviews, the firm encourages challenging and thought-provoking conversations and tries to avoid groupthink. The firm's diversity and inclusion programme has been co-created to reflect the different backgrounds of team members. Anthemis' compensation and growth framework includes inclusive practices which individual and team performance is monitored against.

All investment team members have been trained in unconscious bias so that they are aware of typical biases that can inform selection decisions. Alongside this, Anthemis have partnered with LifeLabs Learning to build a bespoke training programme focused on inclusive selection which educates and challenges the investment team on unconscious biases that can affect each step of the pipeline.

Anthemis do not use quotas, because, in their view, this can end up being compliance driven or a tick box exercise. However, levels of diversity are formally reviewed every 12 months using self-reported data.

Using self-reported data is important to the firm as not all diversity characteristics are observable and consent is important. All employees are invited to participate in the survey every 12 months.

What are the benefits to having diversity at the top?

Anthemis has found that diverse investors often go on to identify and authentically show up and connect with diverse communities, and those diverse communities and diverse founders often go on to attract diverse teams, and build more diverse and inclusive products that are more representative of society.

Anthemis have achieved diversity among its global team and in its portfolio:

- 70% of their investment team are women and all of their investment leads are women.
- 48% of their portfolio founders either identify as women or ethnic minorities.

What are the key tips to achieving diversity at the top?

There is no one silver bullet. Diversity at senior levels cannot be achieved through a single solution; it demands a comprehensive approach and an unwavering commitment over time. It necessitates a thorough examination of power dynamics, ensuring that those in influential positions reflect diverse perspectives. It involves actively supporting and nurturing individuals throughout their careers within the firm, while fostering strong alliances and providing inspiring role models.

To truly embed inclusivity, the firm strongly advocates for inclusive practices to be ingrained in every aspect of decision-making and performance evaluation. This entails structuring investments in a manner that embraces diversity and recognising its vital role in long-term success. Additionally, the firm emphasises the importance of collaboration and knowledge-sharing across the industry. By fostering a culture of openness and encouraging the exchange of best practices, the entire ecosystem can advance together towards achieving greater diversity, equity and inclusivity.



3.3

Pathway 2

Inclusion in the Pipeline

Table 4 summarises venture capital firms’ views of the most and least effective actions associated with **Pathway 2: Inclusion in the Pipeline**.

Table 4

Actions perceived as effective and less effective for Pathway 2

Effective actions		
Venture capital firms should take steps to increase the diversity among those involved in the identification of potential propositions	Venture capital firms should use accelerators as a referral mechanism to identify and support diverse entrepreneurs	Venture capital firms should use ‘office hours’ to network with and provide support to diverse entrepreneurs
Less effective actions		
Entrepreneurs should actively engage on social media to raise awareness of their business/proposition and connect with venture capital firms	Venture capital firms should clearly communicate their investment strategies and commitment to diversity via their website and social media	

Venture Capital firms aligned with **Pathway 2: Inclusion in the Pipeline** focus on various ways to actively identify diverse founding teams and give them a chance to secure funding. In the view of these venture capital firms, by increasing diversity at the Investment Committee level, venture capital firms try to have an impact “too late in the chain” – if very few diverse teams are considered for investment, there will be fewer deals with underserved founders than there should be.

Office hours were seen by this group as an effective way of increasing access to networks, with some consideration for hours to accommodate family care being important, in contrast to more typical evening networking events.

Following entrepreneurs that attend accelerators was considered an efficient way to identify high-potential business propositions from underserved groups, since accelerators tend to do “some legwork” for venture capital firms. This can include screening out low-performing businesses and keeping those that attract grants and have high potential. Around one third (35%) of venture capital-backed firms that secured venture capital funding between 2018 and 2022 attended an accelerator. From a statistical perspective, founding

Note: Outlined boxes indicate the most and least effective actions for this pathway. Source: SQW

teams of venture capital-backed firms that attended accelerators were more diverse though in absolute terms, the differences are minor. However, a substantially higher proportion (54%) of businesses with founding teams that included both women and Ethnic Minority members were among accelerator attendees (the dataset contains records on 176 such companies), in comparison to all venture capital-backed businesses.

The views on using incubators in a similar way to accelerators were more mixed: it may be appropriate for venture capital firms focusing on seed investments, but the ‘early stage’ focus of incubators means they provide a less reliable indication of quality. Analysis of Beahurst data confirmed that founding teams of venture capital-backed companies that attended accelerators were more ethnically and gender diverse than those who did not. Even though the differences are on average small (a few percentage points) they are statistically significant. These findings (on accelerators and incubators) are more relevant for early-stage venture capital firms.

We found that 65% of venture capital firms interviewed do not approach their search for investment opportunities any differently when they seek to identify underrepresented founders. They stick to a typical mix

of approaches such as: considering inbound applications; reaching out through established networks; using automated algorithms to ‘web-scrape’ publicly available information about businesses; and participating in conferences and other networking events. The minority of venture capital firms that do alter their approach do it ‘slightly’ for example by using the same general methods but “focusing their attention” on underserved founders, or by stimulating the inbound flow of propositions by setting up dedicated office hours.

Using social media to identify investment opportunities was criticised by these firms for reinforcing the biases existing within the networks supported by the social media. However, signalling venture capital firms’ commitment to diversity via their website or social media posts was seen as an obvious, though important, first step: 75% of interviewed venture capital firms that identified this as a relatively ineffective action, representing 60% of the overall sample, have themselves publicised their commitment to diversity. However, consultees voiced concerns that, if this action was presented as a key recommendation, it would likely fail to generate any noticeable impact unless followed up by other actions.



The actual team on the ground doing the work as opposed to the investment committee is the highest impact opportunity. They are the frontline, they are going out [and] originating opportunities to broaden the funnel as much as possible.”

Venture Capital consultee

Case study

Pathway 2: Inclusion in the Pipeline Fearless Adventures

Overview of the firm

Fearless Adventures has been operating for almost two years and invests in growth stage companies typically in e-commerce. Alongside its investments, Fearless Adventures offer wraparound support to founders in areas such as talent sourcing, marketing, business intelligence and accountancy. Fearless Adventures is a signatory of the Investing in Women Code.

Why is inclusion in the pipeline important?

Fearless Adventures was set up by three founders that wanted to build a venture capital fund that would be different in the investment space by offering wraparound support to founders and by being committed to supporting a wide range of founders from different backgrounds. The intention was that the additional support would help founders who may be less familiar with or confident in seeking venture capital investment, and thus appeal to a wider range of founders.

In the field of e-commerce, success hinges on founders who possess a deep understanding of their market and a genuine connection with consumers. Fearless Adventures recognises this imperative and places a strong emphasis on diversity of thought when selecting entrepreneurs to support. They actively seek out founders with diverse perspectives and experiences. Going beyond financial investment, Fearless Adventures fosters a collaborative community among their portfolio companies, encouraging founders to connect, provide peer support, and offer guidance to one another. This approach not only amplifies collective knowledge but also nurtures a network of empowered entrepreneurs, propelling their individual and collective achievements in the e-commerce landscape.

Fearless Adventures defines diversity in terms of gender, ethnicity, sexuality and location.

How has inclusion in the pipeline been achieved?

Fearless Adventures has an Investment Director who is responsible for sourcing propositions, but there is an open and collaborative process in order to decide which propositions to take forward. They have large volumes of propositions coming in and each enquiry



Even small changes can make a massive impact.”

is summarised and shared with the whole team at their regular staff meetings. Everyone is encouraged to attend these meetings and share their views on the propositions that have been received.

In terms of outreach and deal sourcing, the firm uses various approaches that it has found to be effective in sourcing propositions from a diverse group of founders:

- Accelerators have been found to be a useful source of propositions. Using accelerators offers several advantages, such as fostering connections with early-stage ventures, sourcing founders from diverse socio-economic backgrounds, and staying attuned to emerging business trends.
- Team members from across the firm regularly attend events where founders are speaking, and the firm also hosts its own events. These events are designed to build confidence in founders, especially those unfamiliar with the investment process, and cover topics such as ‘building your personal brand’.
- Fearless Adventures works with [Fund Her North](#), an initiative designed to improve access to funding for female-led businesses in the North of England through start-up, scale-up and exit. Fearless Adventures have

supported the initiative by attending steering group meetings and supporting their events. This allows Fearless Adventures to grow its connections and tap into different groups and networks.

Fearless Adventures provides clear and constructive feedback to founders who it has engaged with but not invested in. This includes a comprehensive list of resources and signposting founders to accelerators or other programmes that might be of interest.

The firm makes itself internally accountable by regularly monitoring investment data. Diversity data is discussed, debated and used to inform decision making at quarterly management meetings.

Fearless Adventures is committed to removing barriers to investment for female founders and engages in various activities to achieve this. For example, Fearless Adventures actively invites more female leaders to be guests on its podcast ‘The Summit’ in order to create an additional platform to improve visibility of female founders.

What are the benefits of inclusion in the pipeline?

Fearless Adventures has achieved strong diversity among its portfolio companies and within the firm:

- all of its portfolio companies have female founders or co-founders;
- approximately 17% of its portfolio companies have Ethnic Minority founders or co-founders; and,
- 53% of staff are female, including its Managing Director and Investor Relations Director.

In addition, it actively supports investment into areas of the country that have traditionally been underserved. While the firm has some investments in London, its investment portfolio is primarily focused in the North West.

Whilst Fearless Adventures was purposefully set up to be inclusive, Fearless Adventures welcomes and supports propositions from all founders regardless of their background.

What are the key tips to achieving inclusion in the pipeline?

Fearless Adventures would encourage other firms to review and reflect on the diversity of their portfolios, try new and different ways of sourcing founders, and look for ways to expand their networks and connect across their community.



3.4

Pathway 3

Transparency and
Accountability

Table 5 summarises venture capital firms’ views of the most and least effective actions associated with **Pathway 3: Transparency and Accountability**.

Table 5
Actions perceived as effective and less effective for Pathway 3

Effective actions		
Limited Partners and venture capital firms should design funds that are targeted specifically at diverse entrepreneurs	Venture capital firms should clearly communicate their investment strategies and commitment to diversity via their website and social media	Venture capital firms should participate in industry-wide surveys and make D&I data on their investments public
Less effective actions		
Entrepreneurs should actively engage on social media to raise awareness of their business/proposition and connect with venture capital firms	Venture capital firms should provide constructive feedback on the quality of propositions and reasoning behind investment decisions	

Venture Capital firms aligned with **Pathway 3: Transparency and Accountability** suggest that the industry needs to be “loud and open” about its challenges. Making themselves accountable for delivering positive change is key but is only possible when the change is measurable. They see participation in industry-wide surveys as a crucial step to enable progress: it will provide better quality data for analysis and will make it impossible to “hide behind meaningless, tokenistic actions.”

Venture capital firms aligned with **Pathway 3: Transparency and Accountability** reported that online communication of their commitment to diversity, and their ambitions to increase the proportion of deals with underserved entrepreneurs online, increased the flow of investment opportunities from those communities, allowing them to back a more diverse group of founding teams.

Note: Outlined boxes indicate the most and least effective actions for this pathway. Source: SQW

This was further supported by our analysis of Beauhurst data which showed that Investing in Women Code signatories were more likely to invest in underserved entrepreneurs (i.e. venture capital-backed founding teams with at least one female and/or Ethnic Minority member) (Figure 3-1 and Figure 3-2). Furthermore, compared to the general population of venture capital firms, Investing in Women Code signatories had a larger proportion of their deals with gender and ethnically diverse founders.



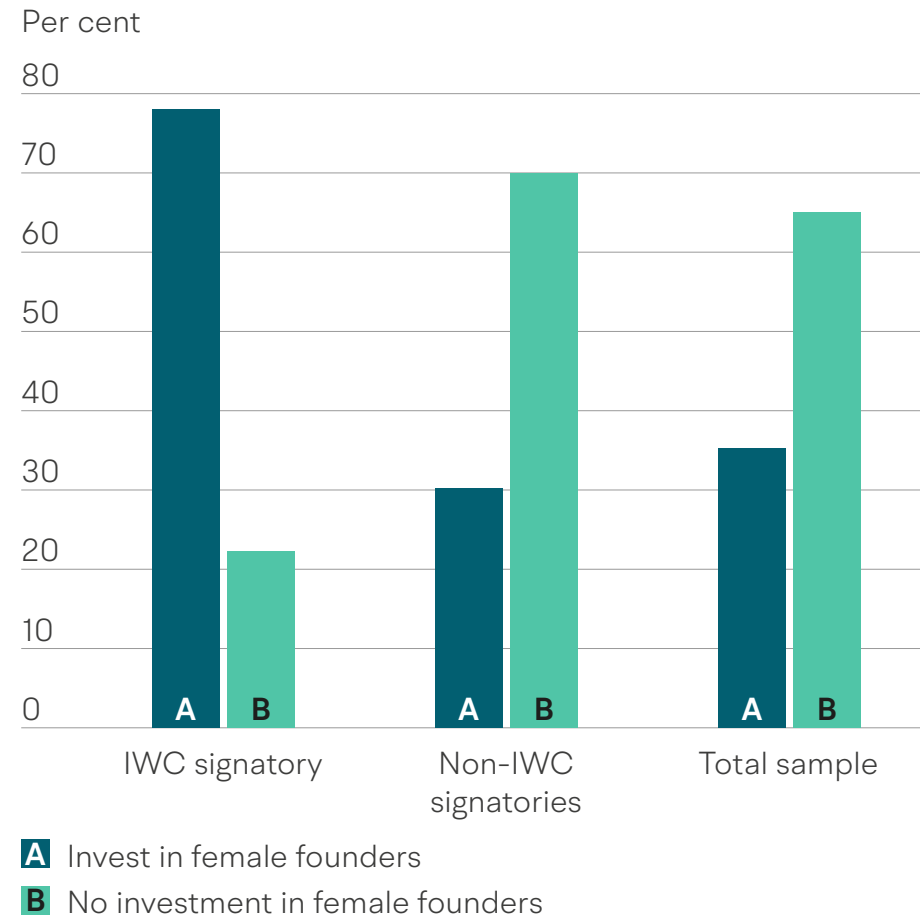
If people had to make their D&I data on their own investments public, I think you would see a lot more funds focused on it. I think that is because no one does the work to assess it on a fund-by-fund basis, people get away with not particularly worrying about it.”

Venture Capital consultee

Figure 3-1

Share of venture capital firms investing in female founders by Investing in Women Code (IWC) status 2018-2022

N=699, 620 Non-IWC signatories, 79 IWC signatories

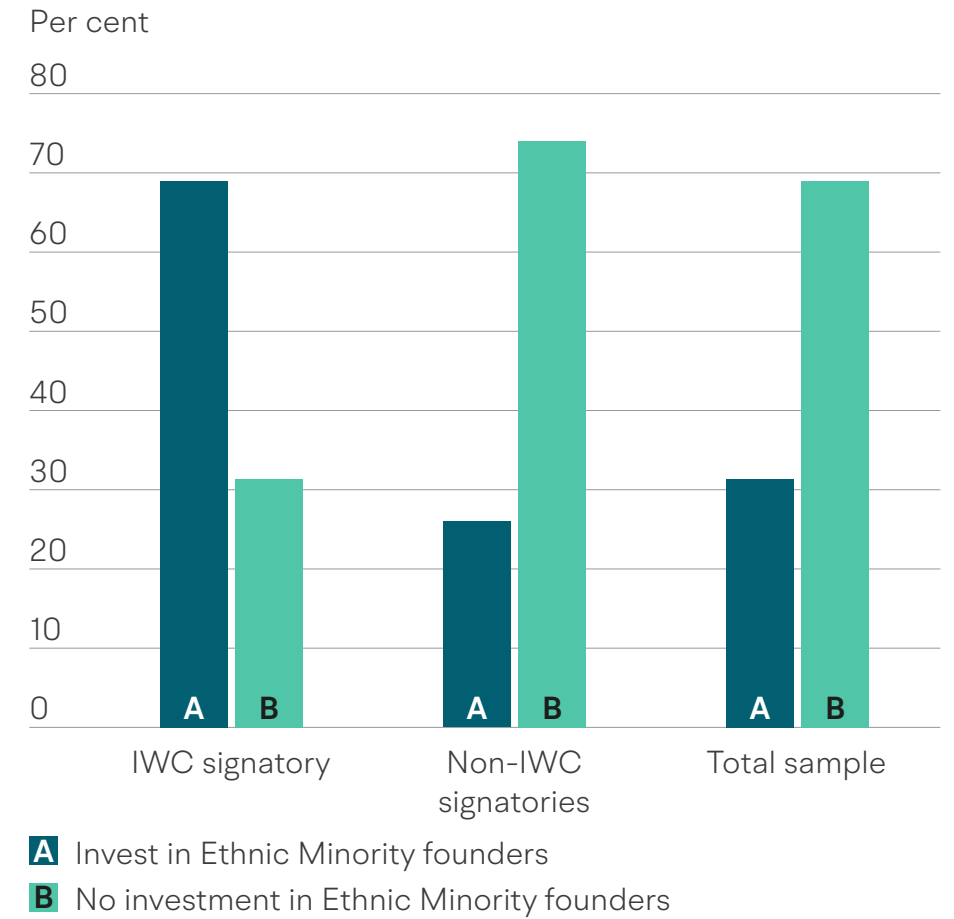


SQW analysis of Beauhurst data

Figure 3-2

Share of venture capital firms investing in Ethnic Minority founders by Investing in Women Code (IWC) status 2018-2022

N=699, 620 Non-IWC signatories, 79 IWC signatories

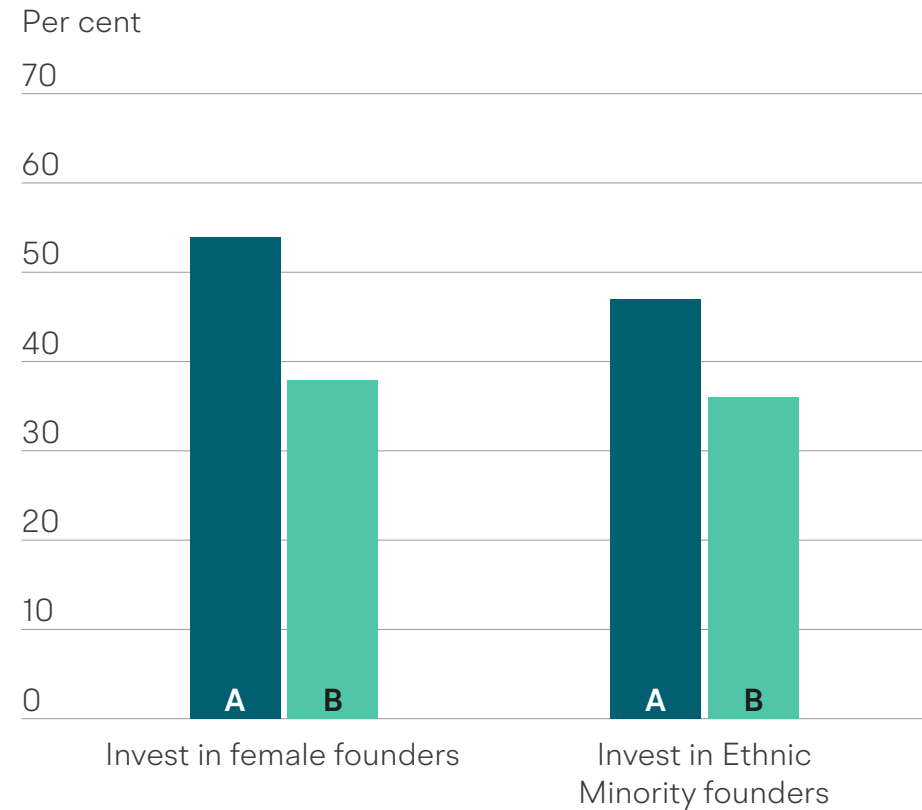


SQW analysis of Beauhurst data

Figure 3-3

Share of venture capital firms investing in underserved founders by stated commitment to diversity on website

N=250



A Diversity commitment
B No diversity commitment

SQW analysis of Beauhurst data

Venture capital firms that state their commitment to diversity on their website have higher investment in female founders, but no significant relationship was observed with investment in Ethnic Minority founders. These results are mixed but give some indication that external commitments have an impact.

Also, around 30% of the top 50 venture capital firms on Beauhurst (by an index of the number and proportion of deals with founders from underserved communities) are Investing in Women Code signatories.

Firms in this group were cautious about the value of providing feedback across a high volume of applications for funding. When the volume of applications allows it, the feedback should be (and often is) provided. However, in many cases, the flow of applications is too high for Investment Committees to be able to provide feedback on every application. Consultees did agree that venture capital firms should be conscious of any biases that may exist in provision of feedback, for example a tendency to provide more comprehensive feedback to applicants from a similar background.

In contrast to venture capital firms aligned with Pathway 1: Diversity at the Top, those aligned with **Pathway 3: Transparency and Accountability**, see designing targeted funds as an effective short-term action for achieving the desired results. Consultees suggested that such funds create clear incentives for investing into businesses with diverse founding teams, and may even increase focus on long-term potential rather than shorter-term high returns. Firms viewed dedicated funds as a catalyst for change, driving accountability for results faster than other actions, ultimately stimulating a diverse venture capital market without the need for such interventions.



We’ve got evidence from our own efforts on our website that the more open and transparent we are about who we invest in, the more we are able to target a more specific pool of candidates who come from all walks of life.”

Venture Capital consultee

Case Study

Pathway 3: Transparency and Accountability

Eka Ventures

Overview of the firm

Eka Ventures invests in early-stage companies building a more healthy, sustainable and inclusive economy. Investment is typically between £0.5m and £3m. To date, Eka Ventures has delivered one (£68m) fund, which began investing in September 2020 and closed in April 2021. Eka Ventures is a British Business Bank delivery partner and a signatory of the Investing in Women Code.

Why is Transparency and Accountability important?

Eka Ventures has a strong ethical ethos and having good Environmental, Social and Governance (ESG) goals is considered to be a priority for the firm. As part of this, it is important that the fund invests in founders from all backgrounds. This is for two reasons: 1) it is 'the right thing to do' from an equality and inclusion perspective; 2) it is likely to have positive, wider effects on the levels of diversity within venture capital more broadly.

How has Transparency and Accountability been achieved?

Eka Ventures has developed annual and (based on this) quarterly goals for the proportion of investments in female founders and founders from ethnically diverse backgrounds. The goals are developed at the start of the year and are based on the diversity of the entrepreneur population, industry benchmarks, and the firms' previous annual performance against goals. Progress against quarterly goals is reviewed by the firm on a weekly basis, as part of a team meeting. The gender diversity of the pipeline is also tracked as part of the weekly meeting to forecast progress against goals. Pipeline tracking includes regularly reviewing the number of engagements with female founders, through to the number of pitch decks received, and the proportion of female founders that successfully receive investment. Only gender diversity is tracked in the pipeline as this information is easily collected at the start of engagement with founders/companies and is not too onerous to complete. As the company progresses through investment stages, more detailed questions are asked of founders. For example, as part of the investment due diligence process, founders are asked to complete a questionnaire (including their



If you don't know what your baseline is, it's hard to know whether any changes are actually making a difference.”

ethnicity) and personality assessment, which aims to capture cognitive diversity.

‘If you don’t know what your baseline is, it’s hard to know whether any changes are actually making a difference’.

The main challenges Eka Ventures has experienced in achieving its diversity goals include recording the characteristics of founders early in the deal pipeline, and ensuring there are sufficient diversity of founders coming through the pipeline. The firm welcomes propositions from founders from all backgrounds, including mainstream backgrounds, and investment decisions are ultimately based on robust decision-making and due diligence processes. However, the firm aims to achieve diversity among its portfolio by ensuring a good proportion of propositions are received from underserved founders.

In terms of capturing and reporting diversity metrics, Eka Ventures emphasises the importance of capturing the percentage of founder shares held by a founder from an underserved background, rather than firms with at least one founder from an underserved background, as this ensures that the reported figures include underserved founders that have ownership in the company.

What are the benefits of Transparency and Accountability to diversity?

Eka Ventures has achieved diversity among its portfolio:

- 30% of investments are to Ethnic Minority founders;
- 17% of investments are to female founders.

It was considered that this is due (at least in part) to setting and reporting against quarterly, internal goals. While the fund has always had a focus on diversity, the proportion of the firm’s investments to underserved founders has increased over time.

For example, in December 2021 (approximately one year into the fund), 21% and 14% of investments were to Ethnic Minority and female founders respectively.

Following its investment, the firm supports companies and encourages them to recruit diverse teams as they grow. This process, along with the firm’s investment, is expected to support increased diversity in the broader venture capital market.

What are the key tips to achieving diversity?

Three key factors are highlighted as important in securing to diversity:

- **Company buy-in:** Ensure all employees are aware of and/or have responsibility for achieving diversity goals. This can be facilitated through regular team/company discussions on progress.
- **Data collection and systems:** Ensure firms have the relevant processes and systems in place to capture and record diversity data. This is important in order to track progress internally.
- **Goals not targets:** Create diversity aims for teams to work towards, but recognise that, for myriad reasons, it is not always possible to achieve. This will ensure that, while diversity is considered in investment decisions, those decisions are ultimately based on the commercial viability of propositions.

4

**Evidence on
each action**

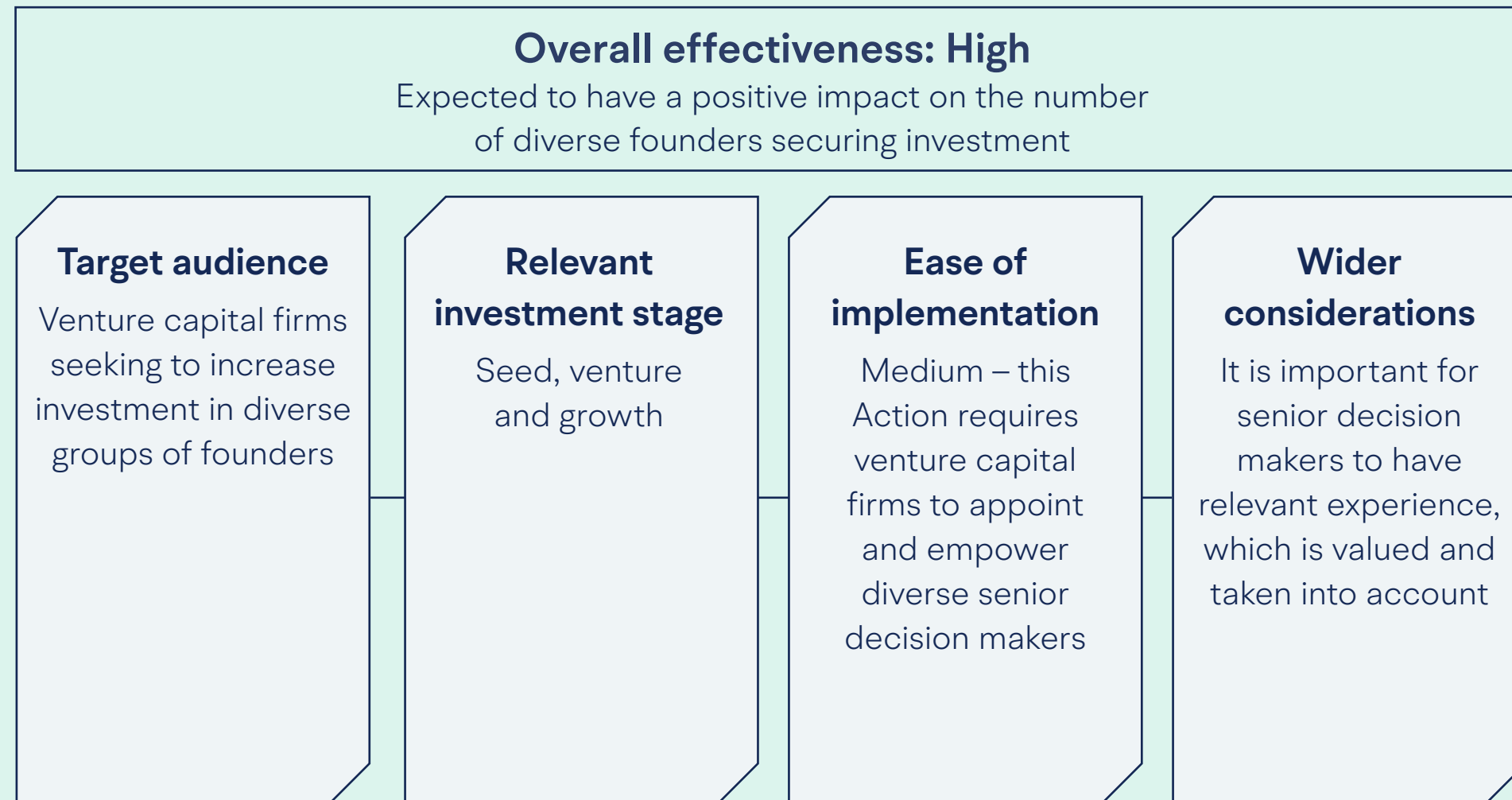


To help venture capital firms consider the optimal mix of actions for them, the supporting evidence for the effectiveness of each of the 14 actions is summarised below, including:

- Feedback from venture capital firms: their overall ranking of actions, the distribution of their scores (based on 42 interviewees from 40 venture capital firms) and summary information on their qualitative responses.
- Ranking of actions from entrepreneurs surveyed: responses on the effectiveness of actions and detail on how different groups responded (where relevant).
- Existing research: supporting evidence identified in the literature.
- Data analysis: findings from analysis of Beauhurst, Extend Ventures, and Investing in Women Code (IWC) data were used to provide additional insight and evidence to support the actions.

Ranked 1 out of 14 actions

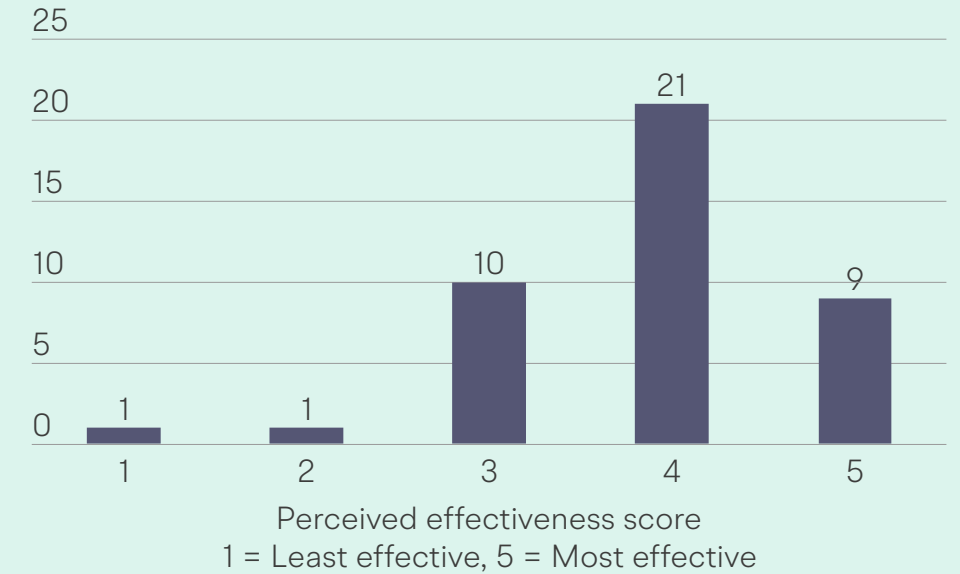
Venture capital firms should ensure senior decision makers, including Investment Committees, are made up of people from a diverse set of backgrounds.



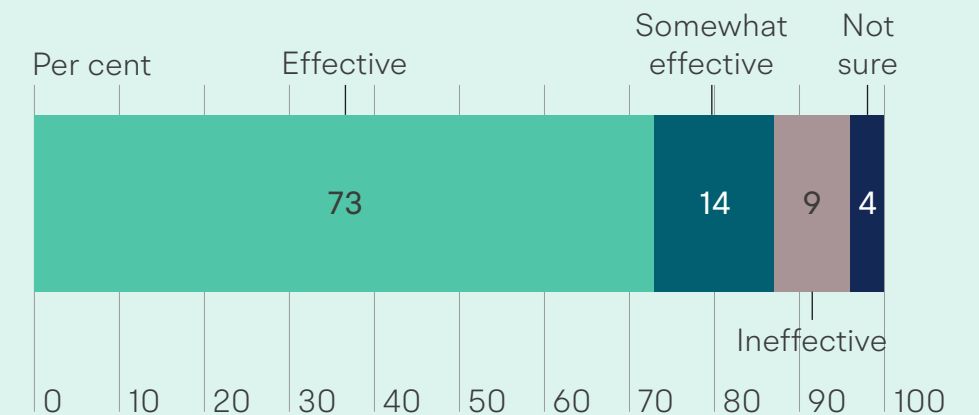
4. Evidence on each action

Venture capital firm ranking

Frequency of action ranking



Entrepreneur perceived effectiveness



Findings by entrepreneur characteristics

Venture capital-backed/venture capital-ready:

Nearly three quarters of both venture capital-backed and venture capital-ready entrepreneurs said this action is effective (74% and 71%, respectively).

Gender: Four fifths (80%) of female respondents said this action is effective, compared to over two thirds (69%) of male respondents.

Education (socio-economic): No major variance observed.

Ethnicity: No major variance observed.

Age: There was some variation in responses among age groups: 80% of respondents aged 30-39 said this action is effective, in contrast to 65% of respondents aged 60 or above.

Venture capital firms' feedback

Diversity at the top can create challenge, diversity of thought, and lead to better investment decisions. Diversity among senior decision makers can also create a virtuous circle – a diverse group of decision makers may back a more diverse group of founders, who go on to build more diverse teams, who then create more diverse and inclusive products and services.

However, firms must be careful to ensure that action is meaningful, and does not represent tokenism or a tick-box exercise.



Decision makers at the top, who sit on investment committees and are ultimately making the investment decisions; they need to be diverse or else we will never reach where we want to get to.”

Venture Capital firm consultee

Existing research

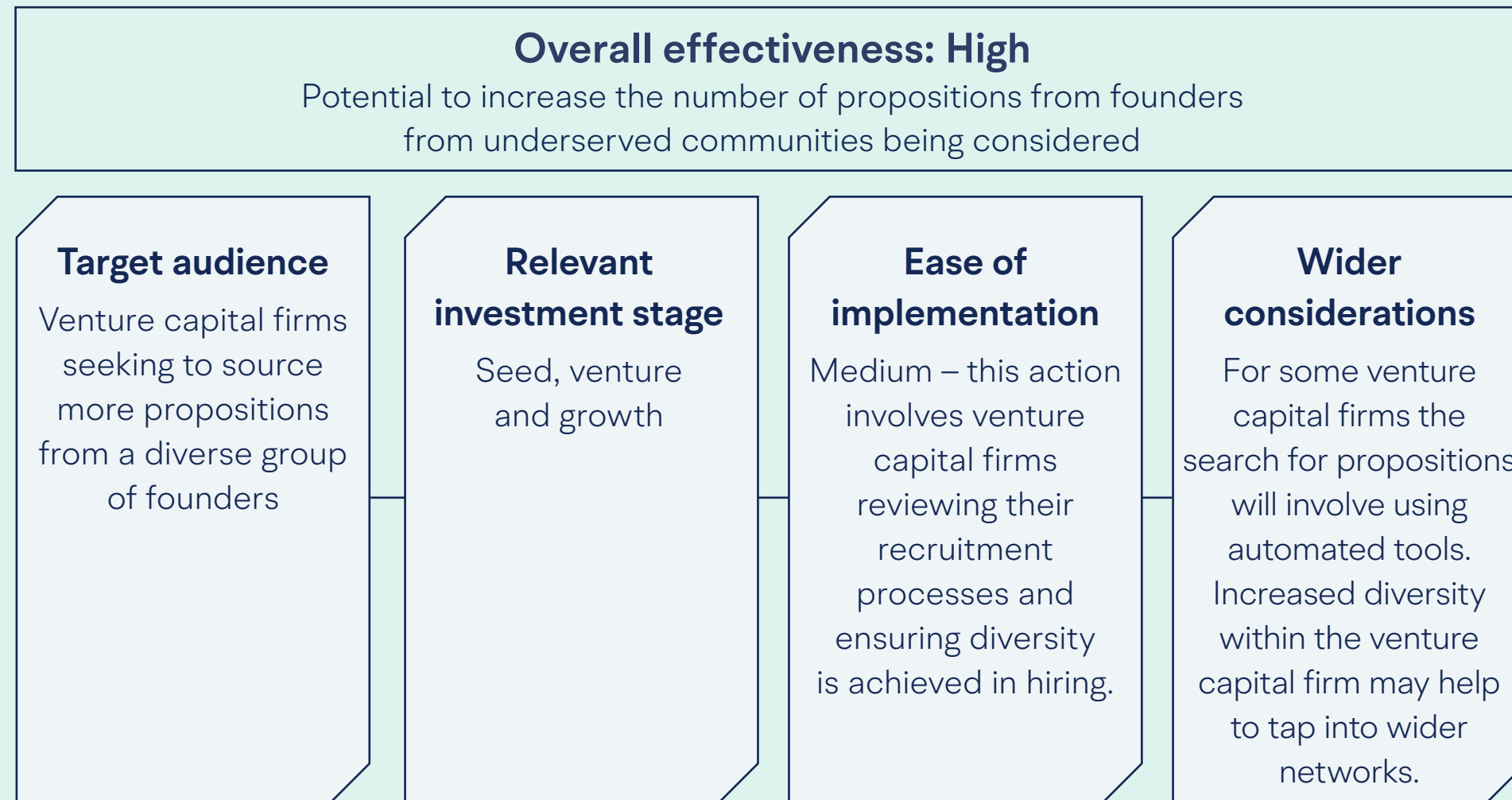
- There was relatively good evidence on the effectiveness of increasing diversity among senior decision makers in venture capital firms. Nine papers were identified, based on surveys, author opinions and statistical analysis of firm demographics and performance. The majority of the analysis was descriptive (5 out of 6).
- Research has found that syndicates with female-led General Partners are better able to evaluate female-led startups. This implies that venture capital financing influences the performance gap between female- and male-led startups, primarily through differing abilities of venture capital firms to evaluate female-led startups (Raina, 2021).
- Analysis on companies in the US has found that venture capital firms with women partners are twice as likely to invest in companies with a woman on the management team and three times more likely to invest in companies with women CEOs (Brush, 2014).

Data analysis

Since 2018, businesses that raised money from a women-led venture capital firm (proxied with gender of key contact – typically a CEO, partner or founder, and for robustness with at least 50% of key contacts being women), on average attracted more in total investment (controlling for the year of first investment). This holds where at least 50% of the key contacts are women. We note that this result concerns: a) businesses that secured the funding from a women-led firm rather than from a fund (led by a woman) designed specifically for investments into underserved founders; b) the total amount raised rather than the probability of attracting follow-on investment.

Ranked 2 out of 14 actions

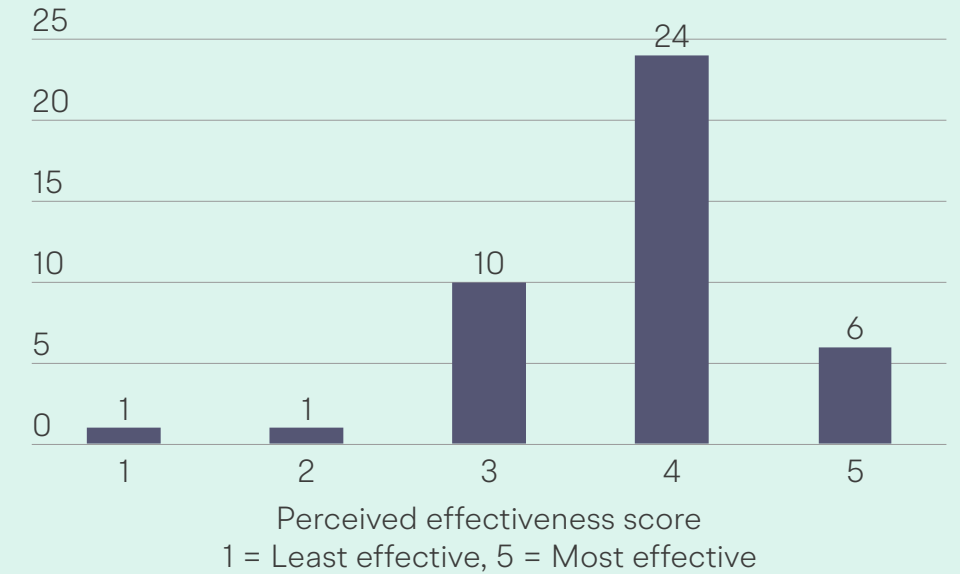
Venture capital firms should take steps to increase the diversity among those involved in the identification of potential propositions.



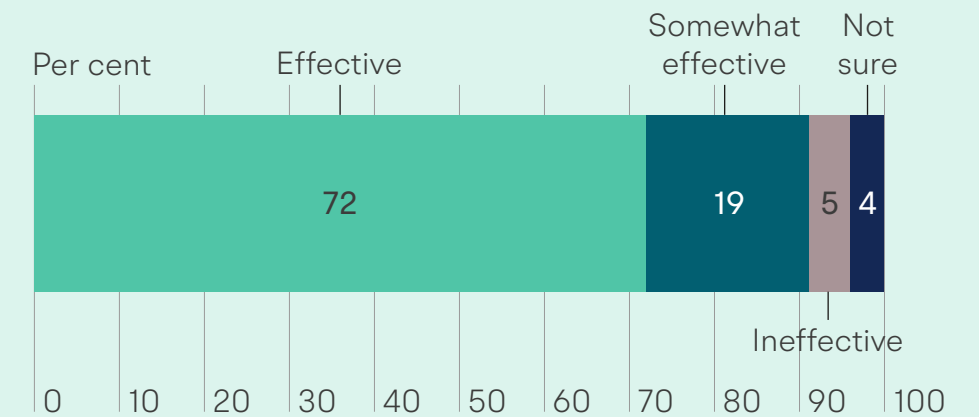
4. Evidence on each action

Venture capital firm ranking

Frequency of action ranking



Entrepreneur perceived effectiveness



Findings by entrepreneur characteristics

Venture capital-backed/venture capital-ready:

No major variance observed.

Gender: No major variance observed.

Education (socio-economic): A higher proportion of respondents with an undergraduate degree said this action is effective (75%), in comparison to over half of respondents (56%) that did not go to university.

Ethnicity: No major variance observed.

Age: Over four fifths (88%) of respondents aged 30-39 years old said this action is effective, compared to less than two thirds (62%) of respondents aged 40-49 years old.

Venture capital firms' feedback

The team involved in sourcing propositions are an outward representation of the firm and, therefore, greater diversity among the team can help underserved founders feel more comfortable engaging with venture capital, as they see people like themselves. Similarly, a diverse investment team is more likely to source propositions from a diverse group of founders.

From an internal perspective, diversity at all levels means there is greater potential for individuals to progress and for the firm to achieve greater diversity in senior positions.



Really important, making sure that entrepreneurs are coming into an environment where they can see a diverse range of people. And that is giving them comfort that you don't have to adapt yourself to be like us to get this investment, because we are very diverse and we like to think about things in different ways.”

Venture Capital firm consultee

Existing research

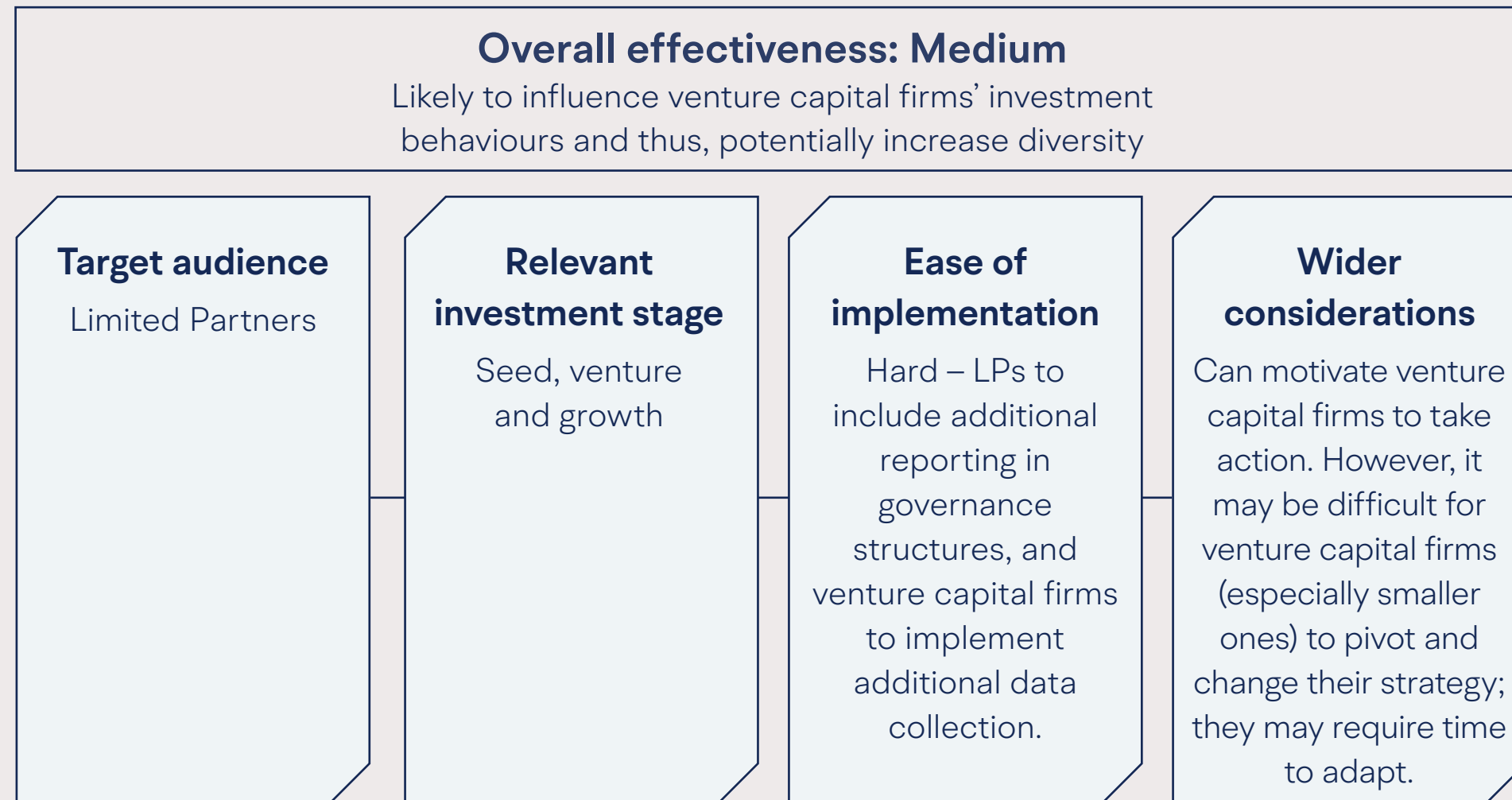
- There was fairly strong evidence on the effectiveness of increasing diversity within venture capital firms. Nine papers were identified, based on surveys, author opinions and quantitative analysis, which included statistical analysis of US Small Business Administration's Small Business Investment Company (SBIC) Program data, and descriptive analysis of fund managers and investments.
- Statistical analysis of SBIC programme data found that ethnically diverse SBICs make more investments in minority-led and women-led portfolio companies than non-ethnically diverse SBICs (Library of Congress, 2016).
- Having a diverse investment team has been proven to help a firm source underserved founders (Kapor Capital, 2019).

Data analysis

There is a small positive correlation between gender diversity of founding teams and gender diversity of investors (proxied with the gender mix of key people). This relationship is statistically significant, the magnitude of the effect is weak.

Ranked 3 out of 14 actions

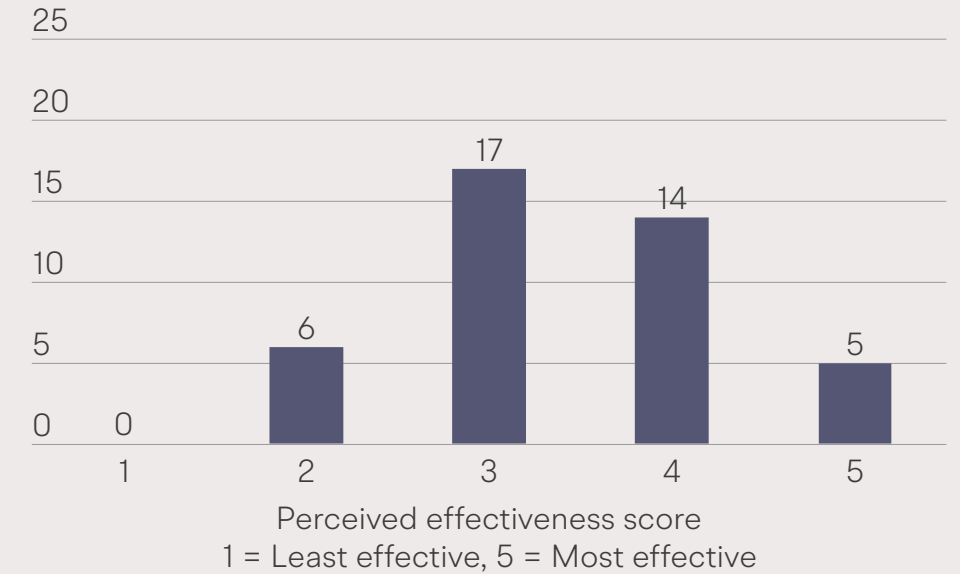
Limited Partners should encourage venture capital firms to monitor and report progress in supporting diverse entrepreneurs.



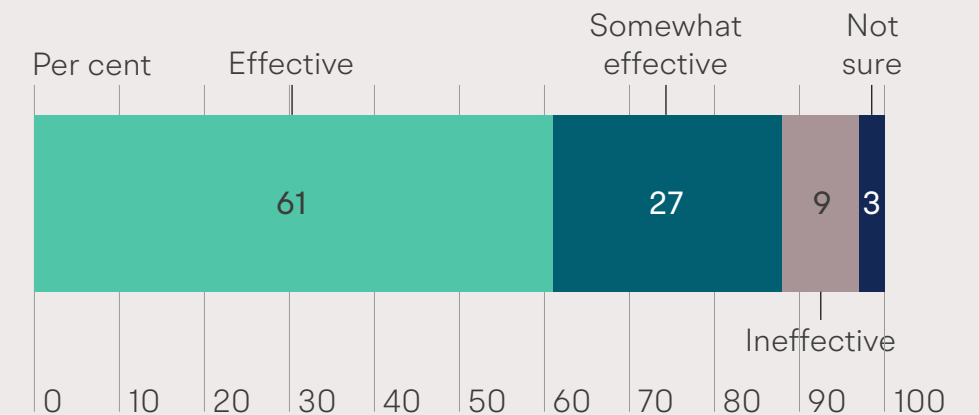
4. Evidence on each action

Venture capital firm ranking

Frequency of action ranking



Entrepreneur perceived effectiveness



Findings by entrepreneur characteristics

Venture capital-backed/venture capital-ready:

No major variance observed.

Gender: Female respondents were more likely to say this action is effective than males (69% and 55%, respectively).

Education (socio-economic): A higher proportion of respondents with an undergraduate degree said this action is effective (65%), in comparison to respondents that did not go to university (44%).

Ethnicity: Two thirds of Ethnic Minority respondents said this action is effective (67%), in contrast to White respondents (59%).

Age: A lower proportion of respondents aged 40-49 said this action is effective (41%), in comparison to respondents aged 30-39 (80%). Compared to the average response, a greater proportion of respondents aged 60 or above said this action is ineffective (22%).

Venture capital firms' feedback

Leadership and direction from LPs was welcomed as a way to ensure that venture capital firms' decision making processes prioritise support for a diverse group of entrepreneurs.

However, several respondents emphasised that venture capital firms should be encouraged to support underserved entrepreneurs, rather than be mandated or set targets, as this could lead to adverse investment behaviours.

Existing research

There was limited existing evidence to support this action. One paper was identified, based on analysis of US companies that received venture capital funding between 2011-18 (supported by stakeholder interviews). The Diana Report (Brush, 2014) found that teams with women entrepreneurs perform as well as, or better than, firms led exclusively by men. Based on the findings, the report suggests that LPs should request that the venture capital firms in which they invest reconsider their investment approach and, in particular, focus on incorporating diversity as a key factor in their decision making.



If you're trying to change the [funds] that are less inclined to increase their D&I then you need the LPs to push them because they won't do it otherwise and it might [not] be something that they monitor. [And] it's going to take a bit more time to monitor. And unless you've got a LP telling you to do it, it might be something that you don't focus on initially, especially if you're a small fund."

Venture Capital firm consultee

Ranked 4 out of 14 actions

Venture capital firms should participate in industry-wide surveys and make diversity data on their investments public.

Overall effectiveness: Medium

By raising greater awareness of the issue of diversity in venture capital, this action has the potential to deliver notable benefits

Target audience

All venture capital firms

Relevant investment stage

Seed, venture and growth

Ease of implementation

Hard – this would require collecting additional data to capture diversity characteristics, and regularly reporting on this.

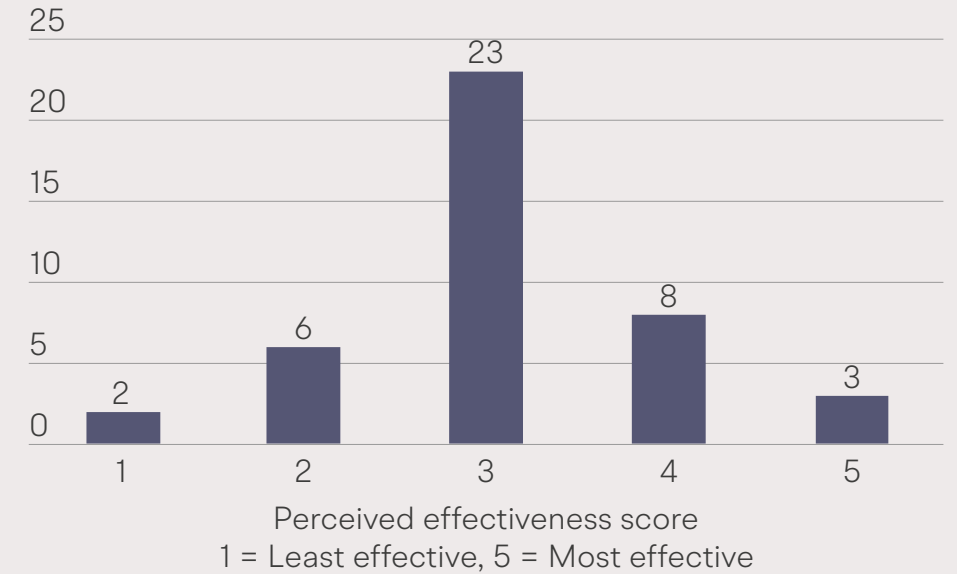
Wider considerations

It is important that this action is supported by meaningful change; this action is unlikely to be effective on its own.

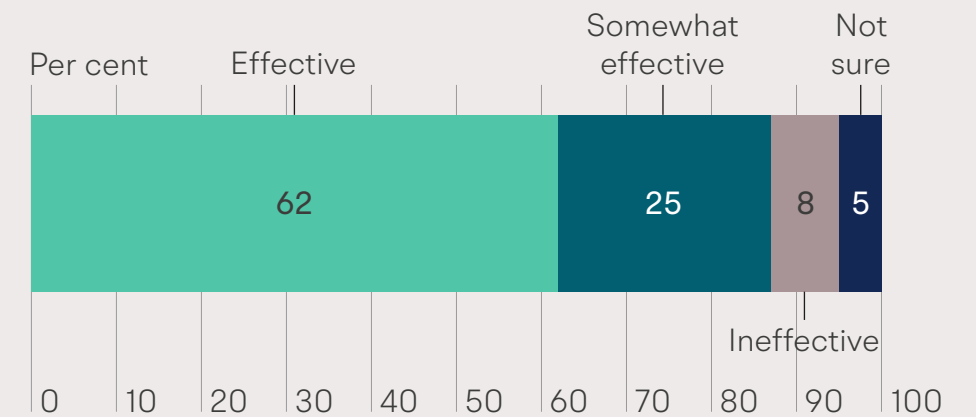
4. Evidence on each action

Venture capital firm ranking

Frequency of action ranking



Entrepreneur perceived effectiveness



Findings by entrepreneur characteristics

Venture capital-backed/venture capital-ready:

No major variance observed.

Gender: A higher proportion of females (69%) than males (57%) said this action is effective.

Education (socio-economic): No major variance observed.

Ethnicity: Ethnic Minority respondents were more likely to say this action was effective (73%) than White respondents (59%).

Age: A significantly lower number of respondents aged 40-49 said this action is effective (35%), in comparison to respondents aged 20-29 (86%).

Venture capital firms' feedback

The majority of venture capital firms considered this to be an effective way to secure commitment to improving diversity, through regular monitoring and tracking.

Better evidence and understanding of the issue, through the publication of findings from industry-wide surveys, could also promote further action.

For this to be effective, it needs to be backed by tangible action, or else it risks simply being virtue-signalling.

Data analysis

Investing in Women Code signatories regularly report diversity data, and are more likely to invest into founding teams with at least one female or Ethnic Minority member than the general population of venture capital firms. The wider pool of venture capital firms has a large tail of companies that do not invest into underserved entrepreneurs.

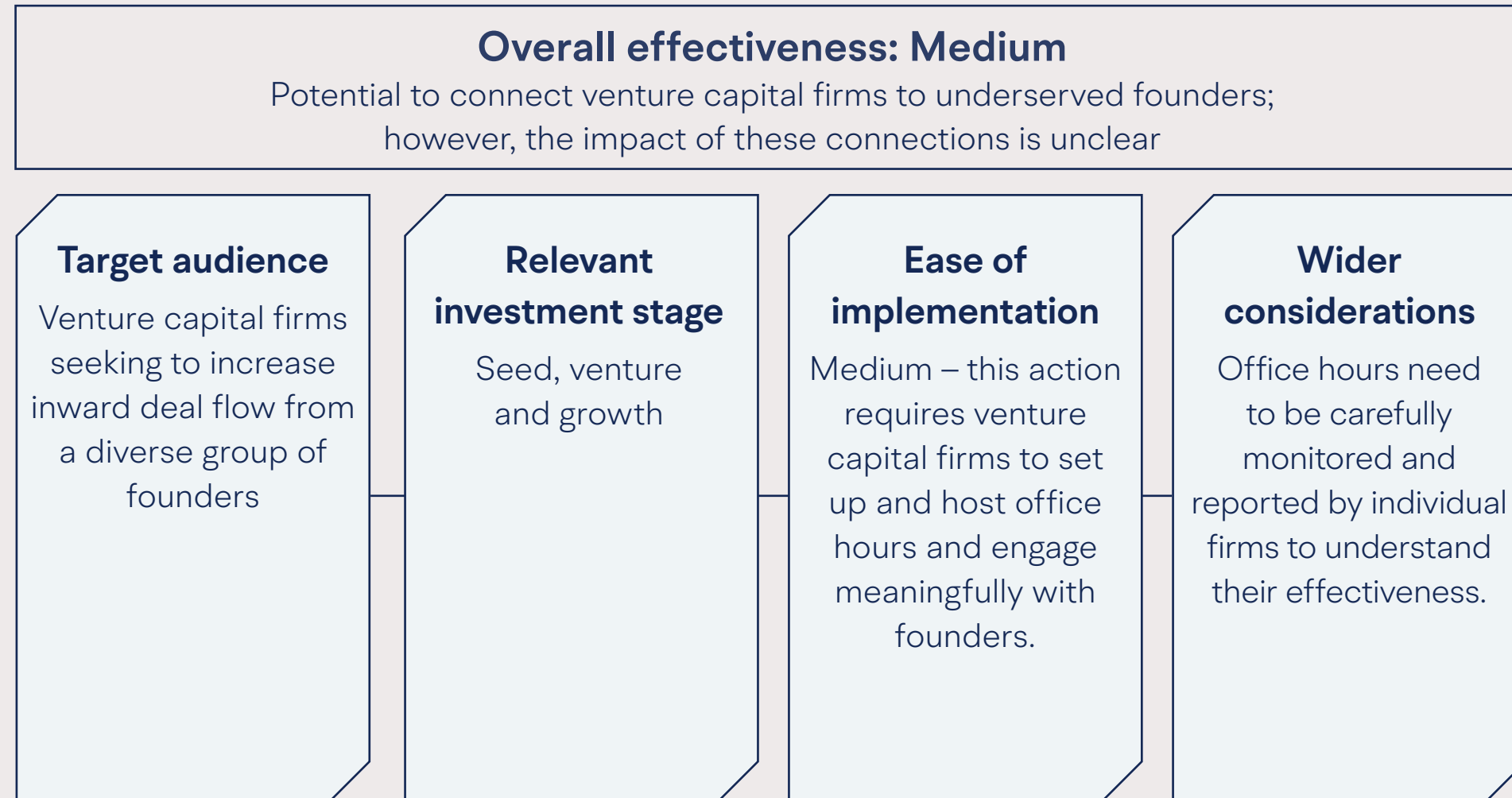
Existing research

The evidence on this action was relatively weak. Five papers were identified; four are primarily authors' recommendations (based on survey findings), and one is based on existing literature and business perceptions. The authors' recommendations include:

- In order to foster evidence-based policymaking, venture capital firms need to gather better data on entrepreneurial diversity (Centre for Research in Ethnic Minority Entrepreneurship, 2022).
- To enable tracking and the ongoing reporting of the industry's performance on diversity, venture capital firms need to make data on their investments publicly available (Brodnock, 2020).

Ranked 5 out of 14 actions

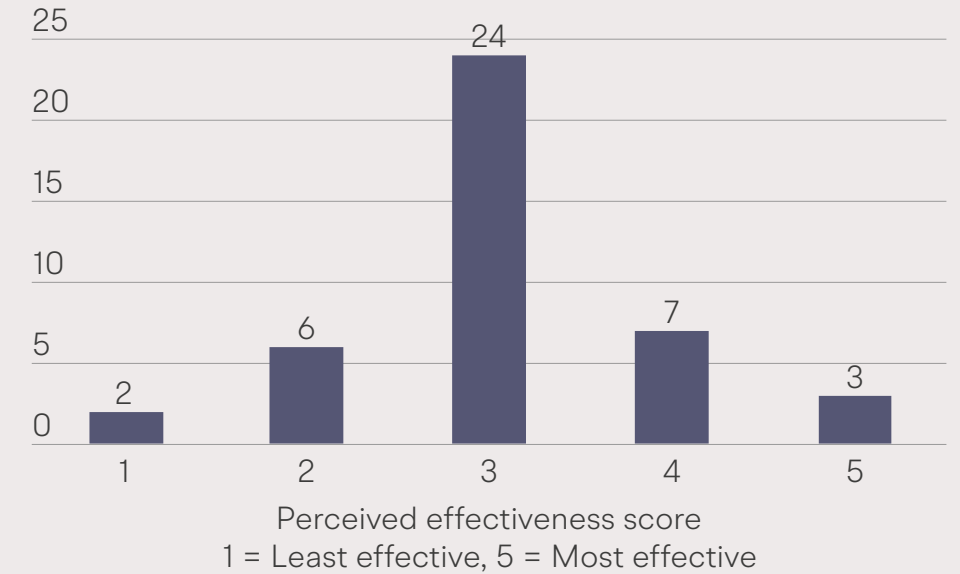
Venture capital firms should use ‘office hours’ to network with and provide support to diverse entrepreneurs.



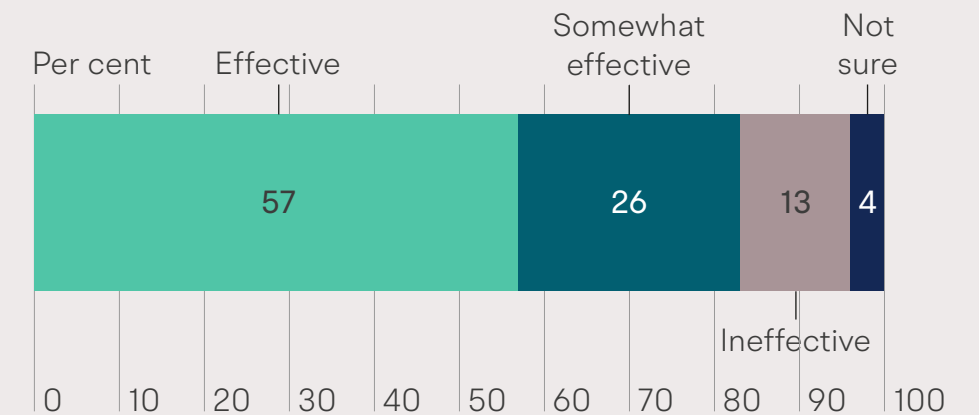
4. Evidence on each action

Venture capital firm ranking

Frequency of action ranking



Entrepreneur perceived effectiveness



Findings by entrepreneur characteristics

Venture capital-backed/venture capital-ready:

A moderately higher proportion of venture capital-backed entrepreneurs said this action was effective (59%), in comparison to venture capital-ready entrepreneurs (53%).

Gender: Limited variance was observed; a slightly higher proportion of female respondents said this action is effective or somewhat effective (88%) than male respondents (80%).

Education (socio-economic): Respondents that went to elite and extended elite, Russell Group or Top 100 International universities were more likely to say that this action is ineffective (25%), compared to those that went to a university outside of these groupings (16%).

Ethnicity: Ethnic Minority respondents were more likely to say this action was ineffective (18%) than White respondents (11%).

Age: 80% of respondents aged 30-39 years old said this action was effective, in contrast to 39% of respondents aged 60 or over. No major variance between other groups.

Venture capital firms' feedback

Many of the firms interviewed provide office hours for entrepreneurs and they are seen as an opportunity for venture capital firms to connect with and support underserved founders. They also help those who cannot attend evening networking events.

However, feedback suggests that, while office hours are helpful in providing feedback and one-to-one support for underserved entrepreneurs, there is limited evidence that these interactions result in more deal flow to underserved founders.

Existing research

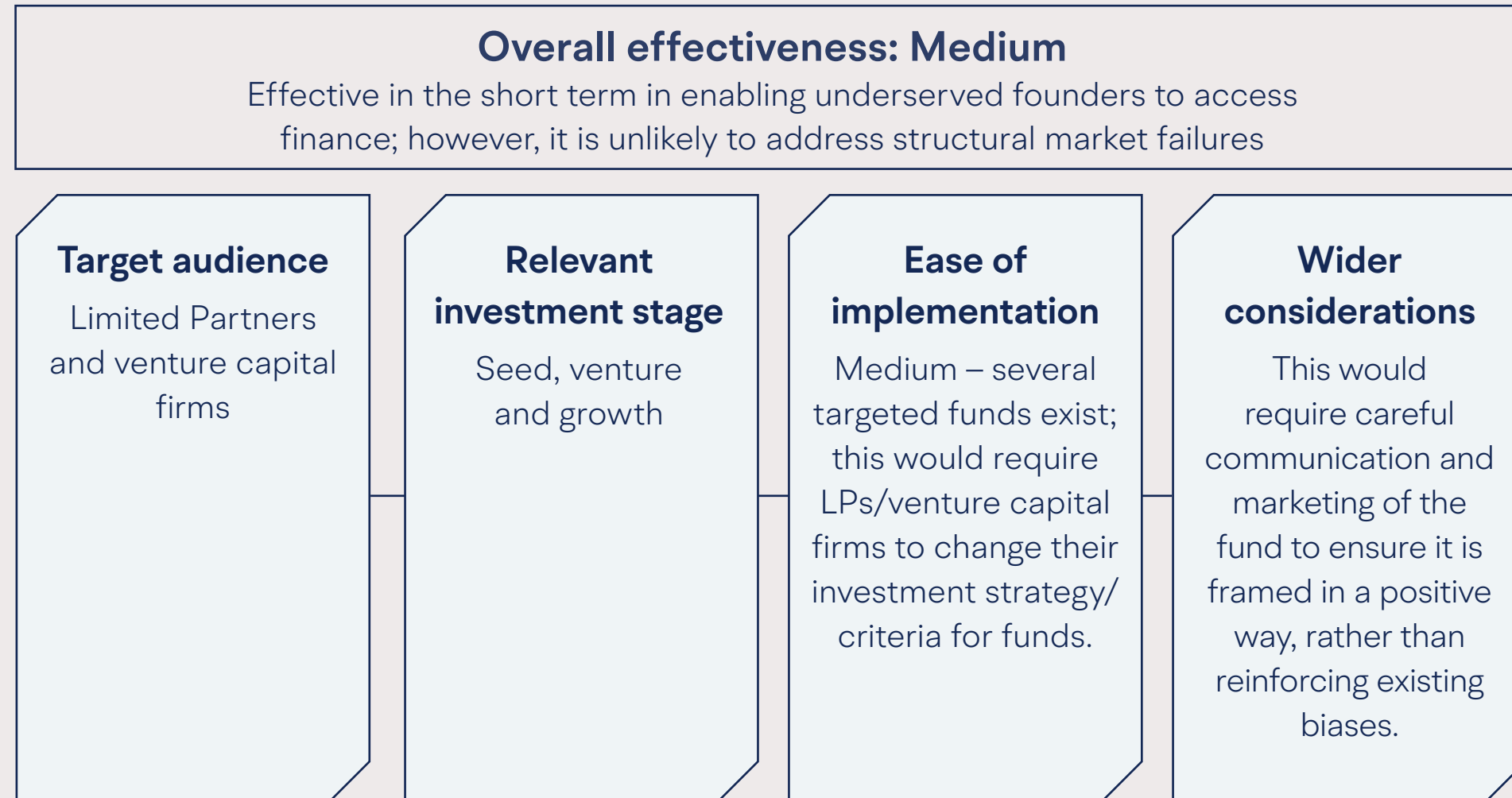
- There was limited evidence on the effectiveness of using office hours in improving diversity in venture capital investment. Four papers were identified, based on surveys and author opinions.
- Holding office hours can be an effective way to broaden sources of deal flow beyond traditional channels and to also give back to the ecosystem (Diversity VC, 2019).
- They can also help venture capital firms gain access to those entrepreneurs who may find the cost of attending industry events prohibitive (GenderSmart, 2021).

“The founders then get a chance to properly sit and talk with the decision makers. There's a lot of learning on both sides. Where we have found deals is exactly from these types of 'women-focused' founders hours.”

Venture Capital firm consultee

Ranked 6 out of 14 actions

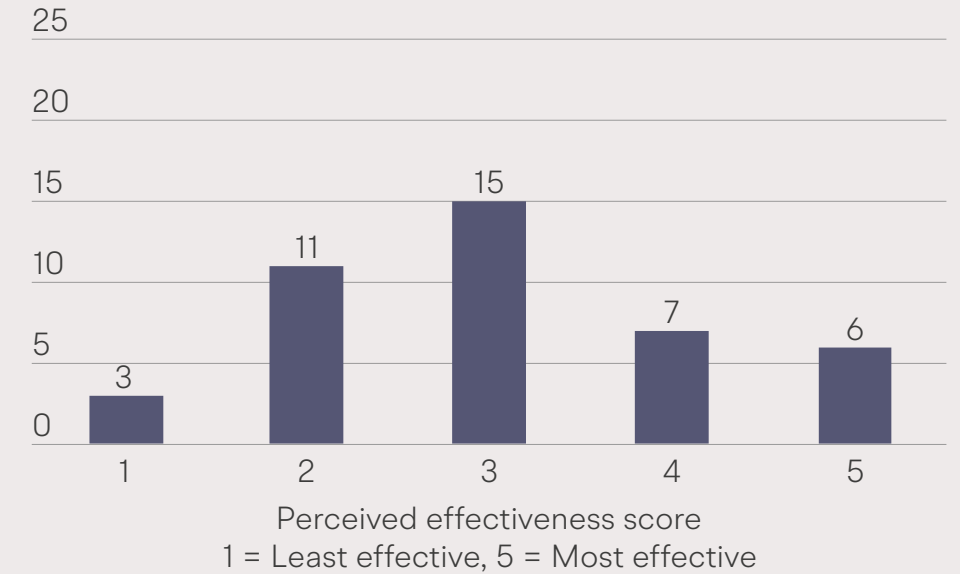
Limited Partners and venture capital firms should design funds that are targeted specifically at diverse entrepreneurs.



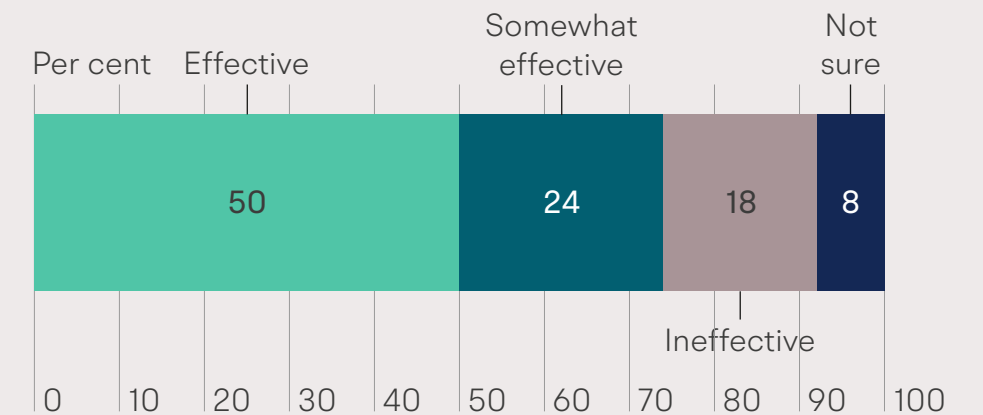
4. Evidence on each action

Venture capital firm ranking

Frequency of action ranking



Entrepreneur perceived effectiveness



Findings by entrepreneur characteristics

Venture capital-backed/venture capital-ready:

Half (50%) of both venture capital-backed and venture capital-ready entrepreneurs said this action was effective.

Gender: A greater proportion of female respondents said this action is effective (63%) in contrast to males (41%).

Education (socio-economic): No major variance observed.

Ethnicity: Ethnic Minority respondents were more likely to say this action is effective (64%), in contrast to White respondents (46%).

Age: Nearly two thirds (64%) of respondents aged 30-39 years old said this action was effective, compared to just over a third (35%) of respondents aged 60 or above.

Venture capital firms' feedback

Venture capital firms that supported this action said that this would provide a clear route to ensuring underserved founders can access venture capital finance, and this would ultimately have a positive impact.

However, while recognising the benefits in the short term, various firms said this could reinforce the inherent biases in the system, and continue to support the narrative that underserved entrepreneurs require specific, targeted funds. If the right processes are in place, underserved entrepreneurs should be able to secure support through mainstream funds.

Existing research

- There was limited evidence on the impact or effectiveness of targeted funds for underserved entrepreneurs.
- A number of papers were identified which include examples of targeted funds and sets out their performance; however, the overall impact on diversity within venture capital is unclear. Example funds include: Impact X – a UK venture capital firm, founded to support underserved entrepreneurs across Europe and Fearless Fund – an American venture capital firm created for women of colour, by women of colour.

Ranked 7 out of 14 actions

Venture capital firms should provide constructive feedback on the quality of propositions and reasoning behind investment decisions.

Overall effectiveness: Medium

Likely to support the development of underserved founders; however, is not sufficiently targeted to improve diversity in venture capital more broadly

Target audience

Venture capital firms seeking to provide additional support to underserved founders

Relevant investment stage

Seed, venture and growth

Ease of implementation

Medium – this action requires an investment of time from venture capital firms to provide detailed and honest feedback to founders.

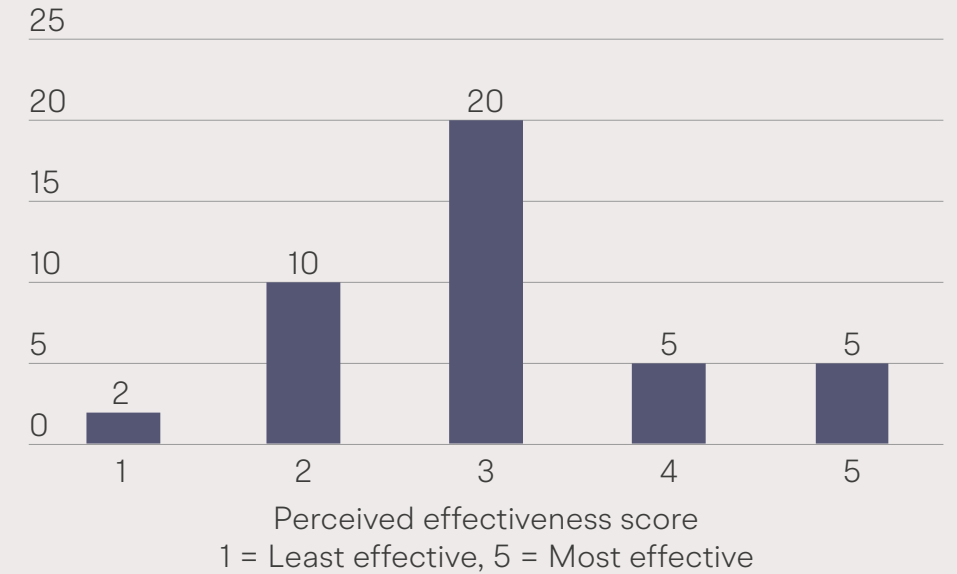
Wider considerations

Feedback should be tailored and reflect learnings from the process of considering a proposition.

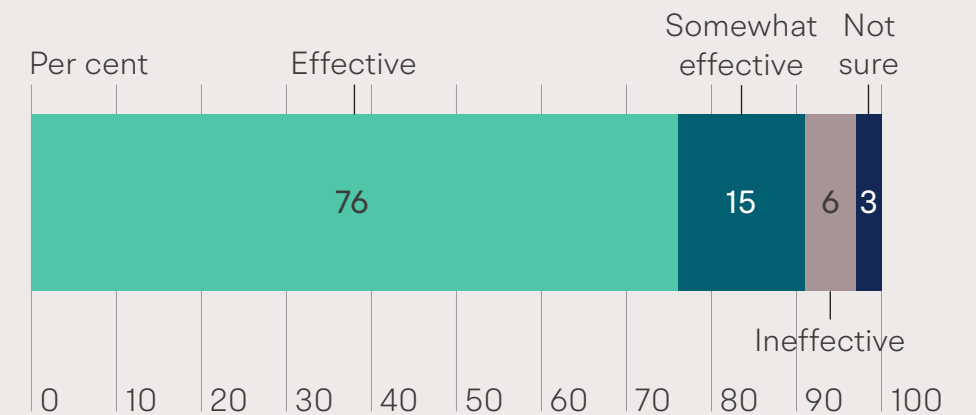
4. Evidence on each action

Venture capital firm ranking

Frequency of action ranking



Entrepreneur perceived effectiveness



Findings by entrepreneur characteristics

Venture capital-backed/venture capital-ready:

Both venture capital-backed (76%) and venture capital-ready (76%) entrepreneurs said this action is effective.

Gender: No major variance observed.

Education (socio-economic): A higher proportion of respondents that did not go to university said this action is effective (89%), in comparison to respondents with a postgraduate degree (67%).

Ethnicity: No major variance observed.

Age: The majority of participants aged 20-29 years old said this action is effective (86%) in comparison to just over two thirds of respondents aged 40-49 years old (68%). No major variance was observed between the other age groupings.

Venture capital firms' feedback

Venture capital firms interviewed expected that constructive feedback should be given as part of the investment process. However, it was recognised that this is not always feasible due to high volumes of propositions.

Firms recognised the benefits of providing feedback, particularly to help founders refine their proposition, and to add transparency to the investment process.

Providing feedback to underserved entrepreneurs specifically was also considered to prevent the 'feedback loop' of people in privileged positions receiving more feedback due to their existing networks.

Existing research

There was limited evidence on the effectiveness of providing constructive feedback. Three papers were identified, based on surveys (2) and author opinions (1).

The findings from the stakeholder survey support certain findings from existing research:

- Providing constructive and honest feedback and support during the investment process as well as fostering an environment of mutual respect is beneficial to underserved entrepreneurs (GenderSmart, 2021).
- Direct challenge and feedback on areas that need addressing should be given to founders regardless of their gender, ethnicity or background (BVCA, 2021).



Obviously, people from backgrounds with more education initially get more feedback anyway, so I think venture capital firms should have to provide feedback to everyone they speak to. I think that's a good way of making [it] more of a meritocracy.”

Venture Capital firm consultee

Ranked 8 out of 14 actions

Venture capital firms should use scouts to access diverse networks and identify quality propositions.

Overall effectiveness: Medium

Potential for venture capital firms to access a diverse group of founders and broaden deal flow; however, success is dependent on quality of scouts

Target audience

Venture capital firms seeking to identify diverse networks/underserved founders

Relevant investment stage

Seed, venture and growth

Ease of implementation

Medium – this action requires venture capital firms to identify and build relationships with scouts, particularly those with diverse networks.

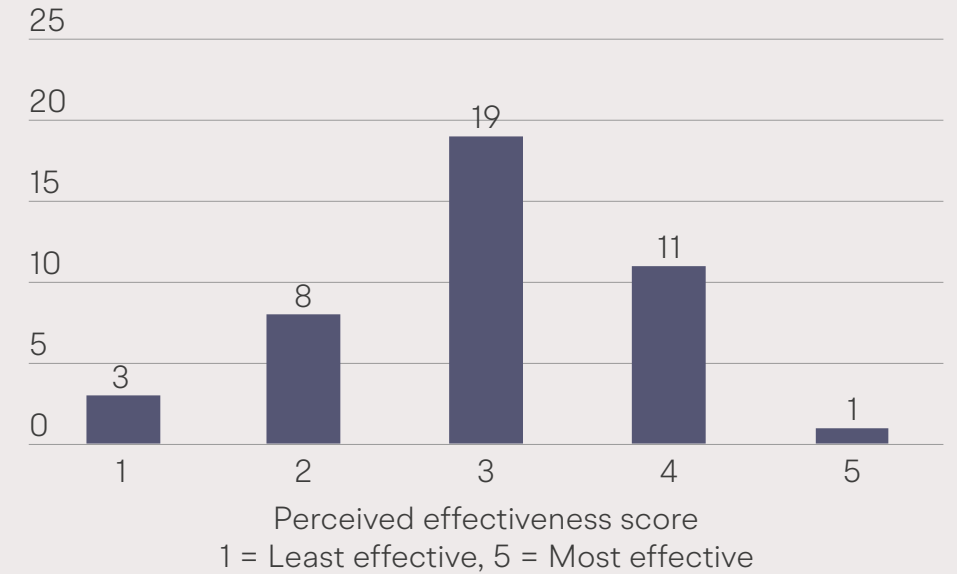
Wider considerations

This action is largely dependent on the quality of the scout/s employed; recruitment of scout/s is an important process in ensuring its effectiveness.

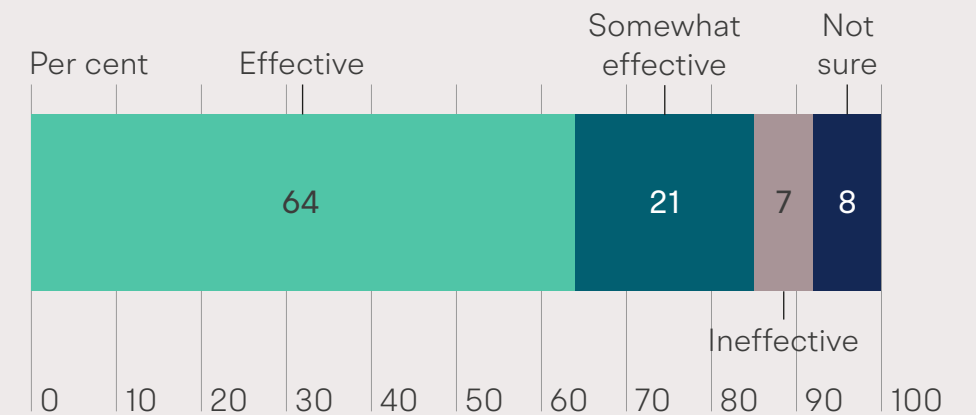
4. Evidence on each action

Venture capital firm ranking

Frequency of action ranking



Entrepreneur perceived effectiveness



Findings by entrepreneur characteristics

Venture capital-backed/venture capital-ready:

No major variance observed.

Gender: Limited variance was observed; a slightly higher proportion of female respondents said this action is effective or somewhat effective (67%), in comparison to male respondents (61%).

Education (socio-economic): No major variance observed.

Ethnicity: No major variance observed.

Age: A higher proportion of respondents aged 30-39 years old said this action is effective (80%), compared to just over half of respondents aged 40-49 (53%) or 60 or over (52%).

Venture capital firms' feedback

The use of scouts was broadly viewed as positive by the venture capital firms interviewed. In particular, for firms seeking to identify diverse networks, employing scouts with access to different networks and communities can be an effective way of broadening deal flow, which otherwise would have been challenging.

However, for firms that already have diverse networks and/or strong internal processes to source a diverse group of entrepreneurs, scouts may not be required.

Existing research

- There was good evidence on the effectiveness of using scouts. Five papers were identified, based on surveys, author opinions, examples of venture capital firms using scout networks successfully, and statistical analysis of investment data.
- The latter papers found that venture capital firms should build relationships with informal networks that involve Ethnic Minority business leaders, in order to improve access to funding and eliminate exclusionary practices that created barriers to raising capital (London Chamber of Commerce, 2022).
- Research by Alexy, Block, Sandner and Ter Wal (2012) implies that the functionality of brokerage to enable venture capital firms to access information about investment prospects, as well as future innovation and technological trends, increases their willingness to invest in those firms – and to potentially invest a greater amount.

Ranked 9 out of 14 actions

Venture capital firms should use accelerators as a referral mechanism to identify and support diverse entrepreneurs.

Overall effectiveness: Medium

Potentially an effective mechanism for venture capital firms to source a diverse group of founders; however, dependent on diversity within accelerators

Target audience

Venture capital firms seeking alternative sources of deal flow to identify a diverse group of founders

Relevant investment stage

Venture and growth

Ease of implementation

Easy – this action requires venture capital firms to identify and build connections with existing accelerators.

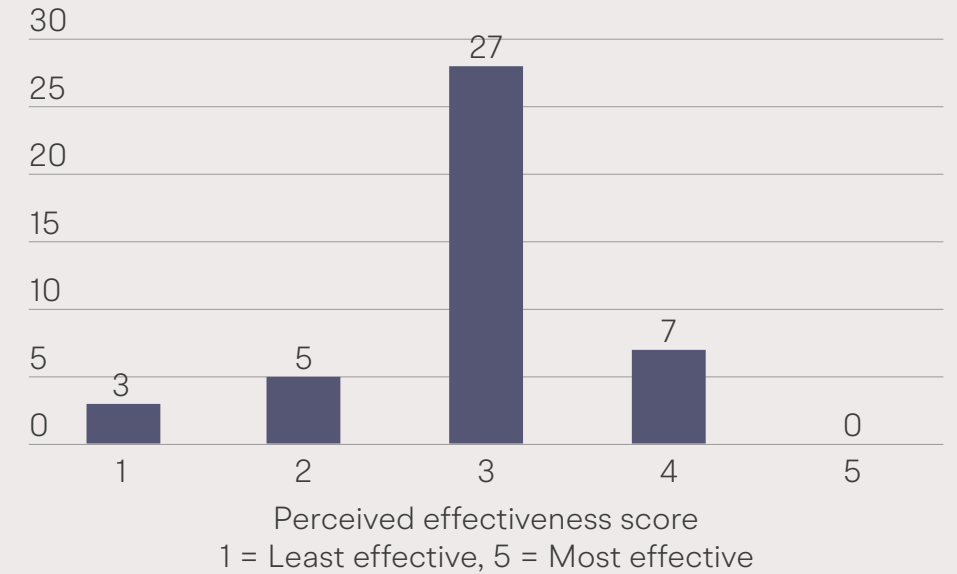
Wider considerations

Venture capital firms may wish to consider the entry requirements for accelerators, and identify the levels of diversity when selecting those with which to connect.

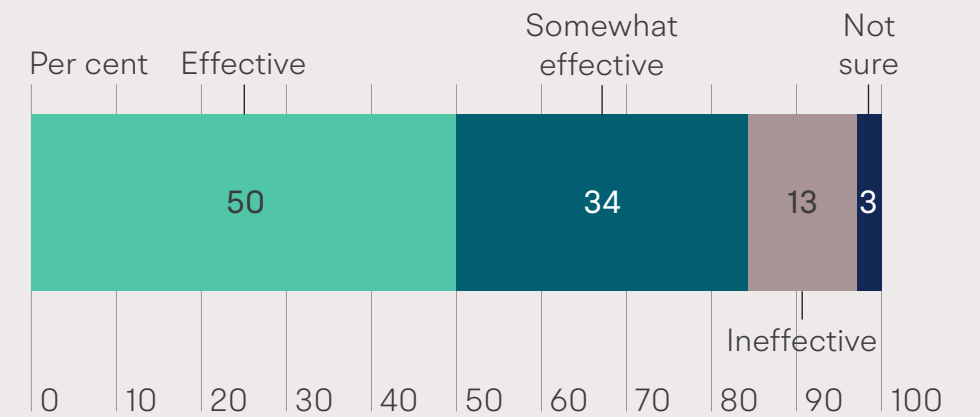
4. Evidence on each action

Venture capital firm ranking

Frequency of action ranking



Entrepreneur perceived effectiveness



Findings by entrepreneur characteristics

Venture capital-backed/venture capital-ready:

A higher proportion of venture capital-ready entrepreneurs said this action is effective (58%), in comparison to venture capital-backed entrepreneurs (47%).

Gender: No major variance observed.

Education (socio-economic): No major variance observed.

Ethnicity: White respondents were more likely to say that this action is either effective or somewhat effective in comparison to Ethnic Minority respondents (87% and 79%, respectively).

Age: Similarly, nearly all respondents aged 50-59 years old said this action is either effective or somewhat effective (91%), in contrast to just over three quarters (78%) of respondents aged 60 or over.

Venture capital firms' feedback

Venture capital firms were broadly positive about accelerators and said that they can provide a structured route into the venture capital industry for underserved founders, particularly those who do not have access to existing networks.

However, the ability to source underserved entrepreneurs is dependent on the levels of diversity among supported entrepreneurs; specifically, accelerators' entry criteria. In line with this, due to their popularity, accelerators are becoming increasingly competitive.

Existing research

- The evidence on this action was mixed. Four papers were identified, based on author views, statistical analysis and examples of accelerators that have successfully supported underserved entrepreneurs.
- Research found that female-led startups that participate in an accelerator programme increase the amount of debt they raise by nearly 2.5 times as much as female-led startups that did not participate in a programme (International Finance Corporation, 2020).
- A venture fund in the US (Dreamit Ventures) operates four diversity-focused accelerators and has positively impacted on the amount of funding raised by underserved founders (Fortune, 2016).

Data analysis

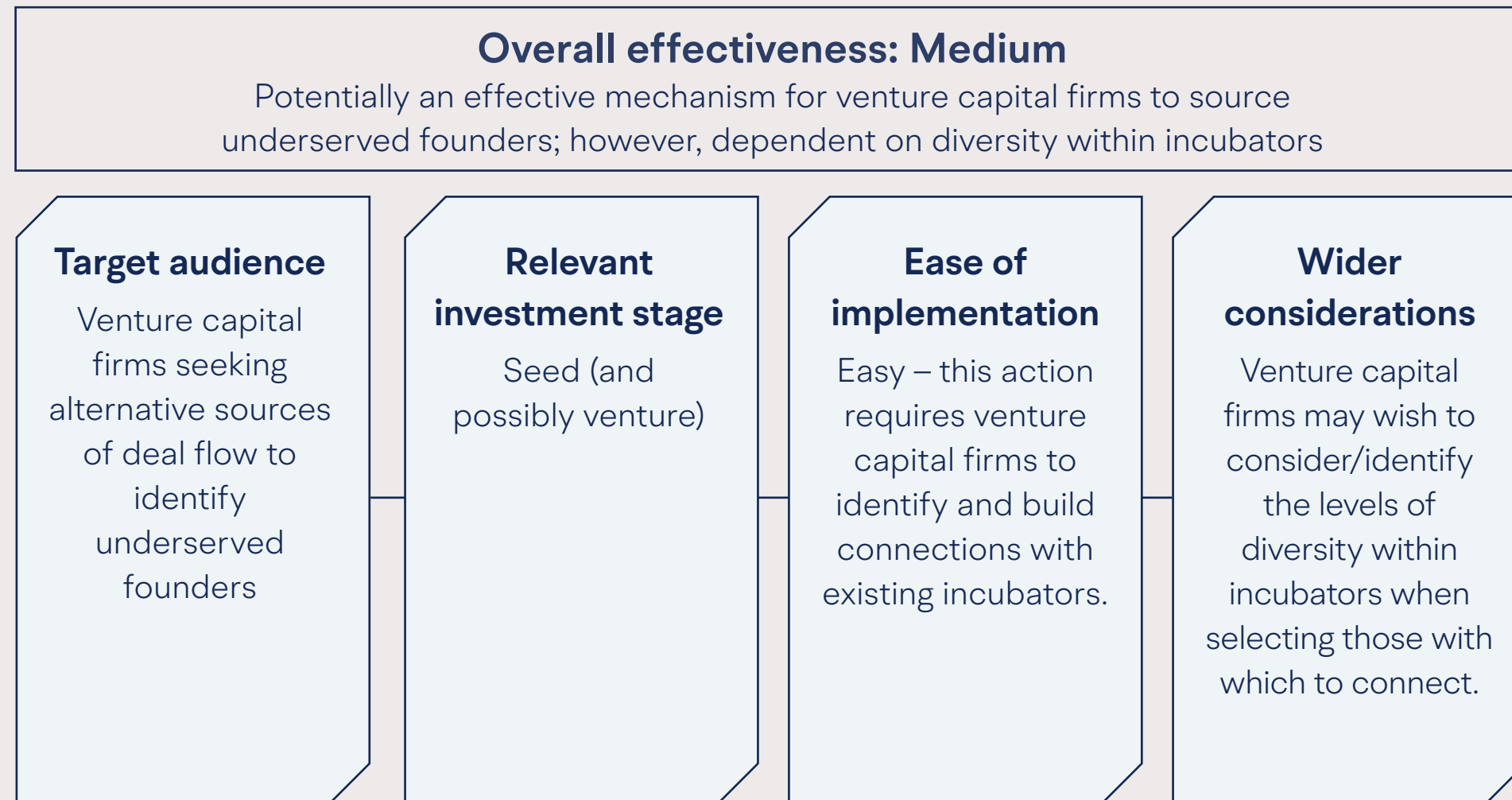
Accelerator attendees are marginally more diverse than the wider population of venture capital-backed entrepreneurs with higher representation of women and Ethnic Minorities among founders.

These differences between accelerator attendees and the rest of the venture capital-backed business population are statistically significant, though in absolute terms the differences are only a few percentage points.

A larger proportion (54%) of venture capital-backed businesses with both female and Ethnic Minority founders attended accelerators, compared to the whole population of venture capital-backed businesses (35%).

Ranked 10 out of 14 actions

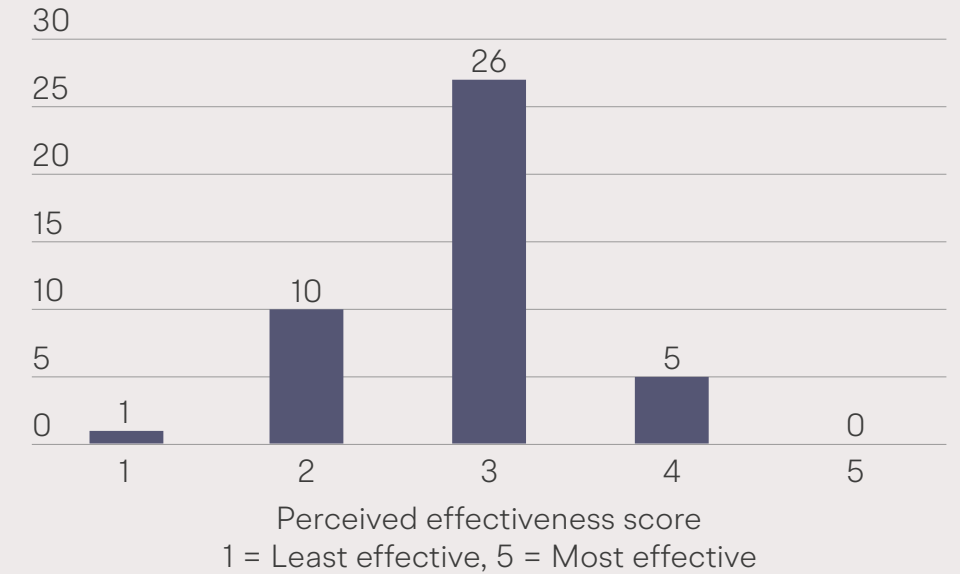
Venture capital firms should use incubators as a referral mechanism to identify and support diverse entrepreneurs.



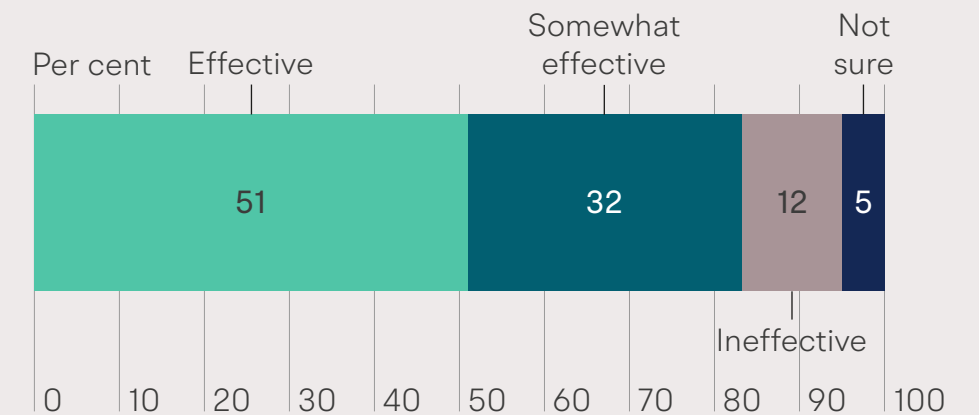
4. Evidence on each action

Venture capital firm ranking

Frequency of action ranking



Entrepreneur perceived effectiveness



Findings by entrepreneur characteristics

Venture capital-backed/venture capital-ready:

The response from venture capital-ready entrepreneurs and venture capital-backed entrepreneurs was broadly aligned; (53% compared to 50% stated this action is effective, respectively).

Gender: No major variance observed.

Education (socio-economic): No major variance observed.

Ethnicity: No major variance observed.

Age: There was a notable difference in responses from age groups: almost two-thirds (60%) of respondents aged 30-39 years old said this action is effective, in contrast to 43% of respondents aged 50-59 years old.

Venture capital firms' feedback

In general, incubators can increase the amount of attention entrepreneurs receive and help them to connect with venture capital firms, for example through 'demo days'.

However, the extent to which incubators enable venture capital firms to identify underserved entrepreneurs will depend on the level of diversity among supported entrepreneurs; specifically, how incubators source entrepreneurs and their entry criteria.

Given the early stage of businesses likely to be supported by incubators, venture capital firms suggested this action would be more appropriate for seed/venture investment stage.

Existing research

The evidence on the effectiveness of using incubators as a referral mechanism was mixed. Three papers were identified: two papers suggested the use of incubators to support underserved founders, in response to survey findings; one paper undertook statistical analysis of survey data to test the relationship between incubation and the amount of investments raised by early stage start-ups – but was not focused on underserved founders specifically.

The latter study found that incubators can have a positive effect on the amount of funding that start-ups attract and the ability of start-ups to attract funding from formal investors and banks. This is partly due to the 'network broker' mechanism which refers to the benefits that start-ups enjoy from being connected to external funding sources through the incubator's network (Van Rijnsoever, Van Weele and Eveleens, 2017).

Ranked 11 out of 14 actions

Venture capital firms and other intermediaries should encourage cross-referrals to other funds that may be interested.

Overall effectiveness: Medium

Potential to connect venture capital firms to a diverse group of founders; however, needs to be implemented in the right way

Target audience

Venture capital firms seeking to support the development of founders from underserved communities

Relevant investment stage

Seed, venture and growth

Ease of implementation

Easy – this action requires venture capital firms to be proactive about making cross-referrals to other firms.

Wider considerations

It is important that venture capital firms are clear in their referral as to why they are not investing in a company, and why it might be a good fit for another venture capital firm.

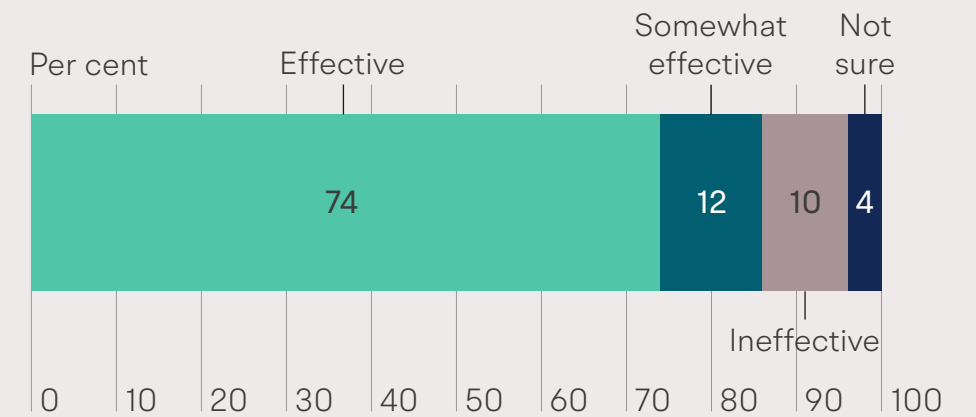
4. Evidence on each action

Venture capital firm ranking

Frequency of action ranking



Entrepreneur perceived effectiveness



Findings by entrepreneur characteristics

Venture capital-backed/venture capital-ready:

A slightly higher proportion of venture capital-ready entrepreneurs (76%) said this action is effective, in comparison to venture capital-backed entrepreneurs (73%).

Gender: No major variance observed.

Education (socio-economic): Respondents who did not go to university were more likely to say this action is effective (78%), in comparison to respondents who have a postgraduate degree (67%).

Ethnicity: No major variance observed.

Age: A higher number of respondents aged 20-29 and 30-39 years old said this action is effective (86% and 80%, respectively), compared to 40-49 year olds (76%), 50-59 year olds (69%) and those aged 60+ (70%).

Venture capital firms' feedback

Venture capital firms recognised some of the benefits of cross-referrals, but overall did not consider this action to be effective in increasing diversity in venture capital investment. There were two reasons for this:

Firstly, if a proposition is turned down, this is usually for a valid reason that would mean the proposition is unlikely to be of interest to other firms. If a proposition is rejected due to specific criteria set by the firm (e.g. sector focus), then the proposition would be referred onto other relevant firms. It is not clear how often this occurs in practice.

Secondly, the process can promote the existing biases and circularity in the system, as those with connections are arguably more likely to be referred to other firms.

Existing research

The evidence on the effectiveness of cross referrals in improving diversity was limited. Three papers were identified, one based on an author opinion (focused on underserved founders) and two based on statistical analysis of firm data (and semi-structured interviews), and statistical analysis of interview data, respectively. The latter two studies are not specific to underserved founders.

Research found that a start-up proposal that is referred has a better chance of passing the initial screening process than a 'cold' proposal that is not referred (Guenther, Ozcan and Sassmannshausen, 2022), and is more likely to secure funding (Batjardal, 2005).

Ranked 12 out of 14 actions

Venture capital firms should clearly communicate their investment strategies and commitment to diversity via their website and social media.

Overall effectiveness: Low

Potential to increase deal flow from a diverse group of founders; however, limited overall impact on improving diversity in venture capital investment

Target audience

Venture capital firms seeking to increase inward deal flow from a diverse group of founders

Relevant investment stage

Seed, venture and growth

Ease of implementation

Easy – this action requires development and publication of an investment strategy (if it does not already exist).

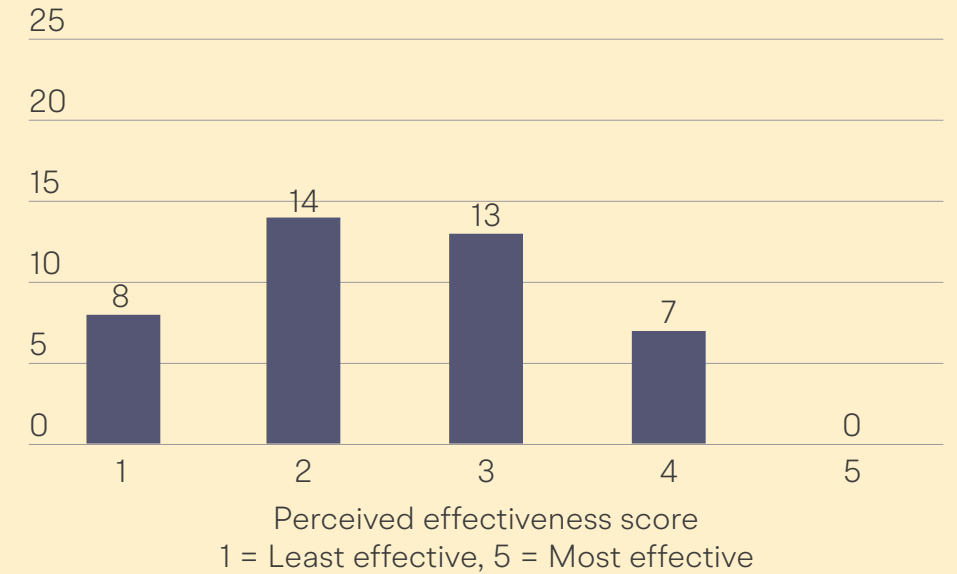
Wider considerations

It is important that strategies are clear and specific in how a diverse group of founders is sourced and supported, and can be easily located on firms' websites.

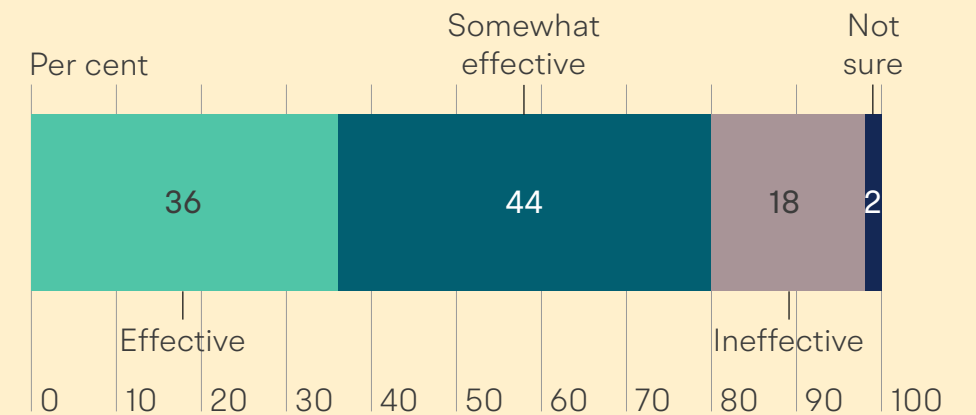
4. Evidence on each action

Venture capital firm ranking

Frequency of action ranking



Entrepreneur perceived effectiveness



Findings by entrepreneur characteristics

Venture capital-backed/venture capital-ready:

A higher proportion of venture capital-ready entrepreneurs (42%) said this action is effective, in comparison to venture capital-backed entrepreneurs (33%).

Gender: Women were more likely to say this action is effective than men (43% and 31%, respectively).

Education (socio-economic): Over half of those who did not attend university said this action was effective (56%) in contrast to over a third of those with an undergraduate degree (38%).

Ethnicity: No major variance observed.

Age: Nearly three quarters (71%) of founders aged 20-29 years old said this action is somewhat effective; in contrast to just over a third (34%) of respondents aged 50-59 years old, indicating this action may be more effective with younger entrepreneurs.

Venture capital firms' feedback

Many firms agreed this could be helpful in making founders from underserved communities aware that the venture capital firm is committed to supporting diversity.

However, often it was considered to be virtue-signalling and not necessarily backed by action.

Existing research

There was limited evidence available on the effectiveness of venture capital firms communicating their investment strategies. Four papers were identified, based on surveys and author opinions.

Based on the survey findings, the research suggests that developing a comprehensive strategy and communicating a firm's commitment to diversity, through a website, partner communities and social media, is important to ensure accountability and to make founders aware that a firm is actively championing diversity in its hiring and sourcing processes (GenderSmart, 2021; Morgan Stanley, 2019).

Data analysis

Investing in Women Code signatories are more likely to invest into founding teams with at least one female or Ethnic Minority member. Around 30% of the top 50 venture capital firms on Beauhurst (by an index of the number and proportion of deals with underserved founders) are Investing in Women Code signatories.

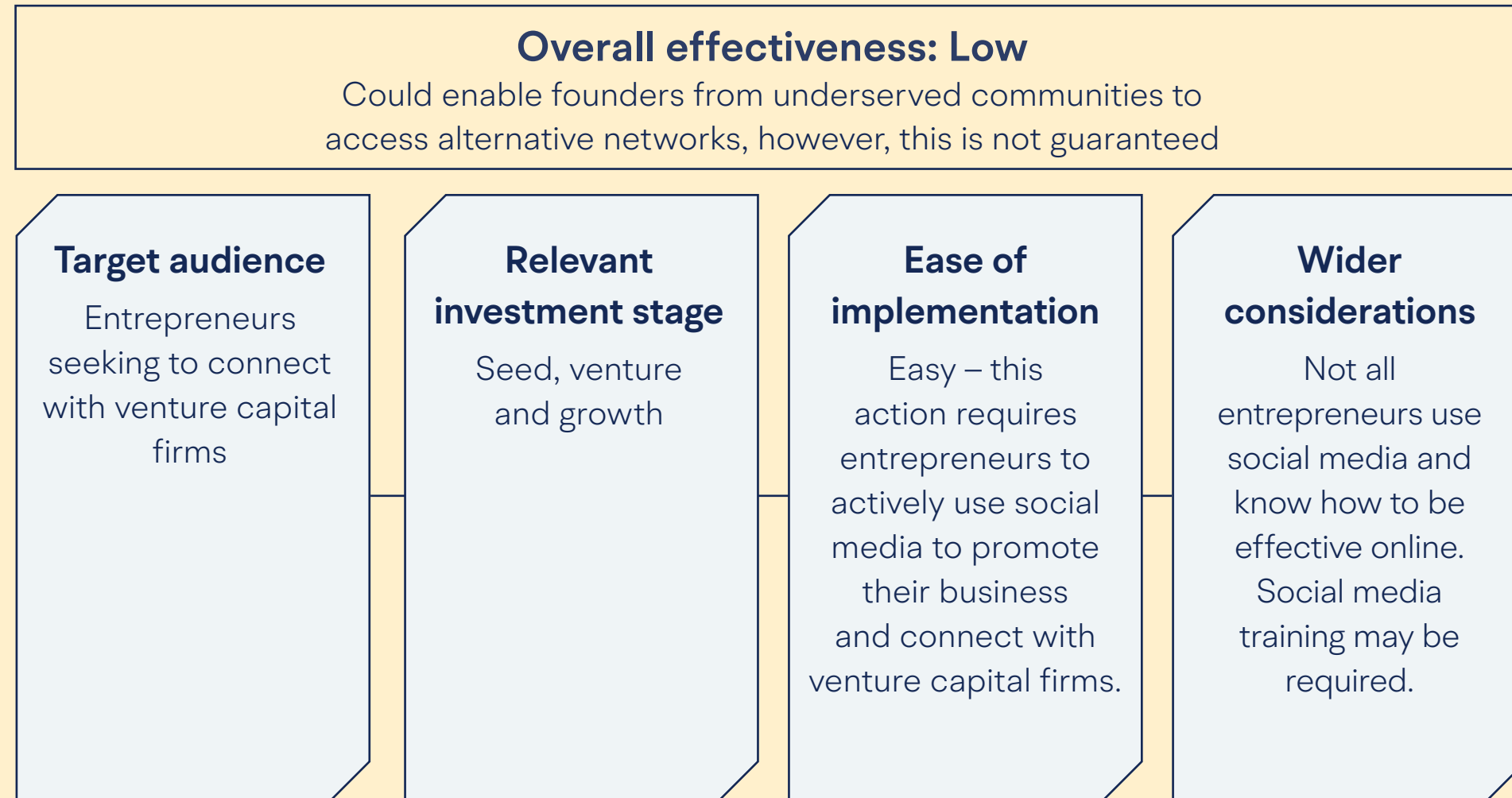
In the wider pool of venture capital firms, there is a large group of companies that do not invest into underserved entrepreneurs at all (i.e. over the 2018-2022 period have no record on Beauhurst of investing into founding teams with at least one member from

underserved groups). When removing these firms from the sample and examining only venture capital firms that have invested in at least one firm with a female or Ethnic Minority founder, Investing in Women Code signatories and non-signatories invest in the same proportion of underserved founders.

Venture capital firms that publicise their commitment to diversity online (according to an analysis of information on 250 webpages of UK venture capital firms) are more likely to invest in female founders.

Ranked 13 out of 14 actions

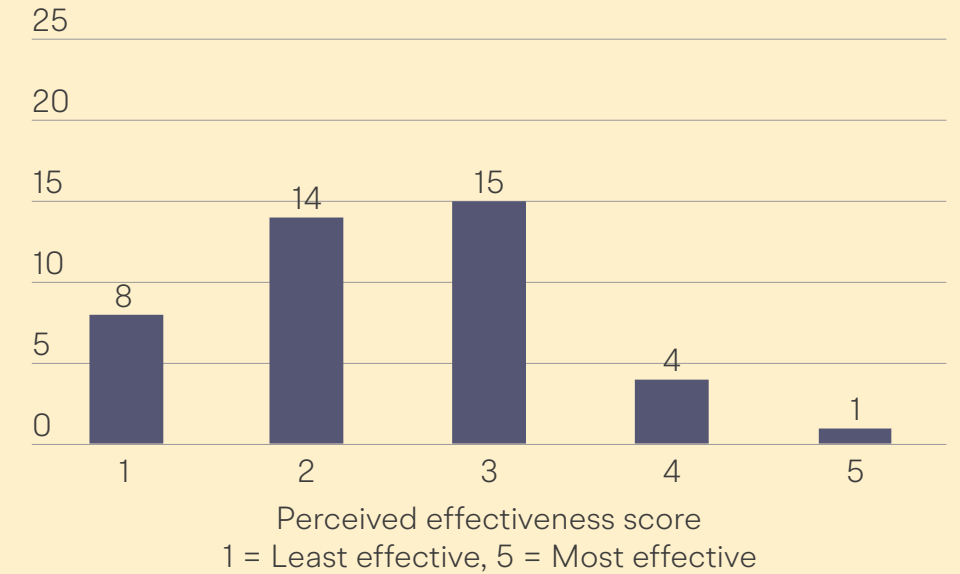
Entrepreneurs should actively engage on social media to raise awareness of their business/proposition and connect with venture capital firms.



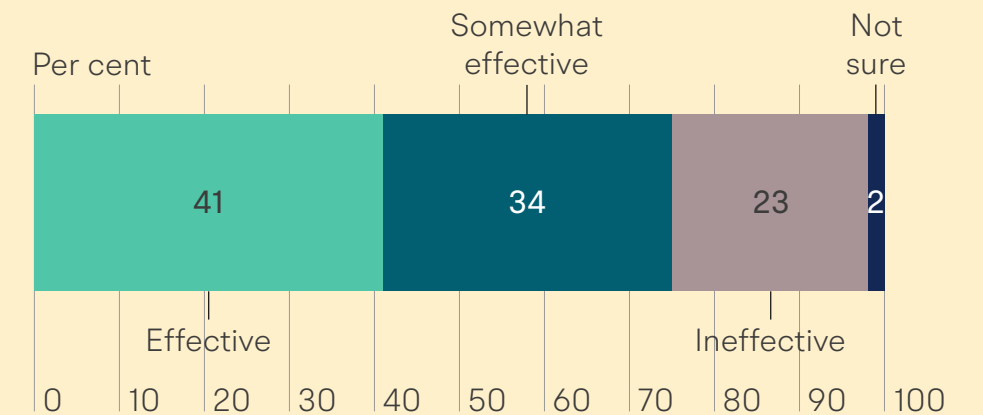
4. Evidence on each action

Venture capital firm ranking

Frequency of action ranking



Entrepreneur perceived effectiveness



Findings by entrepreneur characteristics

Venture capital-backed/venture capital-ready:

A higher proportion of venture capital-backed entrepreneurs (44%) said this action is effective, in comparison to venture capital-ready entrepreneurs (34%).

Gender: Almost half (47%) of female respondents said this action is effective compared to just over a third (37%) of male respondents.

Education (socio-economic): A greater proportion of respondents who have an undergraduate degree said this action was effective (44%) compared to those who did not attend university (22%).

Ethnicity: Over half (55%) of Ethnic Minority respondents said this action is effective, in contrast to just over a third of White respondents (37%).

Age: Over a third (36%) of respondents aged 30-39 years old said this action is ineffective, in contrast to 15% of 40-49 year olds.

Venture capital firms' feedback

Firms were broadly dismissive of this action.

Being active on social media may help entrepreneurs from underserved communities access/make themselves known to venture capital firm networks that otherwise would not be possible. However, this would not necessarily address information failures and takes the onus away from venture capital firms.

Data analysis

In the period between 2018 and 2022, venture capital-backed firms with Twitter accounts tended to raise more rounds of funding and higher totals.

This result accounts for the fact that businesses that had their first fundraising earlier had more time to attract follow-on funding. In other words, it 'controls' for the year of first fundraising.

Existing research

Four academic papers on the effectiveness of using social media were identified. The studies primarily used statistical analysis (e.g. regression analyses).

In a study of IT start-ups, social media was found to be effective in helping less connected individuals obtain financing by alleviating information asymmetry between founders and investors (Wang, Wu and Hitt, 2022).

Networking and digital signals, such as social media presence, have been found to positively impact access to financing for digital start-ups (Nigam, Benetti and Johan, 2020). Social media was found to be significant for technology-based start-ups in their success or failure in fundraising (Yang and Berger, 2017).

Ranked 14 out of 14 actions

Venture capital firms should actively monitor social media to identify strong propositions from a diverse pool of entrepreneurs.

Overall effectiveness: Low

Potential to increase deal flow from a diverse group of founders; however, limited overall impact on improving diversity in venture capital investment

Target audience

Venture capital firms seeking to increase inward deal flow from a diverse group of founders

Relevant investment stage

Seed, venture and growth

Ease of implementation

Medium – this action requires venture capital firms to dedicate resource to actively monitoring social media, tools for which are freely available.

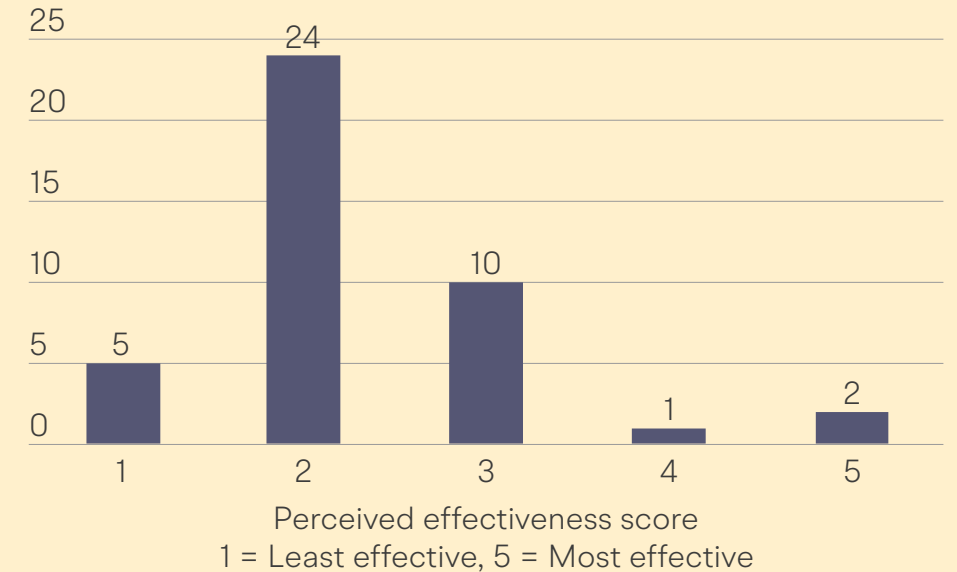
Wider considerations

It is important that venture capital firms look beyond their existing online networks in order to broaden their deal flow.

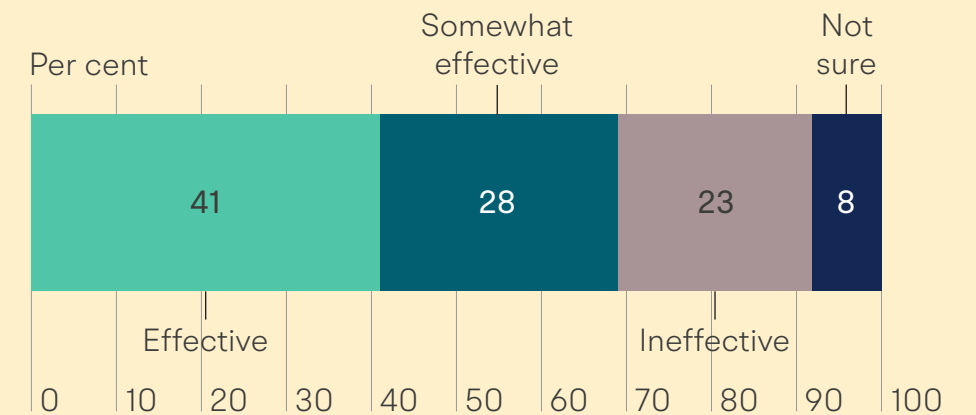
4. Evidence on each action

Venture capital firm ranking

Frequency of action ranking



Entrepreneur perceived effectiveness



Findings by entrepreneur characteristics

Venture capital-backed/venture capital-ready:

Nearly half of venture capital-backed entrepreneurs said this action is effective (47%), compared to less than a third of venture capital-ready entrepreneurs (29%).

Gender: No major variance observed.

Education (socio-economic): No major variance observed.

Ethnicity: No major variance observed.

Age: Nearly half (49%) of respondents aged 50-59 years old said this action is effective, in contrast to just over a third (35%) of respondents aged 60+; the same proportion of this group (60+) also said this action is ineffective (35%).

Venture capital firms' feedback

Many venture capital firms agreed that using social media could widen the network that propositions are sourced from.

However, social media could potentially reinforce existing network biases, and/or exclude propositions from underserved founders that are not active on these channels.

Data analysis

Venture capital investors with a known LinkedIn profile are more likely to invest into ethnically and gender diverse founders.

There is no evidence to suggest that a larger proportion of their deals is with underserved entrepreneurs (compared to other firms without a LinkedIn account that invest into diverse founding teams).

Existing research

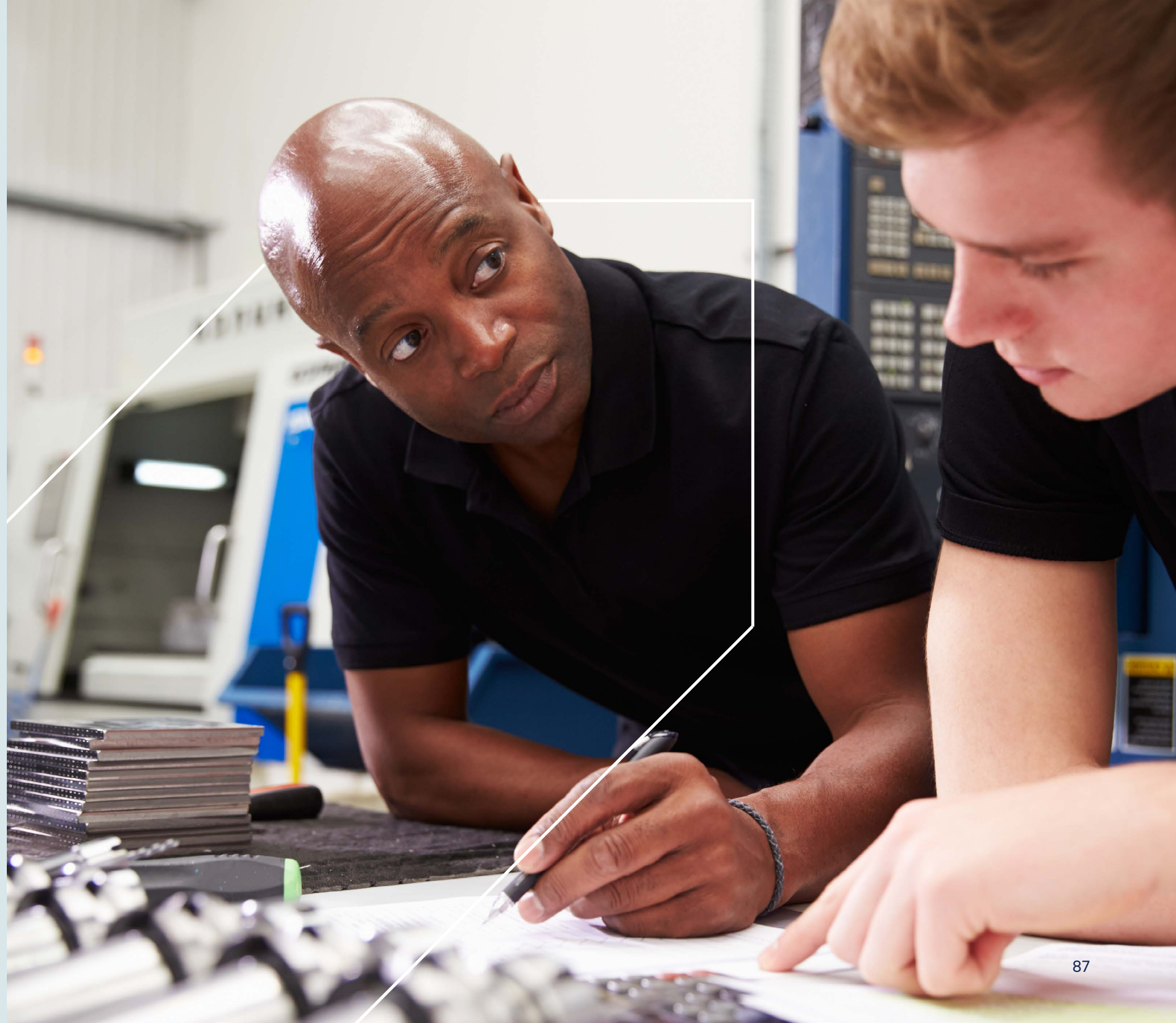
Four academic papers on the effectiveness of using social media were identified. The studies primarily used statistical analysis (e.g. regression analyses).

Analysis of Twitter and Crunchbase data from 2007 to 2016 found Twitter to be effective in helping less-connected individuals (e.g. women or those with low social capital) obtain finance by alleviating information asymmetry between founders and investors (Wang, Wu and Hitt, 2022).

Analysis of social media activities (on Twitter) and venture financing data (from CrunchBase) found that an active social media presence and strong Twitter influence (followers, mentions, impressions, and sentiment) increase the likelihood a start-up will close the round, the amount raised, and the breadth of the investor pool (Jin, Wu and Hitt, 2017). The analysis controlled for 'start-up quality', including firm characteristics (e.g. age and employee count) and founder experience (e.g. prior start-up experience).

5

Appendices





5.1

List of venture capital firms surveyed

7Percent Ventures
Atomico
AccessEIS
ACF Investors
Ada Ventures
Albion Venture Capital
Anthemis Group
Ascension
Aviva
Bethnal Green Ventures
BGF
British Patient Capital (pilot interview)
Cambridge Innovation Capital
Committed Capital
Concept Ventures
Crane Ventures
Development Bank of Wales
EKA Ventures
Fearless Adventures
Foresight Group
Forward Partners

Future Planet Capital
GMG Ventures
Hambro Perks
Houghton Street Ventures
IP Group plc; 3SV Collective
JamJar Investments
Jenson Solutions
Lakestar
Legal & General Growth Partners
Maven Capital Partners
Mercia Asset Management PLC
MMC Ventures
Octopus Group
Par Equity
Piper PE
ScaleUp Capital
Sustainable Ventures
SV Health Investors
The FSE Group
True

5.2

Glossary of key terms

Key terms	Definition
Venture capital	Venture capital is a form of investment in early-stage companies with strong growth potential. The types of businesses venture capital firms invest in tend to be young and often pre-profit, and potentially even pre-revenue. Venture capital funds buy minority equity stakes in these companies and provide them with financial support and business expertise to help them grow and succeed.
Limited Partners	Investors of venture capital firms are called Limited Partners (LPs). LPs are the institutional or individual investors that have invested or committed capital in the funds of the venture capital firm. LPs include endowments, corporate pension funds, sovereign wealth funds, wealthy families, and funds of funds.
Venture capital-ready entrepreneur	Private, independent UK company Received between £50k - £1m in total equity investment Has not been involved in any announced equity investment deals involving venture capital or private equity investors.
Venture capital-backed entrepreneur	Private, independent UK company Has been involved in any announced equity investment deals involving venture capital or private equity investors.
Seed stage	Seed stage encompasses young companies with a small team, low valuation and have received relatively low levels of funding relative to the sector. They have uncertain product-market fit or just getting started with the process of getting regulatory approval. Funding is likely to come from grant-awarding bodies, equity crowdfunding and business angels but may include early-stage venture capital firms.
Venture stage	Venture stage covers companies that have been in existence for a few years and are in the process of gaining market traction with sales growing rapidly. The venture stage does not solely correspond to funding by venture capital firms, as other investor types also provide funding to venture stage companies.

Key terms	Definition
Growth stage	Growth stage businesses are more developed with multiple offices or branches and substantial revenue streams (some of which may be profitable). The growth stage includes later stage venture capital-backed companies seeking to grow their core market, expand into new markets or create new products/services.
Incubators	Incubators are typically physical spaces, available on relatively flexible terms, which provide additional incubation services (Dee et al., 2015). These services generally include provision of training for entrepreneurs, access to networks and specialist equipment. Incubators are typically dependent on charging rent or membership fees to residents, often on a monthly basis (Dee et al., 2015; Aerts et al., 2007). In many cases, incubators are aligned with a university, supporting spin-outs along with other local businesses.
Business accelerators	Accelerators typically provide services through a highly selective, cohort-based programme of limited duration (usually 3-12 months). Services often include assistance in developing the business plan, investor pitch deck, prototypes, and initial market testing. Accelerators more often base their business model on equity from the start-ups. This means that they are more growth driven, typically aiming to produce companies that will scale rapidly or fail fast, thus minimising wasted resources. Increasingly, accelerators are providing support designed for more established and high growth companies looking to scale up their business.
Office hours	Open Office Hours are periods of time that a venture capital firm provides to meet with founders, answer questions, hear ideas and give advice and guidance.
Scouts	Scouts are connectors that may assist venture capital firms in discovering hidden and/or exceptional start-ups and founders to invest in.
Diversity	The practice or quality of including or involving people from a range of different backgrounds.
Inclusion	The practice of providing equal access to opportunities and resources for people who might otherwise be excluded or marginalised.

Key terms	Definition
Correlation	A correlation is a relationship or connection between two variables. A positive correlation implies that variables tend to ‘move’ in the same direction – when one has a larger values the other one also is likely to have a larger value. A negative correlation implies the tendency to move in the opposite directions (when one variable is smaller the other one tends to have a larger value).
Causality	A relationship between cause and effect i.e. a situation where there is conclusive evidence on the sequence (e.g. one variable increases first and that leads to a change in the other one).
Factor	Factors are unobserved variables that affect the values of groups of observed, usually correlated, variables and which can be identified by the means of statistical analysis.
The mean	A measure that identifies the centre of a distribution of values, a way to describe the average. The arithmetic mean is the most common type of this measure (the sum of all observations divided by the number of observations).
The median	An alternative measure of the centre of a distribution. 50% of observations have a lower value than the median and 50% have higher values. The median is less sensitive to outliers than the arithmetic mean
Normal and quasi-normal distribution	A distributions of values of a variable that is symmetric around the mean and the values around the mean are more common than those far away from it (i.e. the distribution has a bell shape).
Statistical significance	A result is statistically significant if it is unlikely to be caused by chance. The level of statistical significance is the probability of being wrong when concluding that the effect/ relationship is present.
Statistical test	A mechanism that allows to make quantitative decisions about a hypothesis.

5.3

Acknowledgements

This report was developed by a joint team from the British Business Bank and SQW, with survey services and data provided by Qa Research and Beauhurst.

British Business Bank:

Caroline English, Zoe Jones, Elise Katilov, Fiona Morrill, Theodora Newman, Phoebe Rountree.

Additional support and expertise was provided by many colleagues across the Bank.

SQW:

Osman Anwar, Rebecca Edwards, Jenna Galapia, Carolyn Hindle, Sergei Plekhanov, Caitlin Richardson, Imogen Sprackling.

Qa Research:

Patrick Gower, Helen Hardcastle.

Beauhurst:

Dan Robinson, Henry Whorwood, Ethan Yip.

We would like to thank the following people who kindly acted as our Expert Panel on understanding emerging findings.

5.3 Acknowledgements

- Erika Brodnock – Extend Ventures
- Jonathan Cook – SQW
- Monder Ram – Centre for Research in Ethnic Minority Entrepreneurship

Finally, we are grateful to the Steering Group for their support and guidance throughout this study:

- Aria Babu – The Entrepreneurs Network
- Mel Selvon Ellyard – Sure Valley Ventures
- Suzi Gillespie – British Private Equity and Venture Capital Association
- Ladi Greenstreet – Diversity VC
- Gurpreet Manku – Level 20
- Izzy Obeng – Foundervine
- Addie Pinkster – Adelpha Group
- Jan Rutherford – Scottish Equity Partners
- Leo Ringer – Form Ventures
- Dama Sathianathan – Bethnal Green Ventures
- Francesca Warner – Ada Ventures

5.4

Endnotes

1. Venture capital and private equity.
2. Economic contribution of UK private equity and Venture Capital in 2023, British Private Equity & Venture Capital Association (2023).
3. The vital 6 per cent, NESTA (2009)
4. UK tech sector retains #1 spot in Europe and #3 in world as sector resilience brings continued growth - GOV.UK (www.gov.uk).
5. Small Business Equity Tracker 2023, British Business Bank (2023)
6. Extend Ventures (2020). Elite Universities include Oxford, Cambridge, Harvard and Stanford.
7. Small Business Equity Tracker 2023, British Business Bank (2023).
8. Small Business Finance Markets Report 2023, British Business Bank (2023)
9. Early-stage investors rely heavily on signals of entrepreneurial quality but little is known as to whether these signals are efficient (Lerner and Nanda, 2020) and lack of objective and measurable information on track record and prospects of success for early-stage founders increases the possibility of unconscious bias (British Business Bank, Small Business Finance Markets Report, 2022).
10. British Business Bank (2019), UK Venture Capital & Female Founders report.
11. Approaching a Venture Capital firm or fund via their network is of vital importance in terms of reaching Investment Committee and getting funding. British Business Bank (2019), UK Venture Capital & Female Founders report.
12. Investment teams and Investment Committees with higher female representation fund significantly more all-female teams. Investing in Women Code report (2023).
13. Awareness of equity finance and Venture Capital is significantly lower among female-led businesses. British Business Bank (2023), Small Business Finance Markets Report 2023.
14. Gompers, P. and Kovalli, S. (2018) The Other Diversity Dividend. Harvard Business Review.
15. Venture Capital backed (70%), Venture Capital ready (30%), random sample not connected to the VC firms surveyed.
16. <https://www.british-business-bank.co.uk/investing-in-women-code/>
17. The 5% threshold for statistical significance (i.e. a 5% chance to being wrong when concluding that a statistical relationship exists) was used in the analysis.
18. <https://www.british-business-bank.co.uk/investing-in-women-code/>
19. <https://diversity.vc/diversity-vc-standard/>
20. Brodnock, E. and Lenhard, J. (2023) Better Venture – Improving Diversity, Innovation, and Profitability in Venture Capital and Startups. Holloway.
21. Board Diversity and Effectiveness in FTSE 350 Companies. Financial Reporting Council, London Business School Leadership Institute and SQW (2021).
22. Gompers, P. and Kovalli, S. (2018) The Other Diversity Dividend. Harvard Business Review.
23. Peterson, R. (2020) The science behind successful teams. London Business School Leadership Institute.
24. Gompers, P. and Kovalli, S. (2018) The Other Diversity Dividend. Harvard Business Review.
25. We generally used the 5% threshold for statistical significance, but where the sample sizes were small, we investigated whether the results significant at a level between 5% and 10% fit into a pattern that would further support the finding.
26. Makkonen, T. (2022) Board diversity and firm innovation: a meta-analysis. European Journal of Innovation Management.
27. Small Business Equity Tracker 2023, British Business Bank (2023).
28. Small Business Equity Tracker (2022) and Small Business Equity Tracker (2023). British Business Bank, based on PitchBook data.
29. This covers first-time deals only, announced and unannounced deals, companies in all stage of evolution and all investor types. Beauhurst used Onomap (<https://onomap.org/>) to categorise ethnicity based on names. Onomap classifies first names and surnames into 185 distinct ethnic, cultural, and linguistic groups, used to assign ethnicity. The ethnicity classification for a random sample of 1,000 entrepreneurs was verified using a machine learning algorithm developed by Extend Ventures, to minimise errors in identification of people from ethnic backgrounds. The Beauhurst data was also cross-checked against gender and ethnicity reported by research participants during our interviews with VC firms.

5.4 Endnotes

30. Diversity Beyond Gender – The State of the Nation for Diverse Entrepreneurs, Extend Ventures (2020).
31. At least one team member went to Oxford, Cambridge, Harvard or Stanford Universities.
32. BVCA and Level 20 (2023) Diversity & Inclusion Survey 2023. Assets under management (AUM) of <£100m used as a proxy for VC firms.
33. Founders from underserved communities may not have access to the same mainstream investor and business networks (formal and informal) as the majority of the business population.
34. Founders introduced through a pre-existing relationship with the fund manager or investor.
35. C Brush, A Ali, D Kelley, P Greene (2017) The influence of human capital factors and context on women's entrepreneurship: Which matters more?; Journal of Business Venturing Insights; and M Ewens, R Nanda, M Rhodes-Kropf (2018) Cost of experimentation and the evolution of venture capital; Journal of Financial Economics.
36. J Lerner, R Nanda (2020), Venture capital's role in financing innovation: What we know and how much we still need to learn; Journal of Economic Perspectives.
37. Chilazi, S. (2019) Advancing Gender Equality in Venture Capital. What the evidence says about the current state of the industry and how to promote more gender diversity, equality, and inclusion. Women and Public Policy Program, Harvard Kennedy School.
38. Chilazi, S. (2019) Advancing Gender Equality in Venture Capital. What the evidence says about the current state of the industry and how to promote more gender diversity, equality, and inclusion. Women and Public Policy Program, Harvard Kennedy School.
39. Other characteristics included: nationality, geography and age.
40. Of the 40 Venture Capital firms interviewed, 29 (73%) have a strong track record in investing in underserved entrepreneurs, as proxied by Beauhurst data on their share of deals to female founders.
41. Key people tend to be C-suite individuals and department heads. Beauhurst source these individuals from a range of sources, including company websites, LinkedIn, press articles, and using directorship information from Companies House. These individuals are selected because they are key decision-makers at the company who are core to its operations. This information is maintained by a team of analysts.
- The analysis of data on the composition of Investment Committees and Investment Teams for IWC signatories that participated in in-depth interviews revealed that the gender mix of key people from Beauhurst correlated with both Investment Committees and Teams, but the relationship is stronger with Investment Teams.
42. Akhtar-Danesh, N., 2021. QFACTOR: Stata module to perform Q-analysis on Q-sorts using different factor extraction and factor rotation techniques.
43. **Venture Capital-backed** refers to a private, independent UK company that has been involved in any announced equity investment deals involving Venture Capital or PE investors. **Venture Capital-ready** refers to a private, independent UK company that has received between £50k - £1m in total equity investment – and has not been involved in any announced equity investment deals involving Venture Capital or PE or investors. The sample of entrepreneurs comprised of 60% Male and 40% Female. This partly reflected the need to include education (proxy for socio-economic status) as a diversity characteristic which was not possible to ascertain a priori, to include entrepreneurs who had not attended university or had not attended a Russell Group/elite or extended elite university.
44. Elite includes Oxford, Cambridge, Harvard, or Stanford Universities. Extended elite includes Imperial College London and University College London.
45. <https://russellgroup.ac.uk/about/our-universities/>.
46. The margin of error of this survey is estimated to be between 7.5 and 9 percentage points. This means that, for example, if 75% of respondents suggested a particular action to be effective, we can be 95% certain that the true proportion that we would have observed had we been able to survey all Venture Capital-backed and Venture Capital-ready companies in the UK lies between 66% and 84%.
47. For a more detailed discussion of the diversity vs effectiveness argument see for example Srikanth, K., Harvey, S. and Peterson, R., 2016. A dynamic perspective on diverse teams: Moving from the dual-process model to a dynamic coordination-based model of diverse team performance. Academy of Management Annals, 10(1), pp.453-493; and Board Diversity and Effectiveness in FTSE350 companies, LBSLI and SQW for FRC (2021).
48. A linear model predicts only a 18 percentage points difference in gender representation between founding teams that secure investments from VC firms with only men listed as key contacts compared with those funded by firms with only women among key contacts (in our the sample, 462 businesses attracted finance only from investors with 100% men among key contacts and 3 companies secured funding from investors with only women listed as key contacts on Beauhurst).



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Publication date: July 2023

British Business Bank plc is a public limited company registered in England and Wales, registration number 08616013, registered office at Steel City House, West Street, Sheffield, S1 2GQ. It is a development bank wholly owned by HM Government. British Business Bank plc and its subsidiaries are not banking institutions and do not operate as such. They are not authorised or regulated by the Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA). A complete legal structure chart for the group can be found at: www.british-business-bank.co.uk

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