

# An industry on the cusp of change? VCs, startups and the promise of diversity

Like many sectors, concerted efforts have helped improve venture capital's diversity and that of the startups we invest in. Diversity VC's 'Diversity in Venture Capital 2019' study reported that women now make up 30% of the VC workforce, up from 27% in 2017.

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While it is positive to see that improvement, it is still short of the broader population split. Things do not get better when we consider that only 20% of VC investment team professionals are women, falling to 13% of senior decision makers.

I shouldn't need to spell out why this is an issue in 2021, but I think it's worth reiterating. As VCs, we give ambitious companies that want to make an impact the means to accelerate their journey and get closer to their goals. We use data, we use past performance, we will be as scientific and rigorous as possible, but there comes a point where personal bias seeps in.

As ETF Partners' founding partner, Patrick Sheehan, pointed out in a paper he co-authored in 2019, everyone is biased in their own way. The problem is that individuals can have the "power to either magnify or undermine our invaluable experience."

To avoid that and only support those startups that reflect our own narrow world

views, we need to expose ourselves and our decision-making processes to as diverse an array of opinions as possible. We need diversity of gender, diversity of lived experience, race and ethnicity, education and socio-economic background.

## Greater diversity for better results

It delivers improved results, too. A 2018 study looking at diversity in VC noted that “the more similar the investment partners, the lower their investments’ performance. For example, the success rate of acquisitions and IPOs was 11.5% lower, on average, for investments by partners with shared school backgrounds than for those by partners from different schools. The effect of shared ethnicity was even stronger, reducing an investment’s comparative success rate by 26.4% to 32.2%.”

*To put it more bluntly, greater diversity delivers better results.*

So, as VCs, we need to be more diverse. That’s easier said than done. While large multinationals – when faced with the same diversity challenges – have multiple opportunities to give underrepresented groups accelerated experiences, the smaller size of VC firms can make this a challenge. It’s also a lot of fun being a VC, so once people join a firm, they tend to stay around so there’s less churn and therefore less new opportunities opening up than there are in other sectors or types of company.

Then there’s the network question. A VC’s network is their value – with so many VCs once on management teams and startup leaders themselves, we’re effectively importing the diversity – or lack thereof – of the entrepreneurial scene 10, 15, 20 years ago. This all adds up macro change being slow.

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This doesn’t mean the industry has got its head in the sand. VCs know we have a problem, and there is a real desire to change.

More and more, funds are taking action to effect change, such as being more open about their current diversity and how they’re going to change it through

more detailed reporting. Even those that wouldn't rush to do this don't really have an option – many limited partners (those that invest in funds) are expecting gender diversity data. For example, The British Business Bank now requires firms it backs to report on gender diversity both in their own team and those of the companies the funds are investing in.

There's also a lot more advice available on how to improve. Diversity VC has a toolkit providing actions that cover everything from unconscious bias training to instructing recruiters, and it has also developed The Diversity VC Standard. This is an assessment and certification process that sets a benchmark for best practice on Diversity and Inclusion (D&I) in VC, with recipients on the standard considered to follow exemplary D&I practices.

Finally, the greatest way to accelerate diversity is to invest in startups led by more diverse teams. Encouragingly, [new data from Crunchbase](#) suggests this might be happening: in rounds of \$100M or more for US companies at Series A and B stage between January and mid-February, 30% of these investments went to female- or black-led management teams.

## An accelerated rate of change?

We are starting to see change. In my own career, I have gone from being the only woman on the ETF Partners investment decision-making team to being one of four. The key is that we kick on from there, that we hold the ecosystem to account, and we don't allow anyone to become complacent about the progress that has been achieved.

I believe that rate of change will only accelerate as more people see VCs diversifying and start to consider the sector as a real opportunity, irrespective of race, gender or educational background.

*Lucy Rand is investment manager at [ETF Partners](#), a sustainability-focused investment company.*