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The barriers to investment in minority owned businesses

Access to funding remains a gateway to success for many businesses. However today, in 2022, we are still seeing a severe lack of investment into minority owned businesses, despite the potential of these companies and the contributions they can make to the economy.

Research from one venture capital firm has shown that over the past decade (2009-19), only 0.24% of the total venture capital funding invested in UK startups went to Black entrepreneurs and just 0.02% to Black female entrepreneurs. Although we are seeing some great initiatives from companies such as Sky, Google and Goldman Sachs in creating programmes that invest specifically in minority owned businesses, there is still a lot more that needs to be done.

To ensure that investment is spread across all types of businesses and founders, it’s vital that both internal and external factors are addressed. Creating racially equitable cultures within the companies that are investing in startups and scale-ups is an important place to begin. Driving real progress requires a change of approach.

So, what are the tangible steps leaders can take to build racially equitable cultures? And how can they ensure they are driving positive results?

The urgent need to address the problem

Earlier this year *a report* by Centre for Ethnic Minority Entrepreneurship Research and NatWest found that the continued lack of financial support for ethnic minority businesses is a lost opportunity, costing the British economy £75B a year. Alongside this, ethnic minority businesses were found to be more innovative than non-ethnic minority firms, with 30% engaging in recent product or service innovation, higher than their counterparts. So why are many investors still so reluctant to invest?

A key issue is the lack of representation at board level within VC firms. Industries are in dire need for more role models from marginalised groups to drive funding in these areas. Looking specifically at the US, *only 23% of investors* at all levels in the US identify as People of Colour.

This highlights the extent of the problem, along with *Savanta data* that has shown that 42% of Black employees have resigned due to a lack of diversity in their company. In order to drive progress, racial equity needs to be addressed and treated as a main business function to create more diverse teams and leadership. It can no longer be treated solely as an emotional issue, but one that is addressed and reported on like other organisational issues, backed with data and hard numbers. Data must be utilised to dive deeper and to understand levels of racial awareness, racist behaviours and any inclusion barriers.

Positively, across organisations in the UK there is a growing realisation of the importance of racial equity with *79% of business leaders* commenting it is a top priority for their business.

Creating racially equitable cultures from day one

While teams with different skills and backgrounds are proven to outperform on almost every metric, diversity still falls far behind in both the diversity of VC and investment staff. To create true racially equitable culture, data needs to be at the top of the list.

Where strong words have failed, hard numbers will succeed. A movement towards a data-driven approach creates a deeper understanding of the root cause of the problem and allows for measurements to be put in place to solve these problems and barriers.

This goes further than just representation figures – racial diversity is just one piece of the puzzle. To create racially equitable VC teams that will in turn drive investment into more minority led businesses, the focus must be placed on improving the lived experiences of employees.

Certain venture capital firms are already starting to use technology to gather information on the experiences of their employees. However, this needs to become commonplace if we hope to see tangible change and an uptick in minority investments.

The role of governments

Alongside venture capital and investors looking internally, governments need to acknowledge the role they play in openly supporting minority-led organisations.

Certain parts of the UK are on the backfoot when it comes to accessing finance and business support for minority founders and businesses. In order to tackle these structural barriers, the government must lead by example and develop a clear policy for inclusive entrepreneurship.

The entrepreneur is changing and it’s vital that investors and governments keep up. While promises for change may have been made in good faith, a different approach must be taken today. That means placing data at the forefront of racial equity strategies, in order to create lasting change.

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