

# How equity investors can better support underrepresented founders

Raising equity investment is a challenge for any business, but especially for underrepresented groups, the obstacles far outweigh the positive return they receive. In order for this to change there ought to be a recognition of these obstacles and a commitment from equity investors to make the change. Here equity expert and founder of Focused For Business Hatty Fawcett shares her tips for how equity investors can support underrepresented founders and close the gap.

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## Raising equity investment is challenging

Even more so now, the *State of European Tech report in 2022* said the number of equity investments made, and the amount invested declined. The research also revealed that 80% of founders said it was harder to raise investment in

2022 than it was in the previous year.

## Under-represented founders face more challenges than most

Data from *British Business Bank* shows that for every £1 of venture capital (VC) investment in the UK, all-female founder teams get less than 1p, while all-male founder teams get 89p, and mixed-gender teams 10p.

Atomico's State of European Tech report showed that just 1% of VC funds went to female founders in 2022 vs 3% in 2021.

Another report from *Extend Ventures* found that whilst the UK's Black and multi-ethnic communities make up 14% of the population, they are consistently the most underfunded. Those founders who are of Black experience have the poorest outcomes of all, the report notes, revealing just 38 Black entrepreneurs received VC funding over the last decade. They received just 0.24% of the total sum invested.

When under-represented founders are held back from gaining investment, it hurts us all, because it limits the ideas which get funding, this holds back innovation in thinking and stops us creating inclusive, thriving communities from which everyone benefits.

## How can investors help under-represented founders?

The process by which founders pitch to investors for investment is loaded against them in a number of *well-researched and documented ways*. Whether it's conscious or unconscious bias, stereotyping or the use prevention and promotion questioning, under-represented founders are not well served by the process and systems used by equity investors.

## Use criteria not opinion

By putting aside their personal opinions and biases, investors can make better investment decisions by using a range of criteria to assess an investment opportunity and the progress made.

Focused For Business's Funding Accelerator encourages the startup preparing to raise investment to focus on the *7 Essentials that unlock equity investment*

but investors could also use these essentials to assess investment opportunities that are outside of their lived experience.

## Ask open or “promotion” questions

Harvard Business Review reported that *male and female founders get asked different questions by investors* and that this impacts on investment investment decisions.

When asking startup founders about their business, focus on open or promotion focused questions. The best promotion-focused questions allow a startup founder to talk about their vision and growth plans – they open conversations up in a way that more risk focused, prevention questions don’t and allow investors to get a better sense of the opportunity. For example, “Describe how you will grow the ideal customer base of your startup?”

## Get involved with startups sooner

Many of the best ideas for a new startup come from seeing a problem first hand and seeing a different way of doing things. For investors who come from a different background from the founder, and who don’t have the same lived experience, it can be hard for investors to immediately recognise opportunities which are outside of their experience.

Investors can mentor startup founders who have a different background to their own so they become familiar with the different markets, and “go on the journey” with the founder to improve their understanding. Programmes like Focused For Business’ Funding Accelerator provide opportunities for investors to mentor startups early in their funding journey and get to know both the market and the startup team prior to making an investment.

## Encourage those in your network who have a different lived experience to join you in backing startups

There is a lack of diversity amongst angel investors – for example, only 14% of angel investors in the UK are women. If we have investors from different backgrounds and different cultures would a wider range of businesses get investment?

As an investor, if you feel confident making investments, why not encourage

other amongst your peers to join you in assessing potential investments. This could have two benefits – it would allow you, as an investor, to get alternative opinions from others who may have different but pertinent experiences to your own, which will help you better assess investment opportunities outside of your direct experience but also, by encouraging others to consider investments you may bring new investors to this interesting asset class.

*That's got to be good for everyone – startups and investors alike!*

These steps aren't complicated or time-consuming. When applied they will make a huge difference for underrepresented groups who can't get the same level of success as white male founders. Business always needs fresh perspectives and ideas; the same stories can get old and don't enable progress. Equity investors have the power to diversify capital across all sections of society and by following these tips they will achieve it.

Hatty Fawcett is the founder of *Focused For Business*.

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