



Diversity Beyond Gender

The State of the Nation for Diverse Entrepreneurs

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“Not everything that is
faced can be changed,
but nothing can
be changed until
it is faced”

James Baldwin



DIVERSIFYING ACCESS TO VENTURE FUNDING

Extend Ventures is a team of business, research and financial experts using the power of big data and machine learning to diversify access to funding for entrepreneurship and innovation. Through research to highlight and quantify the structural challenges that prevent Black and ethnic founders from gaining equal access to venture finance, Extend Ventures hopes to bring about positive change.

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“The wealthiest place on the planet is the graveyard, because in the graveyard we will find inventions that we were never ever exposed to, ideas, dreams that never became a reality.”



So said motivational speaker Les Brown.

It is a quote that has stuck with me over the years and it makes me think, how many Black entrepreneurs, inventors and business owners went to their graves with dashed hopes and dreams because they couldn't get funding or investment for their idea? Of course that is impossible to know. What we do know is that when it comes to investment opportunities, Black entrepreneurs remain firmly at the back of the bus.

This is why this report, the first of its kind in the UK, which looks at how money has been invested according to race, gender and educational background over the past 10 years is so timely and so needed.

2019, as the research tells us, was a record year for UK venture capital. Over \$13.2 billion was invested in startups across the country – but the evidence indicates that less than 2% went to all-ethnic founding teams.

This vital piece of research, which was carried out with the support of Impact X Capital Partners and Tech Nation, looks at how the colour of a founder's skin can adversely affect their access to capital in Britain.

Upon first glance the report makes grim reading. However for me, it represents opportunities for policymakers, investors and financial institutions to do better. There was a lot of talk from business after the death of George Floyd and an outpouring of good will. I'm yet to see sustained concrete action.

When Impact X Capital Partners launched in 2018 with our incredible team of Founding Members – who include Ursula Burns, the first and only Black woman to run a Fortune 500 Company; Ric Lewis, founder and Chair of Britain's largest Black owned business Tristan Capital; and veteran broadcaster and author Sir Lenny Henry – we did it because we recognised there was a great opportunity to invest in underrepresented entrepreneurs. We know that businesses with diverse founders raise more capital and exit at higher valuations¹.

Like the team at Extend Ventures, we didn't wait for someone else to come along and solve the problem, we took matters into our own hands and have now made investments in 18 projects. We know there are brilliant Black and female entrepreneurs out there, but they get overlooked because of their race or because they didn't go to Oxbridge (the report has some very interesting data on how much investment money goes to graduates from just a handful of universities).

It's unfathomable that until now no such report has been done. I would like to thank and congratulate the team at Extend Ventures for doing such a great job. Highlighting the problem and backing it up with evidenced-based research is long overdue.

I and the team at Impact X Capital Partners remain committed to being part of the solution and I hope that by exposing the disparities and lack of opportunities Black entrepreneurs in the UK face, this invaluable report will lead to real and lasting change too.

Eric Collins

CEO, Impact X Capital Partners
and Board Member, Tech Nation

“If we want to strengthen the UK’s position as one of the best places in the world to start and grow a business, then no-one can be left behind.”

Alison Rose 2019



0.02%

of total venture capital invested over the last 10 years went to Black female entrepreneurs

2019 was a record year for UK venture capital, with more than \$13.2 billion invested in startups across the nation². Historically, funding for Black and Multi-Ethnic founders has paled in comparison to that for founders from majority groups. But what is the extent of the UK funding gap? Does bias beyond gender exist in the UK venture capital market and what opportunities lie ahead to make access to innovation and entrepreneurship more equitable?

Since the #MeToo movement in 2017, there has been a concerted effort to increase gender representation in venture capital and tech. Quantitative and qualitative studies have shown that increasing female representation in both venture capital firms and the companies in which they invest results in higher returns for investors. This in turn has led to a rise in the number of investments in female founders.

The recent tragic murder of George Floyd led to a flurry of internal examinations, statements of solidarity and a qualitative outpouring of perspectives from Black entrepreneurs about their experiences in the tech industry and with venture capital specifically. Yet, until now, we lacked a quantitative and repeatable way of measuring where we are now, and indeed being able to track year-on-year performance to ensure that sufficient access is being attained by diverse entrepreneurs.

Extend Ventures presents the first quantitative state of the nation for entrepreneurs who are diverse by race and educational background as well as gender. We analysed data on venture capital investments into companies that were founded and received funding between 2009 and 2019. Companies were subsequently analysed using machine learning and computer vision to understand demographic factors including age, perceived gender, ethnicity and educational background of founding members.

Information is presented on the perceived gender, ethnicity and educational background of some 3,784 entrepreneurs who have started 2,002 companies and received venture capital funding in the UK between 2009 and 2019. Detailing the relationship between demographic factors such as ethnicity, gender and educational background (also known as intersectionality) provides insights into whether there are some entrepreneurs that are more disadvantaged than others for multiple and compounding reasons.

With the results of this study being as stark as they are, it serves as a definitive call for change and greater understanding. With a methodology now proven to work, we intend to go deeper and broader with further research to understand the state of play for diversity investments across the whole business innovation ecosystem in the UK. Areas such as angel, corporate venture capital, accelerators and incubators, crowdfunding and innovation grant funding and investments have not yet been quantitatively analysed. In order to create change across these areas of funding and investment, we need to first understand where the money is now being deployed, the returns

on investment currently being achieved, and the potential returns on investment to those entrepreneurs who are diverse by means of gender, ethnicity and educational background. This will provide a better understanding of the UK’s diversity dividend and the precise impact to the UK’s economy.

Finally, to date, there has been no single source for measuring progress on venture capital funding to different ethnic groups. We believe that our new centralised dataset of companies, providing information on founders, executives, funding and exits, is the most effective and scalable way to track progress over time. It is widely acknowledged that the coronavirus pandemic presents an opportunity to build back better. At Extend Ventures, we see this as an opportunity to ensure that the UK has the information to begin to put right some of the historical actions that have created the levels of inequality we see throughout venture capital and indeed society today. Removing inadvertently placed barriers to accessing capital for untapped entrepreneurs has the potential to yield significant returns for the entrepreneurs themselves, their disproportionately affected communities and the wider UK economy. Thus, we provide tangible and actionable recommendations, including the need for further research and analysis of current best-in-class practice from both the UK and the United States. We hope this will be a useful resource for both LPs and firms that wish to affirm a commitment to investing in diversity beyond gender and creating equity in access to venture capital.

² 2019: A record year for VC investment in the UK

Key Highlights

The ethnicity of an entrepreneur and of a founding team affects access to venture capital in the UK. Non-white entrepreneurs experienced poorer outcomes in access to venture capital than their white counterparts.

We have used the concept of perceived ethnicity and gender to categorise founders in our research based on publicly available images of founders. Despite ethnicity usually being a self-determined

categorisation, we believe this is justified because the data we collect is subsequently anonymised and is being used to improve access to capital. Ethnic or gender prejudice is dependent on the perception of the person holding the purse strings to funds.

We have summarised the key highlights from the research, which provides data on 3,784 entrepreneurs who started 2,002 companies between 2009 and 2019:

By Ethnicity

The UK's Black and Multi-Ethnic communities comprise 14% of the UK population, yet all-ethnic teams received an average of 1.7% of the venture capital investments made at seed, early and late stage between 2009 and 2019.

➔ All-ethnic teams raised less money than their White counterparts across all venture capital stages.

Seed Stage: 521 companies

All-White 52.09%
Mixed 46.05%
All-Ethnic 1.87%

Early Stage: 956 Companies

All-White 79.11%
Mixed 17.95%
All-Ethnic 2.94%

Late Stage: 376 Companies

All-White 74.12%
Mixed 24.81%
All-Ethnic 1.06%

➔ **Totals raised across all venture capital stages by ethnicity of the founding team:**

All-White £44.6B (75.87%)
Mixed £13.2B (22.55%)
All-Ethnic £930M (1.58%)

➔ While all ethnic entrepreneurs are underfunded, those who are Black experience the poorest outcomes of all. Just 38 Black entrepreneurs received venture capital funding. Alongside their teams, they received just 0.24% of the total sum invested.

38
Number of black entrepreneurs who received venture capital funding in the last 10 years

Black founders received just 0.24% of venture funding and **female founders only 11%** of venture funding in the last ten years. However, Black people and women represent 3.5% and 51% of the UK population respectively.

By Gender

Between 2009 and 2019, 68.33% of the capital raised across the seed, early and late venture capital funding stages went to all-male teams, 28.80% to mixed teams and 2.87% to all-female teams.

➔ Female teams raised lower sums of money than their male counterparts at each funding stage.

Seed stage: £3.5B raised

all male 84.17%
mixed 12.51%
all female 3.31%

Early stage: £16.5B raised

all male 76.61%
mixed 21.64%
all female 1.74%

Late stage: £33.2B raised

all male 62.56%
mixed 34.05%
all female 3.39%

By Educational background

➔ 42.72% of UK venture capital invested at seed stage during the period was invested in founding teams with at least one member from an elite educational background. Elite was classified as Oxford, Cambridge, Harvard, Stanford and their respective business schools.

Intersectionality

➔ Black female entrepreneurs experienced the poorest outcomes. A total of 10 female entrepreneurs of Black appearance received venture capital investment (0.02% of the total amount invested) across the 10-year period, with none so far receiving late-stage funding.

➔ Indeed, there was just one early stage (series A or B) venture capital investment recorded for a Black female, compared to 194 early stage investments in White female entrepreneurs.



Further research highlighted that Black investors appear to be experiencing disadvantage when compared to their peers too. According to data collected by Diversity VC³, roughly 3% of VCs in the UK are Black, 5% are of Mixed Heritage and very few of these are partners or operators with decision-making capability within their firms (versus about 18% of London's population being black or of mixed heritage). Our research points to a possible link between the underrepresentation of Black and Mixed Heritage venture capital partners and the underfunding of Black businesses through venture capital.

³ Venturing into Diversity & Inclusion 2019

Recommendations

1

All venture funds should make data on their investments publicly available so they can be tracked to enable the inclusive ongoing reporting on the industry's performance on diversity.

2

A further review on understanding and establishing the possible resilience criteria independent of race, gender and education that are indicators of success that VCs should use in their filtering processes going forward.

3

A review of terminology as it relates to the UK's Black and Multi-Ethnic communities, including replacement of BAME with language that does not include 'minority' and narratives that are enabling, so that future interventions can be better targeted.

4

Government to create an Investing in Ethnic Founders Code, mirroring the Investing in Women Code:

- a. Encourage gender and ethnic diversity at partner and decision-making level at investment firms.
- b. Encourage the implementation of minimum quotas to ensure that funds are investing 14% of the funds under management (including a minimum 4% for Black founders) for Ethnic-led companies.

5

Government to support inclusion with the creation of a Diverse Co-Investment Fund of £1.8 billion (14% of \$13.2 billion⁴) to de-risk and improve the deployment of equity investment into Black (4%), Asian and Ethnic-led venture capital funds.

“Social diversity should be a key mission across the whole of British society to ensure we make use of the talents of people from all backgrounds. Enacting the ‘socio-economic duty’ clause of the Equality Act 2010 should form the centrepiece of this.”

The Sutton Trust, 2019



⁴ 2019: A record year for VC investment in the UK

01

Introduction

The UK start-up and investment ecosystems have matured considerably over the last 10 years. In the tax year ending April 2019, 672,890 new companies were incorporated (Companies House, 2019). Venture capital is one of the most common types of funding accessed by entrepreneurs hoping to grow and scale a productive enterprise. Of the 4.1 million live and active companies Beauhurst is tracking through Companies House, just under 40,000 of them have been profiled as venture backable, while some 19,500 of those businesses have received some form of equity investment (Beauhurst, 2020).

“The horrifying killing of George Floyd and so many others has led many institutional investors to think much more seriously about structural racism and inequality.”

Legal and General
2020

Most venture capital firms receive in excess of 1,000 applications for funding each year, yet they will only usually invest in a small percentage of the companies they encounter. The Rose Review of Female Entrepreneurship

acknowledged that access to capital in the UK is homogenous and impacted by gender⁵, while other studies suggest the UK’s venture capital industry lacks diversity beyond gender⁶. Yet, to date, there has been no single source for measuring progress on venture funding to ethnic groups or indeed to those from lower socioeconomic tiers.

The lack of diversity data within UK startups, particularly as it pertains to ethnicity and educational background, is a pervasive problem. Without metrics, it is difficult to anticipate the magnitude of the problem we face, or what specifically needs to be changed to achieve equity.

According to Diversity VC, 93% of funds raised for tradable firms in 2018 went to all-male teams⁷, leaving 50% of the UK population largely cut-off from vital support that could enable the creation of new businesses⁸. More than a tenth (14%) of the UK population is ethnically diverse,⁹ while 43% of 65 million UK residents come from the lowest tiers of socio-economic access¹⁰. Moreover, data reveals that 76% (c. 50 million) of the population did not attend a red brick university¹¹. Although there is likely to be considerable overlap within these groups, a conservative estimate suggests that 30 million UK residents could be cut off from access to funding and support for new business creation, resulting in considerable missed financial returns.

⁵ The Rose Review of Female Entrepreneurship
⁶ UK Unicorn companies
⁷ Venturing into Diversity & Inclusion 2019
⁸ Diversity in UK Venture Capital 2019

⁹ Ethnicity facts and figures
¹⁰ How well do ABC1 and C2DE correspond with our own class identity?
¹¹ Percentage of adults who have earned a university degree

93%

of funds raised
for tradable firms
in 2018 went to
all-male teams

Diversity VC

Management expert Alan Southern argues that this has implications for the economic wellbeing for individuals and communities, and for the wider economic health of the country¹². For example, reviews of existing literature indicate that the poorest in our society happen to also be disproportionately multi-ethnic communities, with rates of poverty and low income two to three times higher among these communities¹³.

Indeed, prior to the Coronavirus pandemic, the Ethnicity Facts and Figures site reported that the unemployment rate among Black people was 9%, nearly double that of White British adults (4.6%)¹⁴.

There is therefore an urgent need for tangible solutions to address the persistence of poverty. Data from the Federation of Small Business’ Unlocking Opportunity Report indicates that wealth creation through productive ethnic-led entrepreneurship may hold the key to sustained recovery for entrepreneurs and the wider UK economy¹⁵.

Calls for change

In the US, at least \$540 million¹⁶ has been pledged by companies, investors and individuals to support Black-led businesses and social justice groups. Not only is this a response to the demands for justice from the Black Lives Matter movement, it is also a response to the \$8 trillion gain in GDP that research has shown could be generated by closing the racial equity gap¹⁷.

In the UK, while there have been many statements of solidarity issued, very little hard cash has been pledged in recent months. There has been mention of the need to diversify access to capital beyond gender, yet there has been just one publicly announced venture-backed deal closed for a Black-led startup¹⁸.

By studying factors contributing to equitable access to venture capital funding we can ensure that future support is inclusive. Our replicable and scalable quantitative analysis shows where venture capital is being deployed and is the most efficient way to track progress in this area over time.

We have collected data on the perceived ethnicity, gender, age and company location of entrepreneurs who have raised venture capital funding between 2009 and 2019 and have chosen to present the majority of these findings through the lens of Black entrepreneurs, who are the most disproportionately underfunded and under-researched of all ethnic groups.

This report is the first of its kind and, while robust, like all data it is not perfect. We have learned through our data collection processes that many venture capital deals are made incognito. The nature of our study means that the absence of a public profile for some company founders made them impossible to classify, so they have been excluded from the final results. To this end, we are requesting that venture capital firms support our research by sharing data on all investment deals they make henceforth, so that together we are able to create a more equitable and fair VC and tech ecosystem.

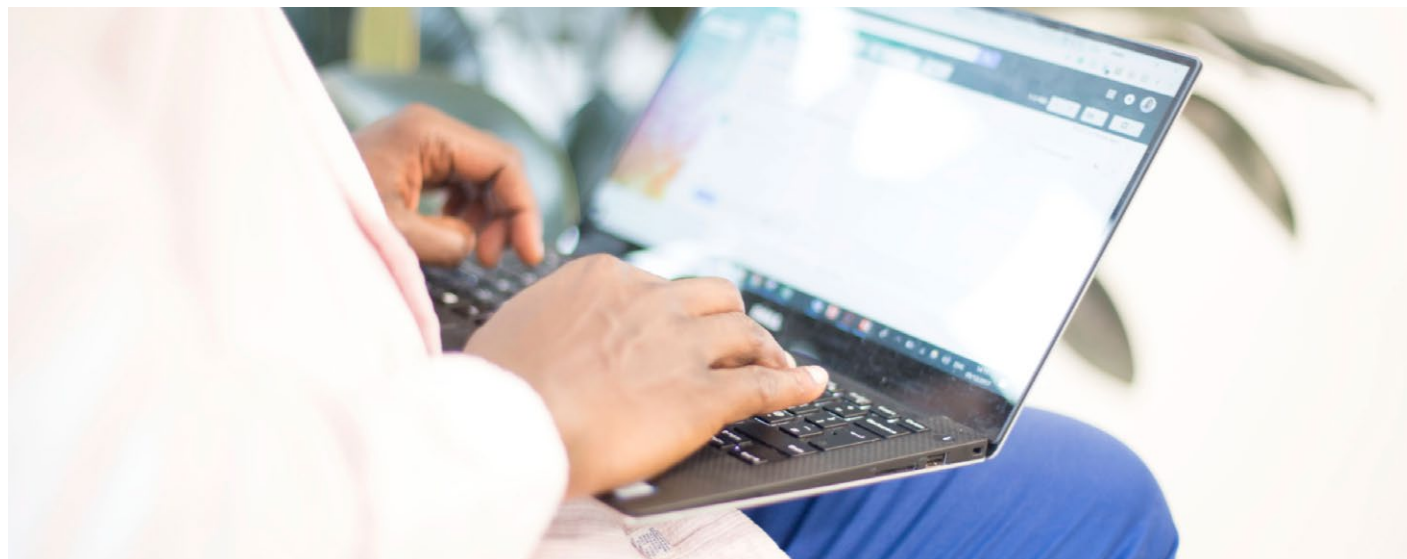
In addition, we have created a new dataset of venture-backed businesses by gender, ethnicity and educational background and are only at the beginning of the journey to mine it for its insights. For example, we have not yet completed any time-series analysis of the data. We welcome any support and interest in helping us to dig deeper.

¹² Enterprise, Deprivation and Social Exclusion: The Role of Small Business in Addressing Social and Economic Inequalities
¹³ Poverty, ethnicity and place
¹⁴ Ethnicity Facts and Figures

¹⁵ Unlocking Opportunity
¹⁶ These Companies Took Action In Support Of #Blacklivesmatter
¹⁷ Business Case for Racial Equity - July 2018
¹⁸ UK startup Gravity Sketch raises £2.9 million for collaborative 3D design platform

02

Methodology



Extend Ventures has been able to analyse just over 2,000 companies using a machine learning algorithm we are training to detect the perceived gender, ethnicity and actual educational background of founders who have started companies and received venture capital investment between 2009 and 2019.

It has been widely acknowledged anecdotally that businesses founded and led by ethnically diverse entrepreneurs have been historically 'over-mentored and under-funded'. However, there is currently a dearth of data on diversity beyond gender. We have chosen to deploy a scalable, cost efficient and replicable method of data collection to ensure that we are able to quantitatively measure the deployment of capital to Ethnic-led businesses on an annual basis.

While ethnicity data is usually self-defined, we have adopted this approach because we are: (1) looking at perceived ethnicity, (2) the data will be used to promote equality of opportunity and monitor progress, and (3) the data will be completely anonymised.

Extend Ventures is a 100% asset-locked not-for-profit CIC with the explicit intention of using this data to drive knowledge and change the way diverse entrepreneurs access capital.

All references to gender, ethnicity and educational background throughout this report relate to the gender, ethnic and educational groups that would be perceived by an individual making an assessment of suitability for investment. We have used basic binary groupings for ethnicity and have taken a similar approach for gender. We hope to be able to cover non-binary over time as it becomes more pervasive in its use in public profiles.

- Launch year \geq 2009
- Total funding raised \geq All values via venture capital
- HQ Country: United Kingdom
- The total number of companies taken into account is 2,002, which is a subset of the 19,000+ UK-based startups and scaleups tracked for high growth and performance
- We included all companies that had been incorporated and raised venture capital between 2009 and 2019. We captured data on the amount of their most recent funding round, which in some cases included secondary markets, IPO and corporate venture capital. These rounds are defined as all funding rounds, while money invested at seed, early and late stage are defined as below:
 - Seed** consists of seed and pre-seed venture capital rounds
 - Early-stage** consists of Series A and Series B venture capital rounds
 - Late-stage** consists of Series C, Series D, Series E and later-lettered venture rounds following the "Series [Letter]" naming convention
- Extend Ventures taxonomy collects binary gender data. Entrepreneurs were classified as either appearing to be male or female
- Extend Ventures' taxonomy collects perceived ethnicity data according to the following:
 - Black (including Mixed Heritage)
 - East Asian (including Mixed Heritage)
 - Middle Eastern (including Mixed Heritage)
 - South Asian (including Mixed Heritage)
 - White (Caucasian)
- Companies are grouped into three categories according to the founding members' perceived gender composition: all-male, all-female, and mixed teams
- Companies are grouped into three categories according to the founding members' perceived ethnic composition: all-White, all-Ethnic, and Mixed teams
- Companies are grouped into four categories according to the founding members' stated educational background:
 - Elite** – Oxford, Cambridge, Harvard, Stanford and their associated business schools
 - Tier 1** – The next top 10 universities across the UK and US, their associated business schools, and the next top 10 business schools worldwide
 - Tier 2** – The following 10 universities (i.e. universities 11-20 in the top 20 outside the elite) across the UK and US, their associated business schools, and the following 10 business schools worldwide
 - Other** – All other education levels, including a standard high school education
- Companies were excluded from the dataset if 50% or more of the founders did not have a public profile picture available.
- Founders were excluded from the dataset if they did not have any education listed on their public profile.

03 Findings

A Dearth of UK Data

The UK is not collecting ethnicity data on venture capital investments

“We must be prepared to shift the status quo significantly on race with the same determination that we’re tackling gender disparity... Without data, we cannot marshal the evidence that is demanded before change can be made. As we have seen with the gender divide, information and evidence has supported successful campaigns for 30% Women on Boards, Gender Pay Gap reporting and the Investing in Women Code.”

Patricia Hamazhee

Extend Ventures

At present, most data on ethnic diversity in startups is being derived from research conducted in the United States. There has been very little research, particularly of a quantitative nature, examining the impact of ethnicity and educational background on the ability to raise venture capital funding in the UK. However, the Rose Review of female Entrepreneurship

provides a blueprint for what can be achieved through this type of data. Earlier this year, the Government announced plans to make £1 billion available for female entrepreneurs following the review’s calculation that investing in 600,000 more females could return as much as £250 billion to the UK economy.

Data is Key to Extending Opportunities

Understanding VC investments made over the last 10 years:

We understand there are around 38,000 UK companies tracked for high performance, while some 19,500 UK companies have received some form of equity investment (Beauhurst, 2020). Our research revealed that many VC investments are not made publicly, hence they will not have been identified through our sources. Our aim is to work

with VCs and other data providers to secure data directly where possible. We will then be able to effectively analyse each of the tracked high-potential companies for comparisons on what can be funded versus which companies actually receive funding.

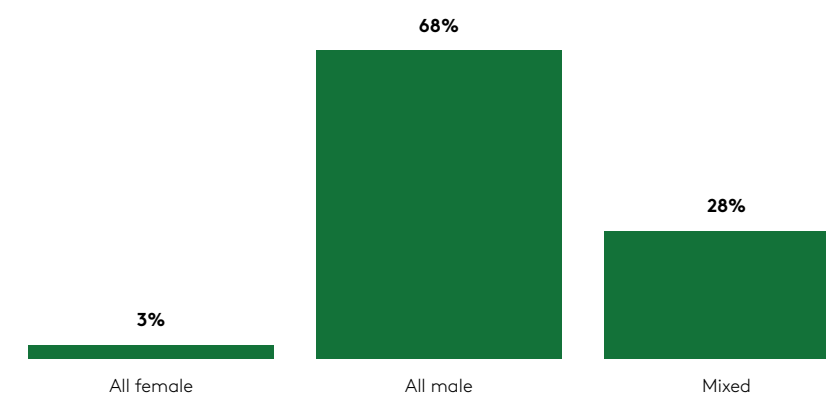
The results shown are for 2,002 companies and 3,784 founders.

Companies By Gender

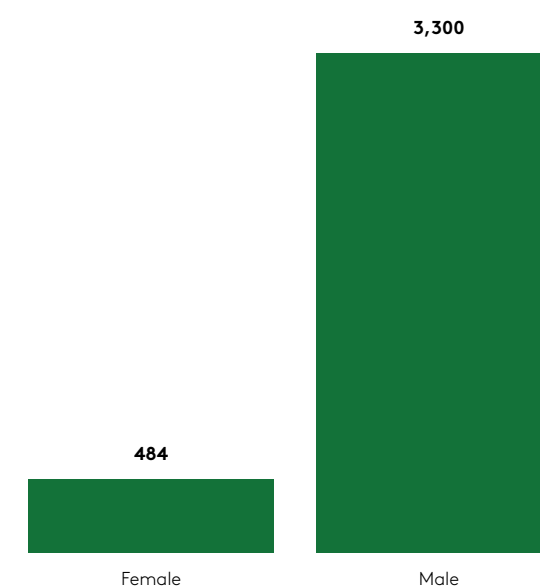
How does the gender composition of a founding team impact the ability to secure venture capital investment?

Our data is consistent with the many previous studies analysing this area. Accessing venture capital appears to have been consistently harder for women than for men between 2009 and 2019. All-female teams received 2.87% of the capital invested on average across the seed, early and later funding stages, compared with 28.80% for mixed teams and 68.33% for all-male teams.

Share of investment by gender composition of team



Access to VC funding by gender



Share of VC investments by gender



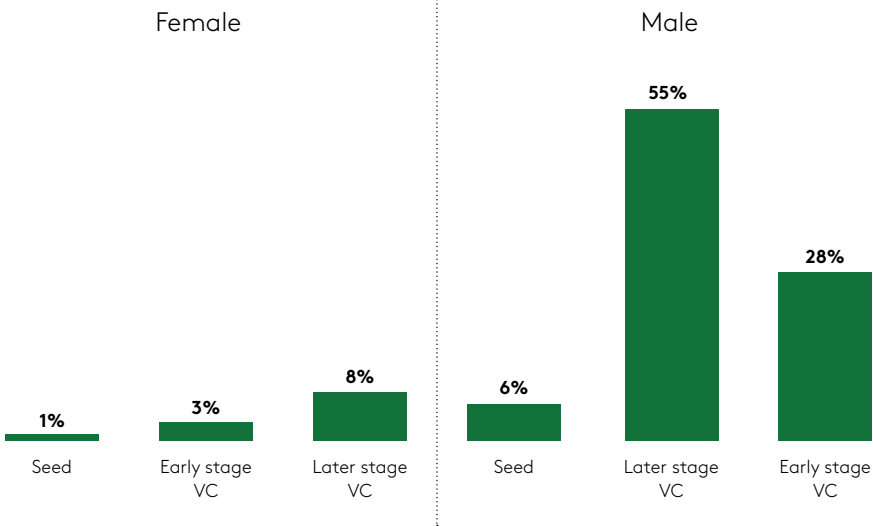
VC Investment and Gender

What impact does the gender composition of a founding team have on the amount of funding secured?

A US study found that female founders outperform their male counterparts financially.¹⁹ However, financial performance doesn't seem to yield benefits for female entrepreneurs across early stage funding rounds. It is not until later funding rounds that we begin to see women successfully raising larger sums of money, though still significantly lower than the amounts raised by their male counterparts.

Share of VC investments by gender

Percentage of funds raised by gender.
Amount raised by company is attributed to each member of the team.



¹⁹ <http://10years.firstround.com/>

VC Investment and Ethnicity

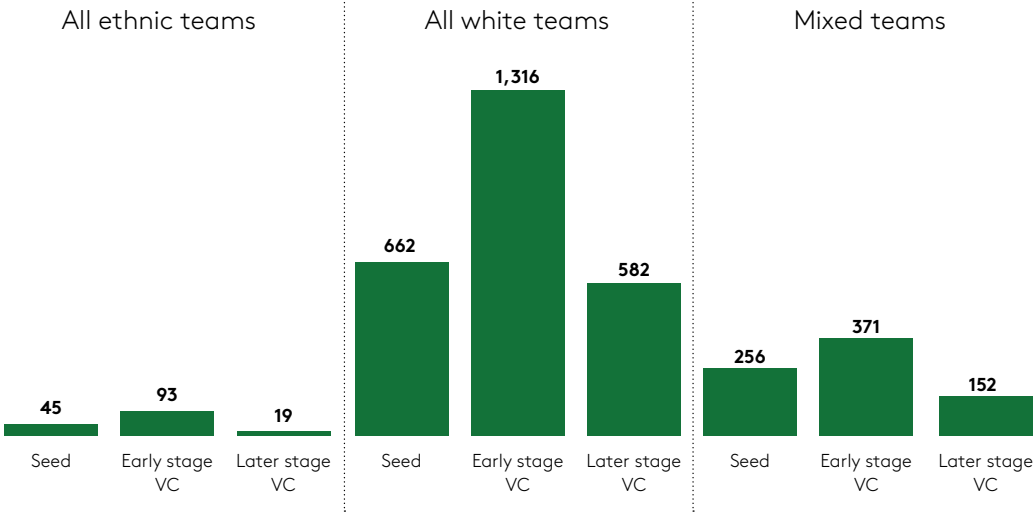
How does the ethnicity of an entrepreneur impact their ability to raise venture capital for their startup?

When analysing ethnicity data, we looked at a collective grouping of all non-White entrepreneurs, before dissecting down into four more granular ethnic groupings that look at the perceived ethnicity of founding team members of companies that received investment.

The UK's Black and multi-ethnic communities comprise 14% of the UK population, yet all-ethnic teams received an average of 4% of the venture capital investments made at seed, early and late stage between 2009 and 2019.

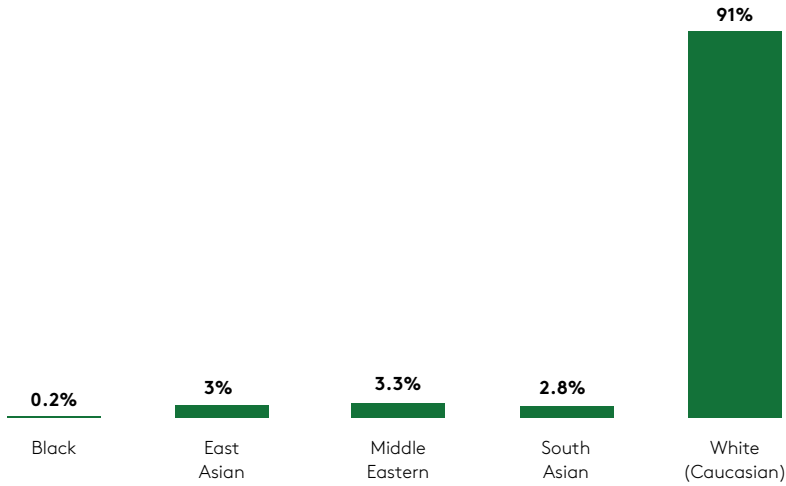
Access to VC funding by ethnicity

Total number of founders that raised venture capital funding between 2009 and 2019 by ethnicity



We analysed all companies that were founded and had raised Venture Capital between 2009 -2019. When taking their most recent raise into consideration alongside their venture capital round, we found that more than 90% of the total amount raised went to White entrepreneurs, while only 0.24% went to Black entrepreneurs.

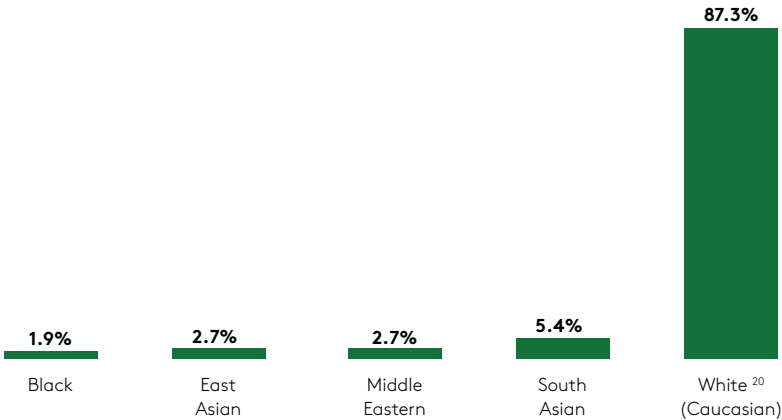
Share of overall funding by ethnicity



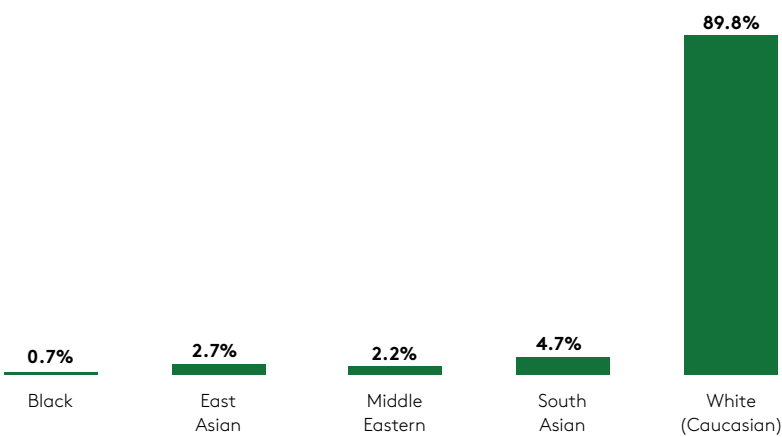
Findings

When looking more specifically at the venture capital rounds raised throughout the period, we found that at seed stage, entrepreneurs perceived to be White within founding teams, were invested in at rates of 87%, with a growing capture of investment through the stages to almost 92% of later stage investment. All other ethnicities took a declining position with Black (0.53% of later stage) and East Asian (1.46%) founders securing the smallest share.

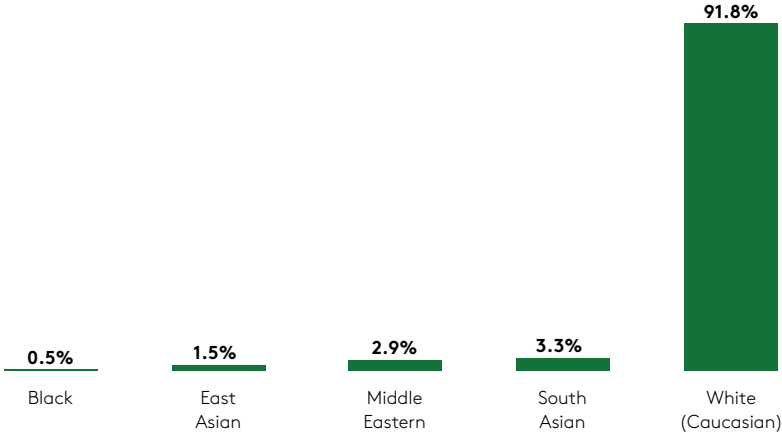
Seed stage investment by ethnicity



Early stage investment by ethnicity



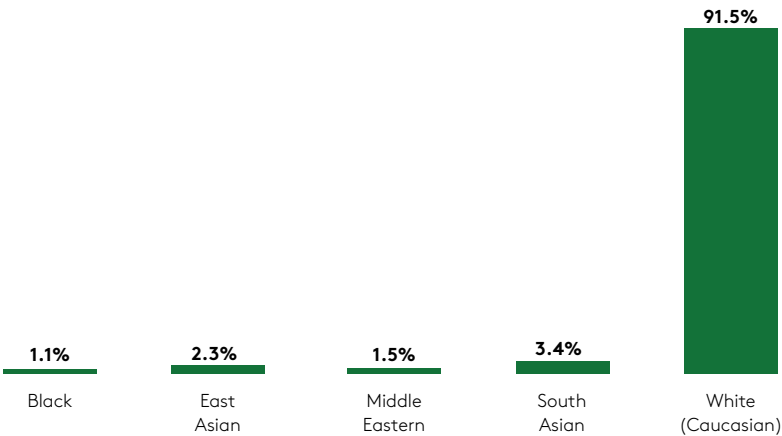
Later stage investment by ethnicity



²⁰ This figure includes companies who received additional funds from sources including angel, debt, corporate venture capital, secondary, IPO.

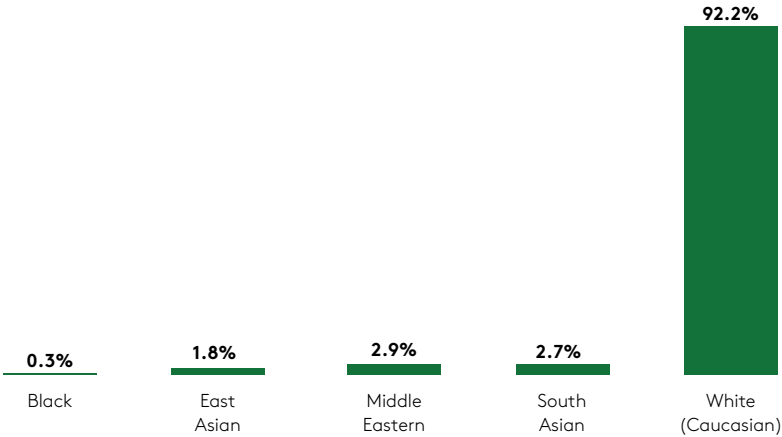
As well as being invested in less frequently, when part of a founding team, Black entrepreneurs also raised the least amount of funding across each venture capital stage, they received just 1% of the total amount invested at Seed stage

Share of funding by ethnicity at seed stage

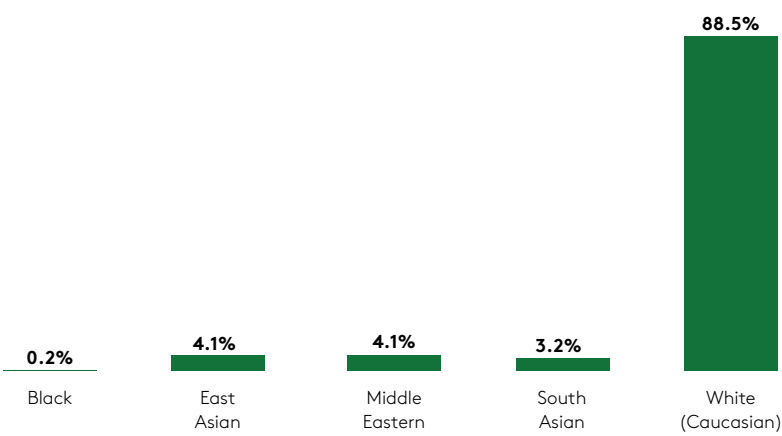


Black founders subsequently received less than a third of a percent of the capital invested in early stage VC rounds and less than a fifth of a percent of the capital invested in later stage VC rounds.

Share of funding by ethnicity at early stage



Share of funding by ethnicity at later stage



VC Investments by Educational Background

Do socioeconomic status and educational background impact an entrepreneur’s ability to raise venture capital investment?

We wanted to understand whether entrepreneurs from lower socioeconomic groups were able to access venture capital at rates proportionate to those from higher socioeconomic groups. Educational background has been reliably used as a broad-based proxy for socioeconomic status in that those from higher socioeconomic groups are much more likely than their peers to access a degree at an elite institution²¹.

The elite universities category represents Oxford, Cambridge, Harvard, Stanford and their business schools. Tier 1 represents the next 10 universities in the US and UK and the next 10 business schools, tier 2 represents the following 10 respectively (i.e. universities 11-20 beyond the elite), while others represent all levels of education outside the top

20 and elite universities, including a basic high school education.

Our findings indicate that elite and tier 1 universities were disproportionately represented across all funding stages.

The relative stability of the percentages of companies by educational background from Seed to Later stage indicate that while a high level tertiary education is more likely to get you into the startup funnel of funded startups it is not an indicator of long-term outsized success. Further research into the relative performance of the established businesses will be able to show whether this hypothesis holds true. We have started this analysis and look forward to seeing what the data shows.



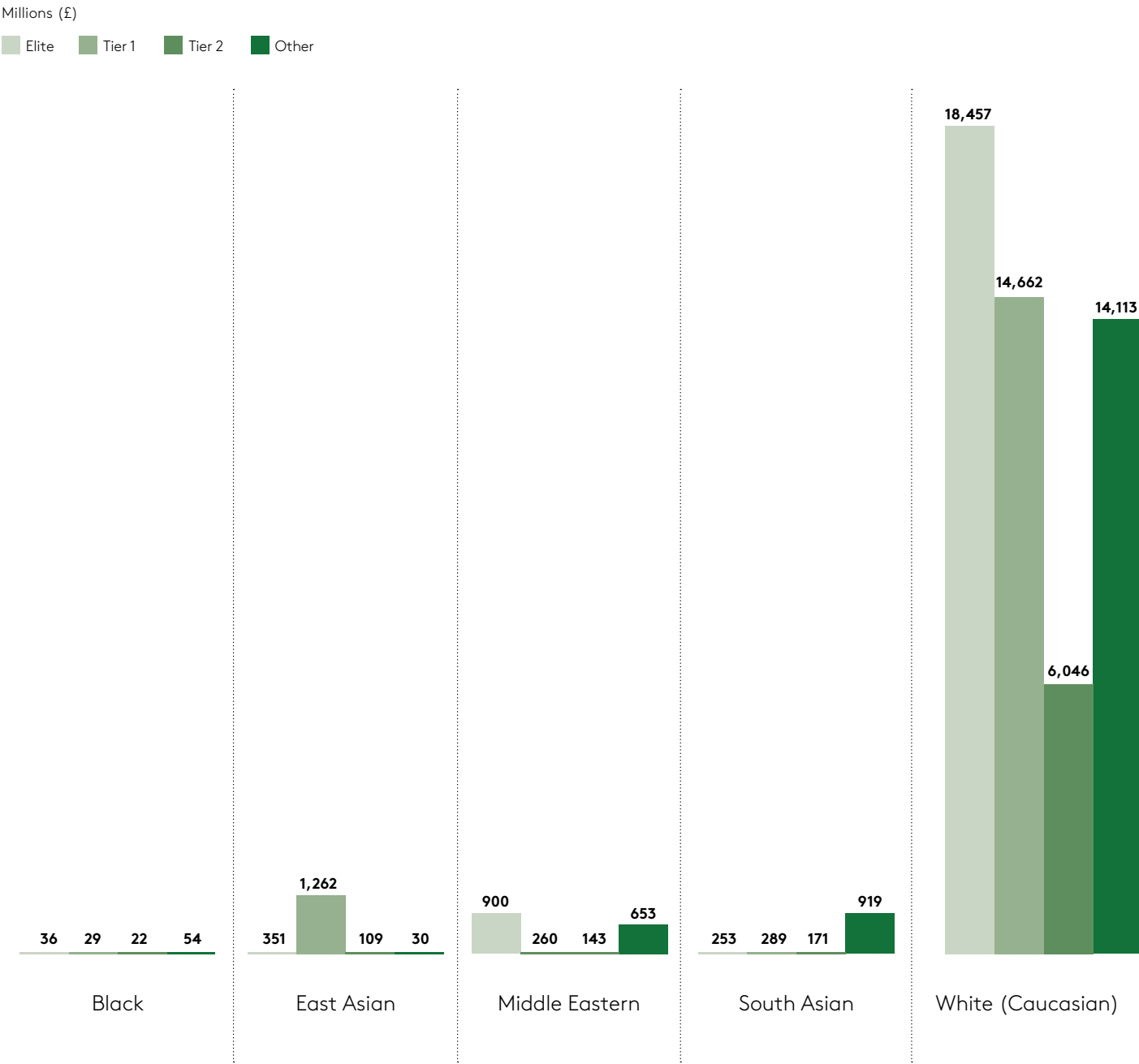
²¹ Socioeconomic disadvantage and access to higher education

The Impact of an Elite Education

Our findings indicate that a substantially disproportionate amount of capital is being poured into the UK’s super elite at seed stage. More than 40% of the total capital invested at seed stage between 2009 and 2019 went to founding teams with an elite education.

Further analysis suggests that of the 42% invested in elite founding teams, almost two thirds (64%) is invested in those perceived to be White elite founding teams at seed level.

Total funding by education and ethnicity





The Trouble With BAME

BAME assumes an equivalence of access and power held by each of the ethnic identities represented within the umbrella acronym.

Our analysis identified just 38 Black entrepreneurs who have received venture capital across all investment stages between 2009 and 2019. This exemplifies the main shortcoming of the acronym BAME. Statistical averages hide large differences between the ethnic communities with completely different experiences of venture capital and entrepreneurship. Certainly, in the case of Black African, Caribbean and mixed heritage entrepreneurs, it gives a misleading picture when venture capital firms can choose to invest in South Asian entrepreneurs for the most part, and fulfil a diversity quota. Each of the ethnicities are woefully overlooked and underfunded, however none quite as poorly as Black founders with just 1.11% receiving seed investment, less than 0.29% receiving early stage investment and less than 0.16% receiving later stage funding.

“[BAME] is not a political term, it is an identifying term. It isn’t self-chosen, it has not been politically chosen by the groups. This terminology shouldn’t be used as a catch-all for statistical, social and political purposes – that is where we need to come up with something else.”

Tom Adeyoola
Extend Ventures

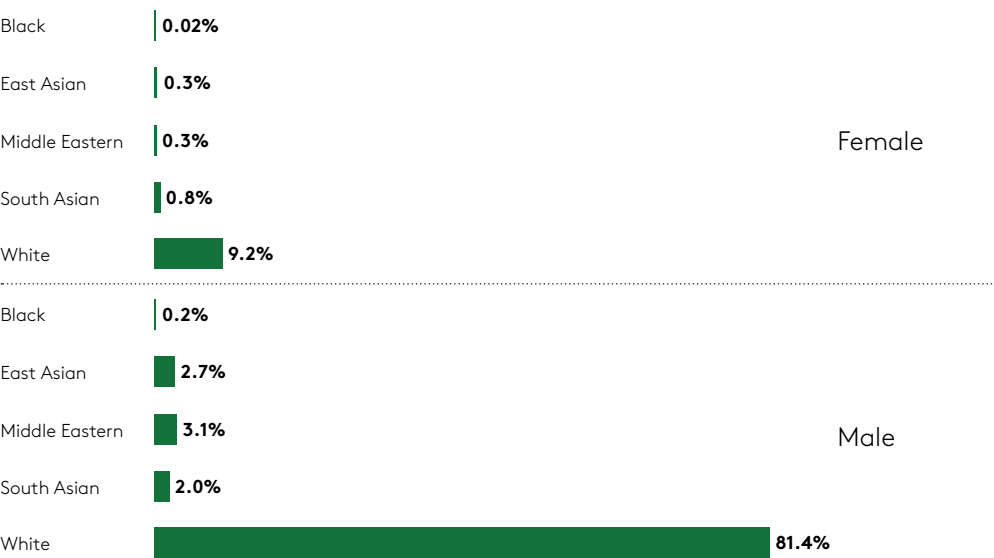
The Impact of Intersectionality

Investments in White Female Entrepreneurs vs Female Entrepreneurs of Other Ethnicities

Looking towards the intersectionality of attributes such as ethnicity, gender and education, we can see that we must be mindful to ensure that all of the efforts being made to improve gender diversity are not only benefiting one type of woman. A 2020 survey conducted by Women Who Tech found that women, especially women of colour, still faced considerable barriers²².

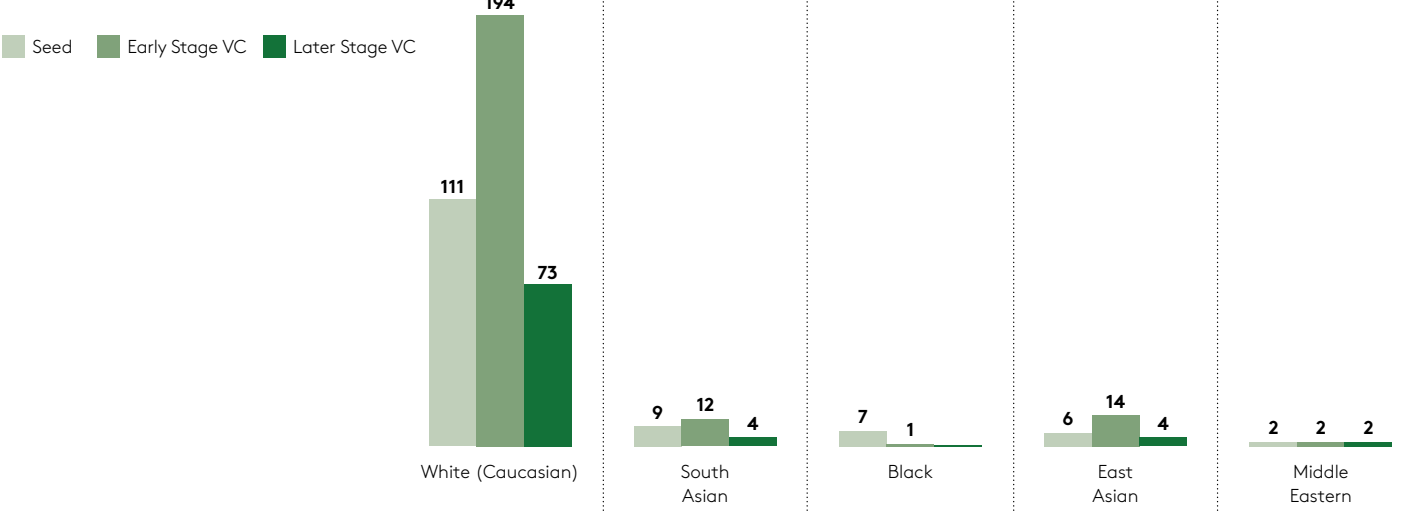
While all female founders have experienced poor access to venture capital over the period, the most significantly affected are Black female founders who received less than a tenth of a percent (0.02%) of the capital invested.

Share of funding raised by ethnicity and gender



Black female founders were also the only group found to not be represented at the later stage investment phase.

Number of female founders at each stage



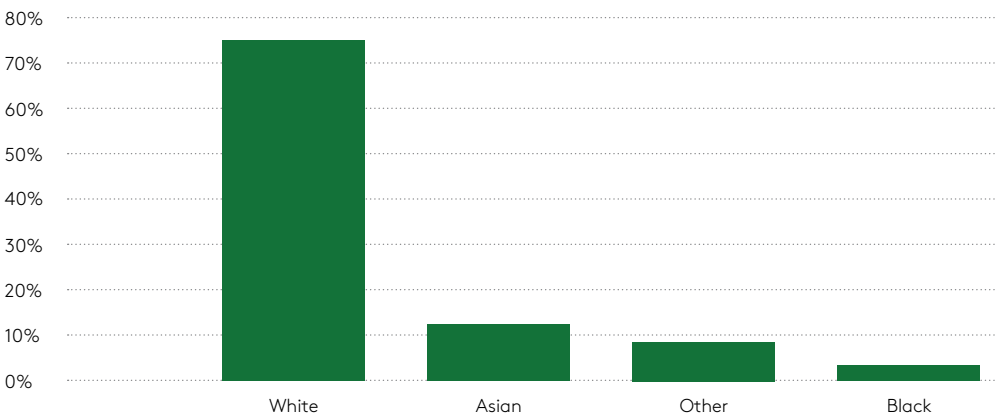
²² The State Of Women In Tech And Startups

Gender, Ethnicity and Education

According to the Higher Education Statistics Authority, White students represent 81% of the students admitted to Oxbridge and 75% of the students admitted to Russell Group Universities. Interestingly, studies found that even when controlled for attainment, applications to ‘elite’ and Russell Group (otherwise known as red brick) universities from minority groups were significantly less likely to result in an offer than applications from the White British group²³.

Ethnicities of students at Russell Group universities

% of students

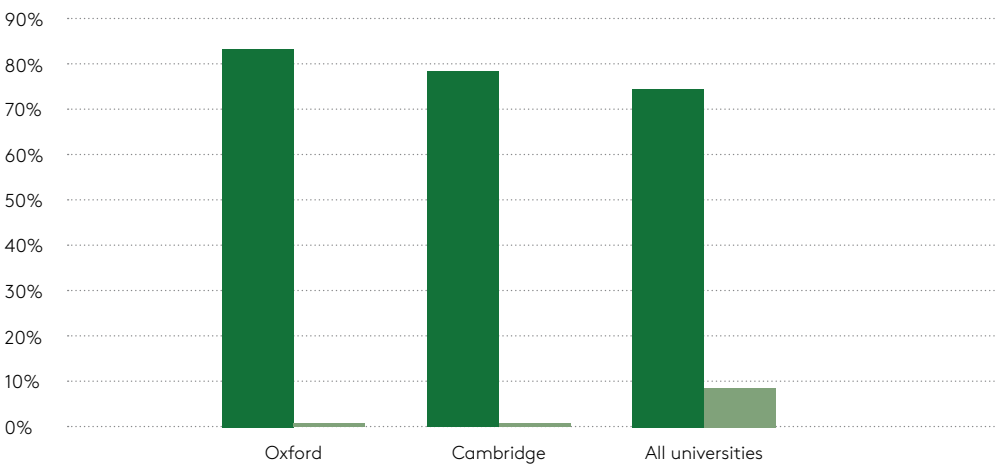


Source: Higher Education Statistics Agency

Diversity at Oxbridge

% student intake

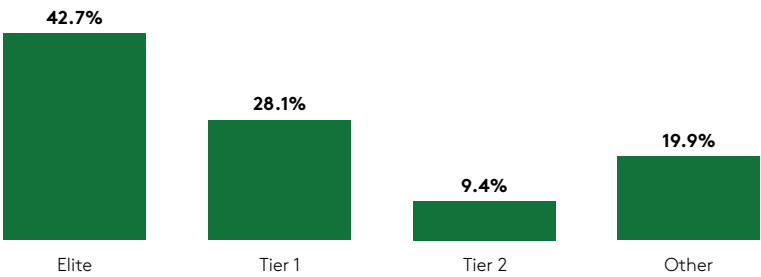
White Black



Source: Higher Education Statistics Agency

Education level at seed stage

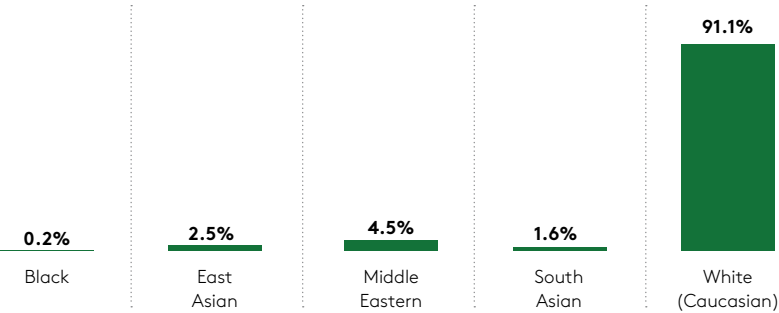
This graph takes into account the team member with the highest level of education



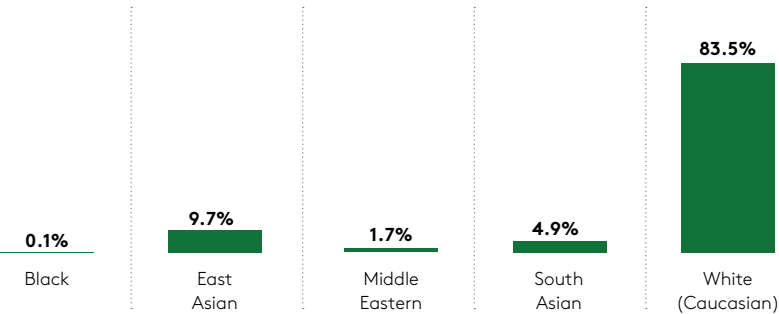
²³ Black and Minority Ethnic Access to Higher Education A Reassessment

Using metrics such as the level of education received when making decisions on whether to fund innovation and entrepreneurship can create barriers to entry for entrepreneurs who are otherwise perfectly capable of running a successful business.

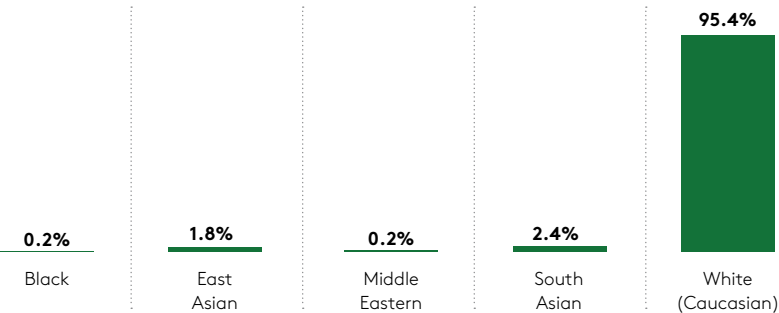
Total funding for elite university graduates by ethnicity



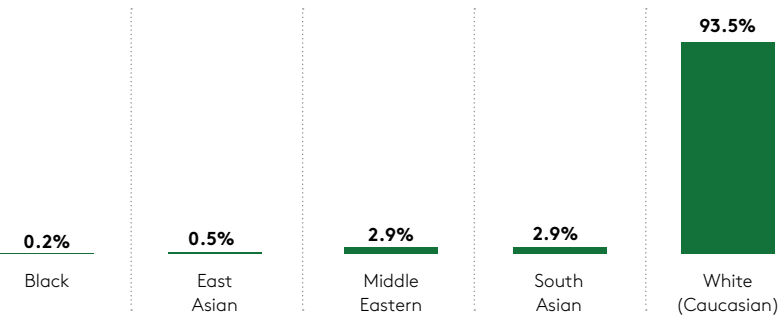
Total funding for Tier 1 university graduates by ethnicity



Total funding for Tier 2 university graduates by ethnicity



Total funding for other university graduates by ethnicity



Founders with a Tier 1 educational background show the greatest spread in investments across ethnicity, with East Asian founders doing particularly well at 9.7% followed by South Asians at 4.93% after White founders. Black founders do consistently poorly across all levels of educational background. More work needs to be done to understand performance against relative representation for each ethnic group.

04

Conclusion

All forms of diversity are capturing far less of the venture funding market opportunities than their population representation would suggest. Is 'Mirrortocracy' to blame?

"Extend Ventures has provided the missing link to show how stark the access to finance realities have been for diverse founders. Building upon the recent British Business Bank "Alone, together" diversity and entrepreneurship report that pointed towards systemic disadvantage for ethnic and female founders, we now know that of all venture-funded businesses in the last 10 years only 0.24% of the capital invested went to Black founders and only a single Black woman raised Series A funding. This makes for grim reading. Access to financial capital is a fundamental ingredient in business growth and it's inextricably linked to social capital. We now have hard data from both reports that clearly shows that change is necessary, as we are leaving billions of value on the table by failing to provide a level playing field for entrepreneurial ambition and talent, irrespective of ethnicity."

Piers Linney

Entrepreneur and Non-Exec Director, British Business Bank

This report serves as a first of its kind quantitative analysis offering a breakdown of UK venture capital investments between 2009 and 2019 by ethnicity, gender and educational background in a novel, scalable and repeatable way.

Our findings show that only 38 Black entrepreneurs have raised venture capital investment across a ten-year period, indicating that UK VCs are investing in people who mirror themselves. But we see highly skewed venture capital capture across each form of diversity, male over female, White over Black, elite educated over non-elite educated. Once we have also captured

and evaluated business performance data we will be able to formally establish the degree to which the market is failing or otherwise to operate to the best possible economic advantage for the UK. However, the starkness of the figures does point to significant market failure: Black founders captured only 0.24% of venture funding vs their representation of 3.5%²⁴ of the UK population; female founders captured only 11% of venture funding vs their representation of 51%²⁵ of the population; and teams with an elite-educated founder captured 43% of venture funding vs less than 1% representation (less than 1% of the UK population attend Oxford and Cambridge²⁶).

²⁴ Ethnicity Facts & Figures

²⁵ Male and Female Population

²⁶ Elitist Britain

43%

of UK venture capital invested at seed stage was **invested in founding teams with at least one member from an elite* educational background**

* Elite was classified as Oxford, Cambridge, Harvard, Stanford and their respective business schools.

Mckinsey and Company research has shown that investing in ethnic diversity yields greater returns than gender diversity alone in the United States, with companies in the top quartile for ethnicity diversity outperforming their counterparts by 35%, while companies in the top percentile for gender diversity outperformed counterparts by 15%. Interestingly, companies in the top percentile for both gender and ethnic diversity yielded returns of up to 25%²⁷.

The next phase of Extend Ventures research will include location of businesses and an analysis of business performance (from reviewing annual accounts) to get an understanding of relative performance of startup businesses by diversity. By adding this performance dimension we hope to get a further understanding of the impact of access to finance.

We will also further interrogate the data over the time period to look for significant statistical trends that could relate to internal or external factors, i.e. has diversity improved over time or have there been events that have led to noticeable structural shifts, e.g. the #MeToo movement.

Studies have found that the more similar investment partners are, the lower their returns, because they invest in teams just like themselves. Harvard Business Review research finds that success rates for investments by partners with shared school backgrounds are 11.5% lower, on average, than for those by partners with less similar backgrounds. The effect of shared ethnicity is even stronger, reducing an investment's comparative success rate by 26.4% (Gompers & Kavvali 2018)²⁸.

In 2019, Diversity VC found that of the 223 venture capitalists analysed, 16% went to either Oxford or Cambridge and a further 8% went to Stanford or Harvard²⁹. We classified these four universities alone as 'elite' throughout our analysis. Our research has shown that a substantial 43% of the total funds invested at seed stage in the UK is invested in graduates of 'elite' universities.

Diversity VC further found that 76% of VCs are white. While this is lower than the UK national average of 86%, it is significantly higher than the average of 59% in London where most VCs are based. Black VCs are the most underrepresented at just 3% of the VC population, though Black people make up 13% of London's working population.

The backgrounds of venture-backed founding teams tend to mirror those of VCs. According to Diversity VC, 93% of all funds raised through European venture capital in 2018 went to all-male founding teams³⁰. However, a recent study by the US-based Kauffman Fellows found that ethnically diverse teams return as much as 30% more to their investors at exit or IPO,³¹ further evidence that less homogeneity can be potentially lucrative.

Put simply there is a clear group of talented diverse entrepreneurs who are currently not getting their fair share of venture investment opportunities. Further, enabling only a homogeneous group of individuals to create the future of business and technology raises questions about our ability to be truly innovative, especially as research suggests that diverse entrepreneurs intrinsically understand unmet needs in historically untapped markets.

²⁷ Why Diversity Matters

²⁸ The Other Diversity Dividend

²⁹ Venturing into Diversity and Inclusion 2019

³⁰ Venturing into Diversity & Inclusion 2019

³¹ Deconstructing the Pipeline Myth and the Case for More Diverse Fund Managers

Acknowledgements

The compilation of this report would not have been possible without the hard work and dedication of Tom Adeyoola, Tosin Sulaiman, Glen Learmond, and Mingwei Hou

With special thanks to:

Dr. Nalan Gulpinar, Dr. Grace Lordan, Dee Brecker, Christine Harris, Nicola Butler, Wol Kolade, Cato Stonex, George Swirski, Harry Samuel, Kekeli Anthony, Patricia Hamzahee, Maatin Adewunmi and Rahmon Agbaje.

We would also like to thank the following organisations for their support with the gathering of data and writing of this report:



DIVERSITY VC

GOODMAN DERRICK LLP





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