HOW CAN THE PRIVATE SECTOR PROMOTE MORE DIVERSE ENTREPRENEURS AND INVESTORS?

Chair: David Robinson, James and Jail Vander Weide Professor of Finance, Duke Fuqua School of Business

Panelists:

- *Maryam Haque, Senior Vice President of Industry Advancement, National Venture Capital Association (NVCA)*
- *Henry McKoy, Director of Entrepreneurship, North Carolina Central University School of Business; Adjunct Professor, UNC Kenan-Flagler Business School*
- *Alicia Robb, Founder and CEO, Next Wave Impact*
- *Tiantian Yang, Assistant Professor of Sociology, Duke University*

A recent report documents that only 14 percent of U.S. venture partners are women and only six percent are black or Hispanic. Data for VC portfolio companies and other startups reveals similar statistics. While these percentages are a slight improvement over prior years, they still document substantial under-representation. As more importance is placed on the topic of representation, how can the private sector develop, adopt and implement strategies, as well as official policies, to promote more diverse entrepreneurs and investors?

David Robinson started the session by asking each panelist what they believe to be the "biggest bottleneck for entrepreneurs."

Maryam Haque highlighted key statistics showing the lack of diversity in both entrepreneurs and investors. More than 77% of founders are white, while less than 2% of founders are black. Ivy-educated individuals comprise 27% of founders, and 50% of founders received their education from other schools in the U.S. Further, Haque examined the continued increase in deal count and investment size for female founders, but also pointed out that both continue to represent an extremely low percentage of women-owned businesses. As of 2018, deal count for females equated to only 4.4% of total deals. Only 14% of investors are female.

Haque said the greatest bottleneck for entrepreneurs is the barrier to access, primarily caused by the lack in diversity. Whether it be access to capital, connections or networks, the lack of diversity hinders entrepreneurs' ability to succeed. For investors, Haque believes the biggest bottleneck correlates to the difficulties of starting a company. She stated, "Venture firms are small and usually stay small. If you want to go raise a fund, it's hard to get to that place. And even when there are opportunities, people look to the ones who surround them and do not branch out."

Henry McKoy shared many similar thoughts. McKoy focused on the lack of ethic diversity and current macroeconomic trends. Black households are projected to lose wealth, while white households are projected to increase their wealth. If the trend continues, McKoy highlighted that by 2053, the black population will reach $0 in median wealth. Due to this drastic difference between white and black wealth, McKoy believes the biggest bottleneck entrepreneurs face is access to capital, especially risk capital. The accumulation of capital which is not collateralized is extremely hard for diverse populations to obtain.

Alicia Robb spoke to homophily as a main cause for gender gaps within the entrepreneurial ecosystem. Robb called attention to some shocking statistics, saying "Of the $69.1 trillion global financial assets under management across mutual funds, hedge funds, real estate and private equity, fewer than 1.3% are managed by women and people of color." Furthermore, she said, "Among Fortune 500 companies, there are more CEOs named John than all female CEOs combined."

In order to help close the gap, Robb has created a "learning-by-doing fund" called New Wave Impact to increase the ranks of female entrepreneurs by increasing the number of female angel investors. Its goal is to drive diversity and inclusion in early-stage investments. Robb believes that if more women and people of color are involved in early-stage investment, more diverse entrepreneurs will surface. Robb identified the biggest bottleneck of entrepreneurs as the lack of diversity among investors.

Tiantian Yang focused on the gender funding gap, highlighting two main reasons for the discrepancy. The first reason, she said, is "the pipeline problem in wage employment." Within the U.S., she said, women are underrepresented in money-making fields, showing different intrinsic preferences in fields of study and jobs. Further, the gender roles in families create the idea that business is "Plan B" for women, with their main responsibility being the care of their children. Yan said the second reason for the funding gap is discrimination in entrepreneurship. She highlighted the response of women vs. men to rejection. Rejection leads women to not apply to as many jobs, she said, because they believe their rejection was a result of discrimination. Men, on the other hand, respond to rejection by applying for even more jobs, believing that their rejection was a result of insufficient effort on their part.

Overall, the main takeaway of the panel is that making inroads for diversity in entrepreneurship must begin with investors. To decrease the gender funding gap, an increase in female investors needs to occur. To increase diverse entrepreneurs' ability to access capital, more diverse investors need to surface. Now the question becomes, "How do we increase the number of diverse investors?" The problem goes deep and needs more research and investigation.