

Institutional Investors Must Help Close the Race and Gender Gaps in Venture Capital

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Summary. Research repeatedly shows that companies with diversity in senior leadership significantly outperform their all-white, all-male counterparts. Diverse leadership generates better financial performance, stronger innovation, and higher levels of startup success.... [more](#)

Over the last decade, U.S. venture capital investments quadrupled, the number of businesses started by women grew to 40%, and we've seen growth in the number of entrepreneurs of color. However, the percentage of venture capital dollars going to women-founded companies has barely budged since 2012, and the numbers are even worse for Black and Latinx founders — only 1% of VC-backed founders are Black, and less than 2% are Latinx.

The preponderance of capital invested in venture funds comes from institutional investors — foundations, family offices, college endowments, pension funds, and insurance companies. Large institutional investors are the lifeblood of venture capital. They can and should leverage their outsized resources and unique position to hold venture capital funds accountable for addressing race and gender gaps in their investment portfolios.

Research repeatedly shows that companies with diversity in senior leadership significantly outperform their all-white, all-male counterparts. Diverse leadership generates better financial performance, stronger innovation, and higher levels of startup success. Yet, despite compelling performance data, venture capital isn't following the opportunity. This is true for a variety of well-documented reasons: gender and racial stereotyping, unconscious bias, systemic economic barriers, and Silicon Valley's preference for serial entrepreneurs.

There were a number of promising initiatives to change the status quo even before the raised consciousness and anti-racism protests of 2020. Numerous angel networks including Golden Seeds, Plum Alley, and Astia are providing seed capital to high-potential female founders. Morgan Stanley and Goldman Sachs started accelerators for women and multicultural entrepreneurs. And recently Andreessen Horowitz and SoftBank announced funds to provide capital, respectively, to underserved founders and entrepreneurs of color.

Beyond the seed stage, however, the importance of large institutional investors in the venture capital ecosystem has been largely ignored. If closing the VC gender and racial gaps becomes a priority for the institutions providing the lion's share of capital, senior partners at major VC funds will get on board.

Chief executive officers, chief investment officers, board members and trustees of large institutional investors — many of whom claim to care about diversity and inclusion — can make a meaningful difference by holding venture capital funds accountable. We recommend three changes to operating practices that have proven effective:

- Require their long-established VC fund managers to report the number of companies with gender and racially diverse leadership that they are investing in, as well as the capital committed to these companies — both during due diligence for all new funds and at

annual performance reviews. While 65% of limited partners say they care about diversity, only 25% ask about it in due diligence. What gets measured gets done.

- Monitor the number of women, Black, and Latinx people in senior decision-making investment roles at their established VC funds. Proof is in the numbers: 65% of venture capital firms have no female partners, and 81% have no Black investors. Women occupy only 12% of decision makers at U.S.-based venture capital firms with more than \$25M AUM and Black people account for only 2% of senior positions at venture capital firms. Diversity impacts how firms source and identify entrepreneurial talent, evaluate opportunities, and allocate capital. Who sits at the decision-making table matters.
- Adopt new guidelines to invest in high-performing emerging VC funds that are 100% committed to gender and racial diversity. Few of them are large enough to absorb the \$10-\$50 million institutions like to deploy in a single fund while also complying with the 10% maximum capital threshold historically imposed by institutions.

Institutional investors, whether working individually or collectively to force systemic change, have done this before. As of mid-2020, nearly 450 institutional investors representing over \$41 trillion in assets joined the Climate Action 100+. They set specific targets for board representation and emission reduction and put market pressure on companies to make more climate-friendly choices. The result is greater transparency about a company's carbon footprint and better data about the capital flow to companies based on climate-relevant activities. In a short time, institutional investors created an urgency and momentum for climate action that previously did not exist at scale.

If significant pools of venture capital are finally pried open, the economic impact will be far-reaching, as women, Black, and Latinx entrepreneurs leverage their talent, experiences, and insights to build early stage companies into large profitable corporations. But only if we create a new capital paradigm and shift funding of high-potential women and multicultural founders from the exception to the norm.

Institutional investors — foundations, family offices, college endowments, pension funds, insurance companies — it's now up to you!

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