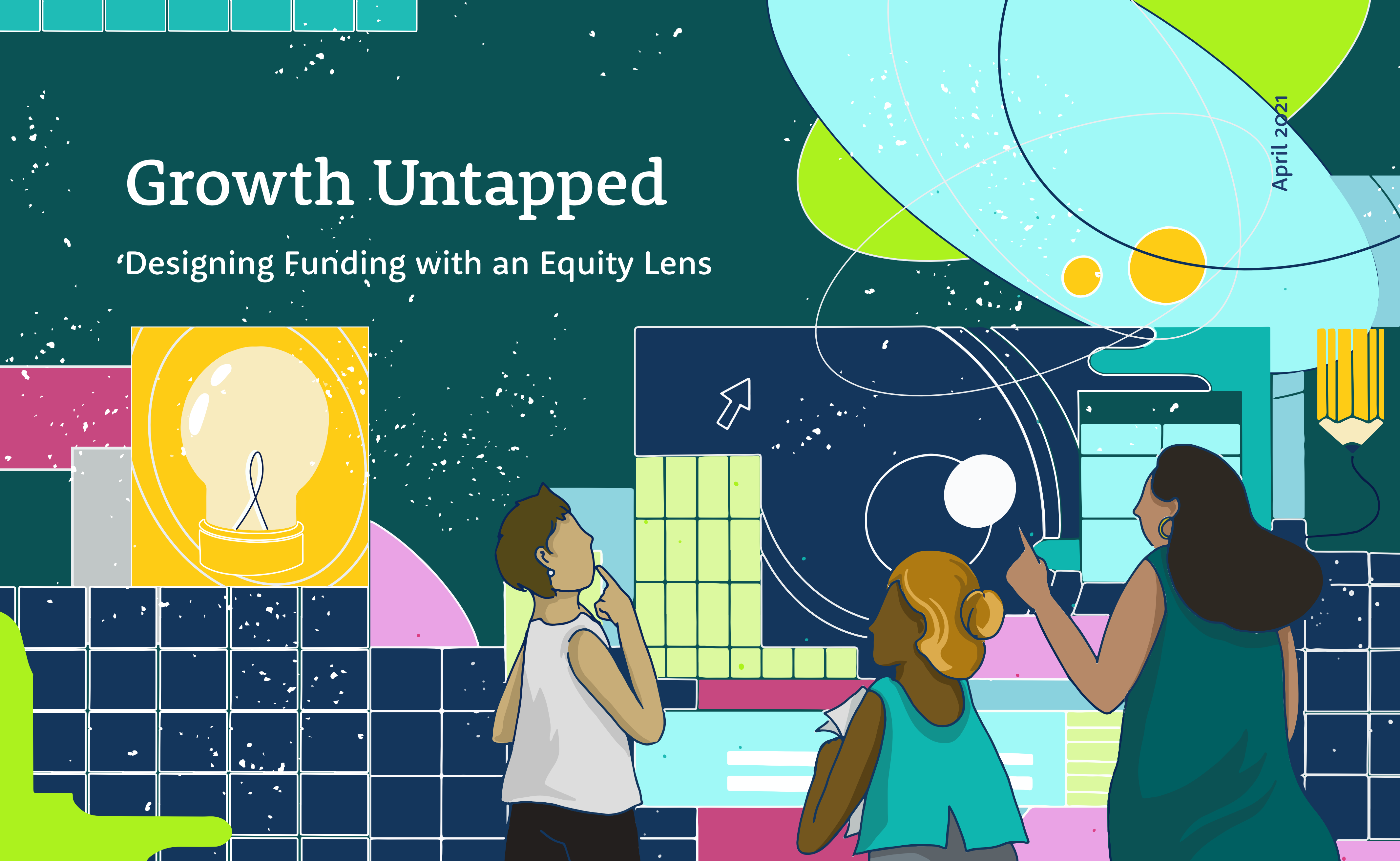
Growth Untapped

Designing Funding with an Equity Lens

April 2021



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Women Entrepreneurship Knowledge Hub

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The Brookfield Institute for Innovation + Entrepreneurship (BII+E) is an independent and nonpartisan policy institute, housed within Ryerson University, that is dedicated to building a prosperous Canada where everyone has the opportunity to thrive due to an inclusive resilient economy. BII+E generates far-sighted insights and stimulates new thinking to advance actionable innovation policy in Canada.

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Women Entrepreneurship Knowledge Hub

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The Women Entrepreneurship Knowledge Hub (WEKH) is a national network and accessible digital platform for sharing research, resources, and leading strategies. With ten regional hubs and a network of more than 250 organizations, WEKH is designed to address the needs of diverse women entrepreneurs across regions and across sectors. In response to COVID-19 pandemic, WEKH adopted an agitator role connecting women entrepreneurs and support organizations across the country and led network calls and training sessions. WEKH's advanced technology platform, powered by Magnet, will enhance the capacity of women entrepreneurs and the organizations who serve them by linking them to resources and best practices from across the country.

With the support of the Government of Canada, WEKH will spread its expertise from coast to coast, enabling service providers, academics, government, and industry to enhance their support for women entrepreneurs. Ryerson University's Diversity Institute, in collaboration with Ryerson's Brookfield Institute for Innovation + Entrepreneurship and the Ted Rogers School of Management, is leading a team of researchers, business support organizations, and key stakeholders to create a more inclusive and supportive environment to grow women's entrepreneurship in Canada.

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ACKNOWLEDGEMENTS

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Workshop Contributors

Over the course of two workshops with members of the funding ecosystem, we received feedback from 35 contributors from the sectors of commercial and investment banking, venture capital angel investing, government lending, and business accelerator and incubator. We thank everyone who came to the workshops and provided their time and insights, including experts from below who provided consent to use their names in this report:

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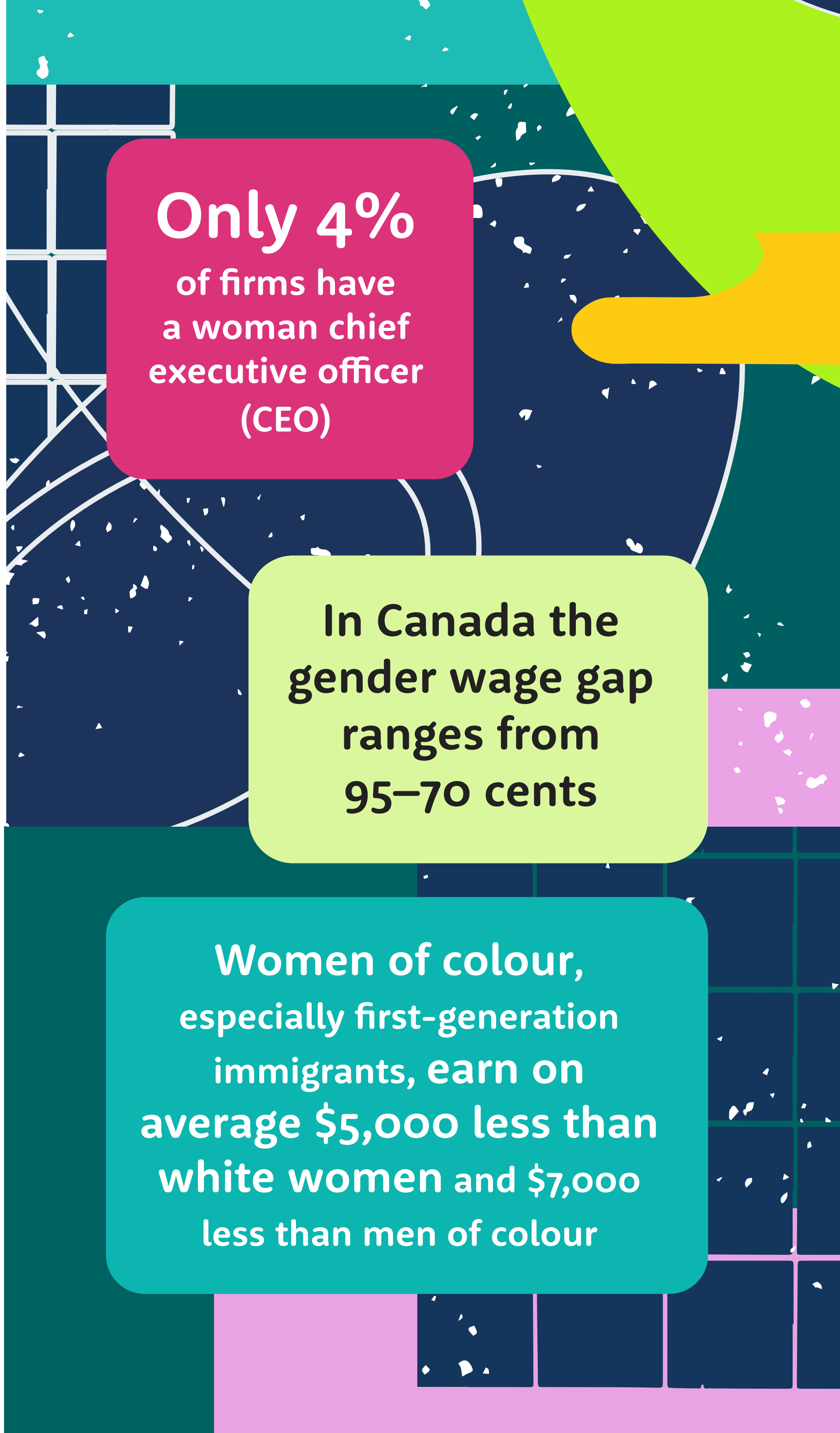
SUMMARY

In partnership with The Women Entrepreneurship Knowledge Hub (WEKH), The Brookfield Institute for Innovation + Entrepreneurship (BII+E) is examining the experiences of women founders as they scale their companies.[1] One outcome of this partnership is the publication of Growing their own way: High-growth women entrepreneurs in Canada. This interview-based report was written with two goals: 1) helping BII+E's key audiences of governments, funders, and business-support organizations understand the experiences of women entrepreneurs in Canada as they scale their high-growth firms; 2) identifying key barriers, gaps and opportunities. One of the study's principal findings was that despite having achieved a degree of success, high-growth women founders continue to face challenges accessing capital.[2]

Experiences with funding challenges at the high-growth phase are both problematic and unsurprising. They are problematic because high-growth firms are a major driver of job creation and employment.[3] If women-led firms are unable to secure the capital necessary to continue scaling their companies, this has a ripple effect across the entire economy. In addition, barriers to funding are symptomatic of systemic economic inequalities. It is for this reason—the persistence of system-wide intersectional gender inequality in the economy—that the study's findings are unsurprising.

In Canada, the gender wage gap ranges from 95 cents to 70 cents, and only 4 percent of firms have a woman chief executive officer (CEO). Earnings inequality is even more stark for those in equity-seeking populations: women of colour, especially first-generation immigrants, earn on average $5,000 less than white women and $7,000 less than men of colour.[4]



Acknowledging and fostering discourse about intersectional gender inequality in the economy brings us part of the way toward making change. But if talk is not met with action, research findings of funding barriers and gender discrimination will persist. Funding entrepreneurs from diverse backgrounds is ethically important; it is also critical for fostering innovation.[5] The success of entrepreneurs from diverse and intersecting identities—for example related to race, ethnicity, class, disability, sexual orientation, gender, and geography—can generate new ideas about products, services, and practices. It can also expose those in the funding ecosystem to new and creative ways of meeting the needs of underserved markets.

It is for these reasons that BII+E and WEKH have collaborated on an action-oriented initiative for the funding ecosystem. Throughout the first quarter of 2021, the project team convened an advisory panel, including funding experts and entrepreneurs, to develop a practical, evidence-based toolkit for those within the funding ecosystem. It would consist of best practices and concrete tips on how entrepreneurial funders—including government organizations, financial institutions, venture capitalists, and angel investors—can integrate an intersectional gender lens when funding entrepreneurs. During the workshops, we shared research, discussed how best to translate it into action, and collaboratively iterated drafts of the toolkit, soliciting and integrating feedback.

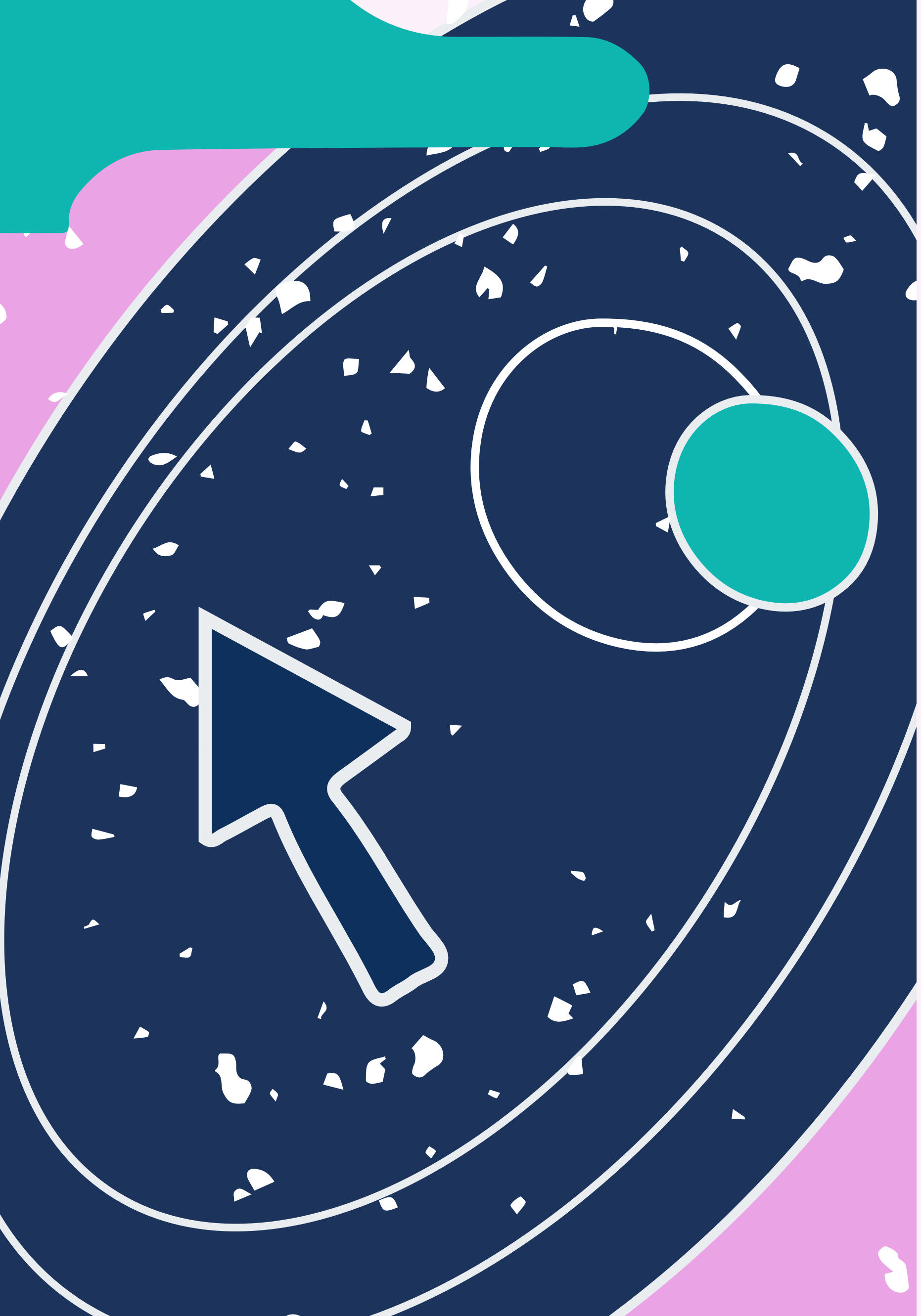
The toolkit was subsequently workshopped with its intended audience—entrepreneurial funders—in order to surface issues and concerns. The final result is *Growth Untapped: Designing Funding with an Equity Lens*. This toolkit intends to provide actionable examples of changes that funders can make to potentially reduce biases and increase capital access for equity-seeking groups including, but not limited to, Black women; First Nations, Métis, and Inuit women; women of colour; trans women; and gender-fluid and non-binary entrepreneurs. Such changes would in turn increase economic growth and scale innovations.

RESEARCH OVERVIEW

This section provides an overview of recent scholarship concerning barriers to funding for entrepreneurs. The experiences within the funding ecosystem of entrepreneurs who are women; Black, Indigenous, and people of colour (BIPOC); and non-binary differ significantly from each other and from those of men, in venture capital and in finance more broadly. For example, a field study of Q&A interactions at TechCrunch Disrupt reveals gender bias in the questions that investors pose; they tend to ask men entrepreneurs promotion-focused questions and women entrepreneurs prevention-focused questions. This results in divergent funding outcomes for entrepreneurs where those asked promotion-focused questions raise more funding than those asked prevention-focused questions.[6] A study of Harvard's New Venture Competition examines how networking during pitching events affects likelihood of venture capital (VC) funding. Even though networking with pitching judges is not encouraged or condoned during the event, men are more likely to do it anyway, and this exposure to networking opportunities significantly improves men's chances of acquiring funding.[7] And a study analyzing asset allocators finds that they are less likely to invest in Black-led funds, providing evidence of systemic racial disparities in how investors evaluate funds and allocate money.[8] Similar findings occur in angel investing, where women receive less capital and provide more equity relative to their male counterparts.[9]

Bias and discrimination do not begin and end in venture capital; they pervade large financial institutions, too.[10] A study of UK bank loan officers finds that men loan officers place more value on building a "rapport" with men clients than they do with women loan applicants.[11] A lack of trust between borrowers and lenders and the persistent value attributed to "rapport"—that ephemeral characteristic that masks in-group preferences[12]—may prevent women from obtaining capital. Such challenges are even more pronounced for women and non-binary entrepreneurs who are Indigenous (First Nations, Métis, and Inuit), are racialized, and/or identify with other intersectional dimensions such as class, sexual orientation, disabilities, and more .[13]

In general, women-led businesses are half as likely as their male counterparts to seek out financing.[14] There are several reasons for this. First, women-led businesses are concentrated in sectors—retail, arts and recreation, hospitality, and social services—that have the highest rates of loan rejection.[15] Second, women-led businesses are asked to provide more documentation earlier on in the loan application process than are men-led businesses; they are significantly more likely to be required to supply cash flow projections, appraisals of assets, and personal financial statements.[16] It may be that women are aware of such trends, and knowing they face higher rates of rejection and are required to jump through more hoops, they opt out of traditional funding arrangements altogether.[17]



Women are not in fact more risk averse than men, and there is evidence of a wider range of risk-taking among men and among women than there is between men and women.

Women may be less likely to seek capital for other reasons as well.[18] Research documents that women value different growth trajectories, and some demonstrate a preference for scaling at more sustainable paces.[19] Some perceive gendered differences in growth strategies as evidence of women's risk aversion; however, research has debunked this claim. Women are not in fact more risk averse than men, and there is evidence of a wider range of risk-taking among men and among women than there is between men and women.[20] Indeed, the gaps in risk-taking remain in the research itself; there is a lack of data and understanding on the risk aversion and loan experiences of women who identify as BIPOC and who may self-select out of traditional funding opportunities due to discrimination and mistreatment.[21] Similarly, there is a dearth of research on the experiences of trans entrepreneurs, who may likewise confront unique barriers.[22]

THE TOOLKIT APPROACH

Why a toolkit?

While there may be gendered differences in approaches to scaling and seeking equity, these differences are not rooted in risk aversion nor underperformance. The major takeaway from recent research on funding women entrepreneurs is that many of the challenges facing women are the result of unconscious bias that pervades boardrooms, pitch competitions, investment meetings, and financial transactions. Most people don't set out to discriminate; members of the funding ecosystem inherit processes with built-in bias that gets perpetrated implicitly. Systemic racism, the process through which racial hierarchies are embedded in structural dynamics, sustains bias and barriers to entrepreneurship and funding for people of colour.[23] Residential segregation, racialized social networks, and intergenerational wealth inequality coalesce to limit BIPOC entrepreneurs' access to funding.[24] Even proactive attempts to ameliorate gender inequality come up against internalized cultural biases that everyone has. The implicit and systemic nature of discrimination makes it more challenging and more crucial to address unequal treatment, change behaviour, and redesign processes that have become embedded in organizations. A first step in redressing inequality is for those in decision-making positions within the funding ecosystem to acknowledge it and commit to making changes to their everyday work practices. This toolkit is designed with these challenges in mind and with the hope of facilitating actionable change.

While funders have fiduciary responsibilities, return on investment (ROI) can nevertheless be prioritized at the same time that an intersectional gender equity lens is integrated into processes, products, and services. Research demonstrates that ROI statistically improves when women are in senior leadership positions.[25] Prioritizing intersectional gender equity is the right thing to do, and it's also good business.

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Making the case with data

Evidence on the financial benefits of diversity

48%

Performance differential between the most and least **gender-diverse companies**

McKinsey & Company's 2020 Diversity Wins report finds that companies with more than "30 percent women on their executive teams are significantly more likely to outperform those with between 10 and 30 percent women, and these companies in turn are more likely to outperform those with fewer or no women executives. As a result, there is a substantial performance differential—48 percent—between the most and least gender-diverse companies."[26]

Success rate for investments teams:

26.4% sharing the same ethnicity | 32.2% diverse team

A 2015 study by MSCI ESG Research shows that companies in the MSCI World Index with strong women leadership generated a return on equity of 10.1 percent per year versus 7.4 percent for those without.

A 2017 study by Nordea finds that on average, companies with a woman CEO or a woman head of the board of directors had a 25 percent annualised return since 2009, more than double the 11 percent delivered by the MSCI World Index.

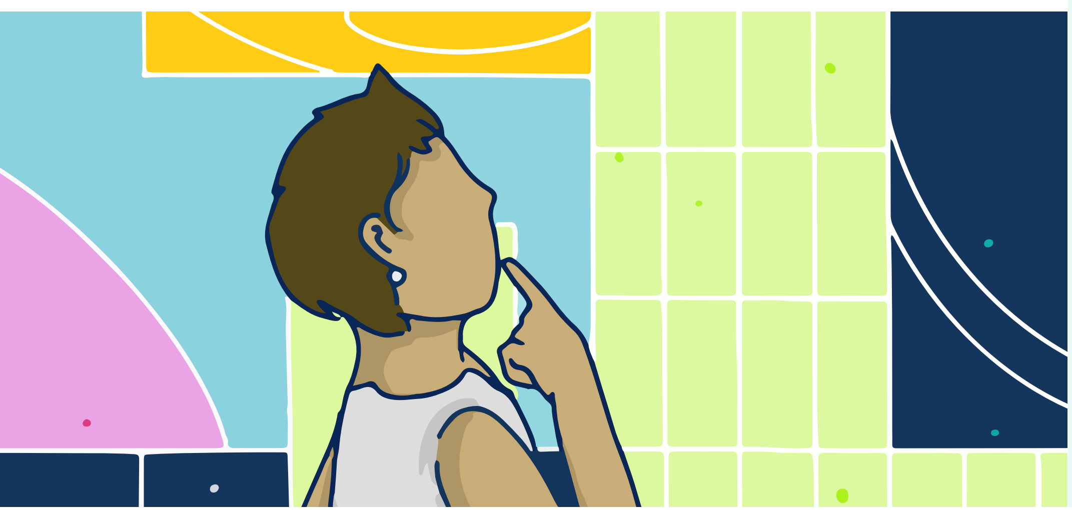
An examination of demographics and investment decisions among VC firm teams from 1990–2018 by researchers at Harvard Business School finds that diversity improved profitable investments at the individual portfolio company level and overall fund returns. Teams sharing the same ethnicity experienced a lower success rate for investments: 26.4 percent compared to 32.2 percent for diverse teams.[27]

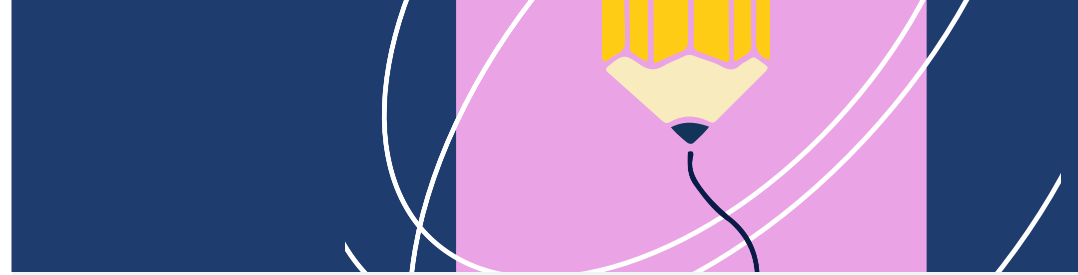
The above studies and more can be found on Catalyst's comprehensive list of research demonstrating the financial benefits of racial/ethnic and gender diversity on boards. However, Catalyst also emphasizes that integrating gender equity should not be solely about the bottom line: "Focusing solely on the return on investment (ROI) of diversity becomes more about compliance than about building a culture that leverages the innovation of a diverse workforce."[28] In order to actually retain diverse talent, a culture of inclusion must exist first and foremost, and that alone cannot be managed by compliance.

How does the toolkit work, and who is it for?

A toolkit provides actionable ways that those who are new to conversations about gender bias in the entrepreneurial funding ecosystem can make changes to their day-to-day work routines.

While there are many great resources with advice and recommendations for women entrepreneurs, fewer resources exist for those in a position to change the culture of intersectional gender inequality in entrepreneurship funding. Accordingly, this toolkit is designed for those in the funding ecosystem: limited partners, venture capitalists, angel investors, bank loan officers at financial institutions, and those working at government funding bodies and business support organizations, such as accelerators and incubators.





Limitations

The motivation for this toolkit stems from the findings of Growing their own way: High-growth women entrepreneurs in Canada, where women confront funding challenges at the high-growth phase of company development despite having achieved a degree of success. While our recommendations may be helpful for all stages of entrepreneurial growth, they are designed with the funding challenges of high-growth founders in mind. Certain recommendations that may be helpful for early stage entrepreneurs are outside the scope of the Toolkit—for example, providing a living wage throughout the early phases of entrepreneurial endeavours for equity seeking groups, or expanding pipeline supports to underrepresented groups via entrepreneurship and digital technology education in high schools.

In addition, integrating an intersectional gender equity lens into practices and processes requires both personal will and accountability. Those attributes cannot be readily built into the toolkit itself. However, we do provide links to resources and further information on how to be effective change agents when it comes to intersectional gender equity on p.18.

OPENING UP THE TOOLKIT

The process for obtaining capital

The process for obtaining capital can vary from case to case, but the general steps are as follows.

Business loans at financial institutions

Founders submit an application online

Including the documents listed to the right in the *Online application documents checklist*.

Founders meet with a loan officer

Founders must provide additional documentation upon request. Founders have subsequent interviews with the loan officer to provide additional information about the business.

Loan officer makes a decision about providing capital

The loan officer reviews the application, assesses the degree of risk the venture poses, and after a credit adjudication process, makes a decision about providing capital.

Online application documents checklist:

+ Articles of Incorporation
+ Trade name registration, if applicable
+ One piece of original, valid, and current government issued photo identification or two original, valid, and current documents from independent and reliable sources for up to three authorized signatories
+ Name, address, and occupation of all individuals having an interest of 25 percent or more in the business
+ Business year-end financial statements signed by the owner(s) for the last two years as well as financial statements of corporate guarantors/shareholders
+ Latest corporate income tax notice of assessment
+ Personal notice of assessment and income tax return for the last two years for each business owner; investment/deposit statements for accounts at other financial institutions
+ Bank account statements at other financial institutions for the last three months
+ For purchases of business assets (for example, vehicle, equipment, property): Bill of sale/purchase agreement detailing price, serial number/VIN, description, etc.
+ If a start-up business (in operation for less than two years): Business plan with 24 months' projected income statement, cash flow statement, and opening balance sheet
+ Interim and/or financial statements signed by the owner(s) since inception

Funding through venture capital

1. VC funds secure financial backing from limited partners (LPs)
2. LPs may review the VC firm's investment strategy and assess whether it sticks to that strategy
3. Partnership agreements with LPs may restrict VC fund managers to a specific investment strategy
4. Founders secure a meeting with VC principals, ideally through a mutual contact
5. Founders present a pitch deck to VC partners; several rounds of meetings may ensue
6. VC partners meet to assess the company's product–market fit, annual recurring revenue, sales/marketing efficiency, gross margins, potential returns, cash flow, market size, team capabilities, and leadership
7. Upon having a pitch accepted, a founder is issued a term sheet and the firm's equity stake is negotiated. The term sheet includes the company's valuation, investor approval rights, post-closing rights, and who will sit on the firm board
8. VC investors undertake due diligence
9. Lawyers draft and negotiate the legal documents required to evidence the investment

WHAT BIASES MAY EXIST THROUGHOUT THE FUNDING PROCESS?

Underrepresentation of BIPOC women, trans women, and non-binary workers in financial institution (FI), VC, and angel investment sectors

+ There is ample empirical evidence that individuals espouse in-group preferences, including when hiring and when engaging in financial transactions.[29] Women and members of BIPOC communities are underrepresented in financial institutions, which may further impede their rates of hiring and retention.
+ Underrepresentation is a problem across all business sectors; a study by the Diversity Institute analyzed the representation of women, racialized, and Black individuals in 9,843 board positions across five sectors and eight Canadian cities. While racialized people represent 28.4 percent of the population across the jurisdictions studied, they occupy only 10.4 percent of board positions overall and only 4.5 percent of corporate boards. Within the Greater Toronto Area (GTA), the study finds that Black individuals are underrepresented on boards of directors, holding 3.6 percent of board positions while representing 7.5 percent of the GTA population.[30]
+ One of the most common entry points into VC is entrepreneurs exiting from a successful venture. Because women, Indigenous peoples, and people of colour are underrepresented in the field of entrepreneurship, this may also mean they have fewer opportunities to enter into the field of venture capital as investors.
+ This lack of representation has a compounding effect whereby less diverse representation within organizations may result in a lack of relevant experience and understanding of business models put forth for funding by women and BIPOC entrepreneurs and a lesser likelihood of implicitly identifying with women and BIPOC entrepreneurs.

Uneven access to funding opportunities

+ The government facilitates a wide range of funding opportunities for small business owners, such as the Canada Small Business Financing Program. However, these opportunities rely on participation by financial institutions, which are unevenly spread across the country and favour those living in urban and suburban areas.
+ Due to colonization and systemic racism, there exist geographic disparities across Canada in terms of who has access to funding opportunities. For example, members of Indigenous communities in Northern Ontario and Manitoba have less access to the FIs participating in government-led financing opportunities (see Figure 1 on next page). In addition to outgroup bias confronting Indigenous business owners, lack of banks in regions where there are many Indigenous residents and entrepreneurs makes it more difficult for them to develop relationships with loan officers. Furthermore, on-reserve Indigenous communities may not have the collateral required for bank loans.[31]

FIGURE 1

Members of Indigenous communities in Northern Ontario and Manitoba participating in government-led financing opportunities

Lenders in ISED's *Canada Small Business Financing Program*

This program seeks to increase the availability of loans to small businesses. The map indicates that there are no participating financial institutions located in northern Ontario and Manitoba, demonstrating how challenging it may be for those living in rural communities to acquire capital.

- Because bank loan officers often rely on referrals, social-geographical disparities such as residential segregation and racialized social networks likewise make it challenging for racialized entrepreneurs, as well as those residing in low-income neighbourhoods, to secure bank loans.[32]
- The Canadian funding ecosystem provides a wide range of alternative funding opportunities for women, including support via incubators and accelerators. While many programs are designed to invest in groups that have been historically marginalized from funding opportunities, often it is unclear whether women-focused programming is open to trans, gender-fluid, and non-binary entrepreneurs.
- A lack of training opportunities for entrepreneurs with disabilities may leave them at a disadvantage when entering into the loan application process, a disadvantage that is exacerbated by low income.[33] In addition, people with disabilities may be disinclined to pursue funding opportunities due to a lack of entrepreneurial self-efficacy resulting from internalizing stereotypes held by others.[34]
- VC investors are primarily interested in technology ventures, and they may assess the validity of a venture idea by relating it to their own day-to-day experiences as business professionals and consumers. Women-led companies, however, are more likely to be concentrated in retail and service sectors. If their business doesn't resonate with investors' personal experiences, it becomes more challenging for women to pitch venture ideas.[35]

Application process

+ Women-led businesses are more often asked to provide documentation during loan applications than are men-led businesses; they are significantly more likely to be required to supply cash flow projections, appraisals of assets, and personal financial statements. Gendered differences in the documentation required to evaluate men- vs. women-led companies may result in differential funding decision outcomes.
+ Many articles suggest that the best way for those seeking funding to get the attention of a VC firm is through a warm introduction by a mutual colleague, friend, lawyer, etc.[36] However, social networks tend to be homogenous, and white men comprise the majority of those employed in VC firms. For example, a survey commissioned by the Canadian Venture Capital and Private Equity Association (CVCA) and BDC Capital found that among the 36 VC firms that participated, 11 percent of partners were women, and 18 percent identified as visible minorities.[37]

Interviews/pitches

+ VC investors tend to ask men entrepreneurs promotion-focused questions (for example, "Do you plan to license the technology?") and women entrepreneurs prevention-focused questions (for example, "What are the opportunities for leakage?"). It is easier to respond poorly to prevention-focused questions, leaving women at a disadvantage.[38]
+ Men more often pursue informal networking with VC funders, which may put them at an advantage in pitching contests.[39]
+ A lack of trust between borrowers and lenders and implicit yet persistent in-group preferences may prevent women and BIPOC entrepreneurs from obtaining capital at financial institutions.[40]
+ There is an overabundance of conflicting studies on the risk profiles of men vs. women. Recent research indicates that women are not significantly less likely to engage in risk-taking than men, and that in fact there are greater differences regarding risk-taking among men and among women than there are between them.[41] Nevertheless, the gendered stereotype of risk aversion persists[42] and may negatively affect perceptions of women founders in pitch meetings.
+ Those in the funding ecosystem perceive "success" through a Westernized, colonial, and capitalist lens that does not honour Indigenous ways of engaging in business. This may place Indigenous entrepreneurs at a disadvantage when applying for funding and pitching their business ideas and models.

Selection criteria/Securing funding

+ Because VC firms are under pressure to produce returns within a given time frame in order to demonstrate quality for raising further funds, they may prefer to fund fast-growing companies over those with steady, measured growth. Women are more likely to favour slower growth, thus putting them at a disadvantage for VC funding selection.[43]
+ Loan rejections are highest in industries where women-led firms are concentrated: retail; social services; and arts, recreation, and information. In addition, businesses with fewer than five employees have higher loan rejection rates, and women are more likely to operate businesses with fewer employees.[44]

GETTING STARTED

The following recommendations were designed with an intersectional lens focused on the interests of women, BIPOC, and gender-diverse founders of high-growth firms.

We understand that some may be better positioned to enact the changes we recommend than others owing to staff capacity, decision-making authority, and internal organizational processes and strategies.

Accordingly, we offer two sets of recommendations:

+ **General, cultural-level recommendations**
  Recommendations designed to motivate conversations about what it means to integrate an equity lens into organizational practices and routines.
+ **Specific, individual, and team-level recommendations**
  Recommendations that offer a suite of advice and questions that those in influential positions, such as LPs and loan officer managers, can put into practice for themselves and their teams.

General recommendations

Research demonstrates that gender, racial, and ethnic diversity improves firm performance by fostering a better mix of ideas, perspectives, and networks on which organizations can rely.[45] However, it doesn't come easily; working across lines of difference is *work* in that it pushes people out of their comfort zones as they bring together newer perspectives. According to diversity expert Katherine Phillips:

The pain associated with diversity can be thought of as the pain of exercise. You have to push yourself to grow your muscles. The pain, as the old saw goes, produces the gain. In just the same way, we need diversity—in teams, organizations and society as a whole—if we are to change, grow and innovate.[46]

In addition, previous diversity and inclusion (D&I) strategies have not resulted in improved outcomes for underrepresented populations because they have not included a strong equity lens. This results in either initiatives that benefit white women rather than racialized women and men or inadequate results overall.[47] Diversity initiatives are

"The pain associated with diversity can be thought of as the pain of exercise. You have to push yourself to grow your muscles. The pain, as the old saw goes, produces the gain. In just the same way, we need diversity—in teams, organizations and society as a whole—if we are to change, grow and innovate."

– KATHERINE PHILLIPS

necessary but not sufficient for creating change; organizations need to focus on equity practices as well.

Addressing systemic inequality and racism through an equity lens is a process that requires both qualitative and quantitative changes. The qualitative change that this toolkit highlights focuses on culture change, including being mindful of the power of language, cultural symbols, and stereotypes. The quantitative change required includes increasing rates of representation, gender parity in leadership roles, and pay equity, both intra-organizationally and through funding partnerships, in order to benefit from diverse perspectives. The following are a series of qualitative and quantitative change-oriented recommendations that may motivate the kind of big picture, macro-level thinking required to make the funding process more equitable:

Challenge stereotypes

Entrepreneurship is often equated with heterosexual masculinity, and this conflation can perpetuate insidious stereotypes.[48] Characterizing entrepreneurship as an all-consuming hustle may likewise discourage those with childcare responsibilities from considering entrepreneurship as an option. At the same time, many women embrace both the hustle and traditional entrepreneurship stereotypes. Funders should avoid assuming that all women fall outside of these characteristic suppositions, instead expanding their understanding of entrepreneurship to embrace other norms. Doing so will be helpful not only for women but for men and non-binary entrepreneurs who do not conform to the typical stereotypes. One way to challenge stereotypes is by building awareness of women entrepreneurs' successes and promoting them as role models. Here, representation matters. For example, we can consider illustrating content about entrepreneurship with images of women or conducting case studies about women-owned firms—not as an exception but as a rule. WEKH's "See It, Be It" campaign moves us closer to this goal by outlining the damaging effects of stereotypes and amplifying the profiles of women entrepreneurs.

Re-evaluate the innovation criterion.[49]

Current definitions of "innovation" are narrow, favouring technological advancements and, subsequently, prioritizing the technology sector where women are already underrepresented. As a result, investors often overlook the kinds of radical innovations women entrepreneurs introduce in the marketplace, including in the services and retail sectors.[50] Other criteria investors can use when evaluating pitches include scalability, job creation potential, and revenue growth.

Be specific in language use.[51]

"Diversity" has become a catchall phrase that can be misappropriated to mean, for example, hiring in order to achieve "diversity of thought," which may preclude the hiring of women and people of colour. The kind of diversity that organizations should strive to achieve is the kind that mitigates gender and racial/ethnic discrimination through increasing representation.[52] In addition, funders can use more inclusive language to ensure that non-binary and gender-fluid entrepreneurs feel welcome to participate in programming and opportunities designed for those who have been historically underrepresented in entrepreneurship. This can be achieved by explicitly mentioning that the funding/programming is intended for those who identify as women or non-binary.

Increase representation

Quite simply, representation matters. There are a number of initiatives that funding bodies can participate in to motivate accountability:

Innovation, Science and
Economic Development Canada
Innovation, Sciences et
Développement économique Canada

Innovation, Science, and Economic Development Canada (ISED) has created the 50/30 Challenge, an initiative between the Government of Canada, businesses, and diversity organizations to improve access to positions of influence and leadership on corporate boards and in senior management for racialized persons, people who identify as LGBTQ2S+, people living with disabilities, and First Nations, Inuit, and Métis. The goal of the challenge is to help organizations achieve 50 percent gender parity on corporate board and senior management positions and 30 percent representation of other underrepresented groups. According to ISED, organizations participating in the 50/30 Challenge will be offered resources to further support them and help them determine their best pathway forward, such as:

+ having access to the Digital Toolkit—with tailored and industry-specific resources and advice
+ gaining connections to partners who specialize in the recruitment of diverse employees
+ attending events where partners recognize corporate leaders who have championed diversity and inclusion by putting it into practice in their own organizations
+ receiving incentives in government program criteria
+ becoming a Corporate Diversity Honour Roll Member, which will grant access to government programs, supports, resources, and social media promotion

BLACKNORTH

The BlackNorth Initiative's mission is to end anti-Black systemic racism by utilizing a "business first" mindset. Organizations can acknowledge their support of these efforts by signing a pledge and committing to creating systems of accountability, sharing goals internally and externally, tracking progress, and sharing regular updates to catalog effective programs and measurement practices.

CEO ACT!ON FOR DIVERSITY & INCLUSION

CEO Action for Diversity & Inclusion is the largest CEO-driven business commitment to advance diversity and inclusion within the workplace. The organization's goal is to take measurable action in advancing diversity and inclusion in the workplace. They offer a variety of resources and steps for implementing change that may support diversity initiatives.

Due Diligence 2.0 Commitment

The Due Diligence Commitment recognizes that "traditional due-diligence and risk-assessment frameworks in the asset management industry have led to a system in which white, male asset managers control 98.7 percent of the investment industry's $69 trillion in assets under management."[53] Asset owners, consultants, and financial intermediaries, on behalf of asset owners who value BIPOC manager inclusion, can commit to making a series of shifts in their due diligence processes in order to make asset management more inclusive and reflective of BIPOC manager experiences.

Build your capacity to integrate an equity and intersectional analysis into your policies, processes and practices

Applying an equity lens or intersectional gender-based analysis (GBA+) is a practice used to assess how diverse groups of women, men, and non-binary people may experience policies, programs, and initiatives. It is about removing the historic white male default mindset and centering the lived experiences of gender-diverse and BIPOC people. Embedding an equity analysis system into product and service development practices enables leaders and teams to design products and services that work for diverse people, taking into account different voices and experiences. Ideally, it would also incorporate participatory practices, such as user testing and design, and authentic relationships with diverse communities and stakeholders.

Apply an equity analysis in five steps:

1. **Define and describe the issue**

   What is the context of your work? Review, analyze, and challenge your assumptions about whether it has gender and other diversity implications. Identify the inequity you want to address.

2. **Collect and analyze data**

   Utilize a variety of data collection methods to gather both quantitative and qualitative information. Engage stakeholders, target populations, and beneficiaries in a participatory manner to gather insight about their experiences, challenges, and assets. Think about which stakeholders to consider. How can you ensure that you are hearing important minority voices? Who is traditionally consulted? Who may get left out of the discussion and how they be included? Conduct additional research and consultations as needed.

3. **Design and develop options and recommendations**

   Using the data and insight you have gathered, respond to the specific issues identified. Engage stakeholders and cross-departmental team members as appropriate.

4. **Implement, test, and pilot new products, services, tools, or policies**

   Determine who is responsible for implementing new initiatives, set clear goals, establish processes required for implementation, and align incentives accordingly.

5. **Monitor and assess outcomes**

   Course correct and apply changes as needed. Utilize a continuous learning model.

The Diversity Institute's Diversity Assessment Tool (DAT) *provides an evidence-based framework for conducting in depth analysis of an organization's practices, processes, and policies to support continuous improvement on diversity and inclusion. Using an interactive process, the DAT can be used to help an organization identify specific areas for improvement across six key areas:*

- **Governance & leadership**
- **Data & metrics**
- **HR & talent strategies**
- **Culture**
- **Value chain**
- **Outreach & community engagement**

The appendices of the toolkit also outline examples of integrating equity into organizations and provide checklists for creating more inclusive work environments.

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Integrating an equity lens requires a team approach with strong leadership support. Corporations new to this work might consider investing in external coaching/consulting support or professional development to help build a common understanding of the foundational concepts and practices related to equity and intersectionality. The Institute for Gender and the Economy has a five-course specialization that explores intersectional gender-based analytics, including a section on becoming effective agents of change. The latter is important since equity champions must often first build a case to win over resisters and fence-sitters. In addition, the Government of Canada offers a course on gender-based analysis plus (GBA+) that explains how various identity factors can influence the experience of federal government initiatives. It also identifies how GBA+ can enhance the responsiveness, effectiveness, and outcomes of federal government initiatives. Through such courses, teams discover the ways that gender identity, Indigeneity, race, ethnicity, disability, sexual orientation, and other intersections shape risks and opportunities and impact an organization's activities, operations, and outcomes.

Specific Recommendations

+ Make the loan application process more flexible and transparent
+ Provide concierge service during the loan application process at financial institutions
+ LPs can select VCs on the basis of gender statements in the VCs' investment theses
+ Make intersectional gender equity a part of LP due diligence when deciding to work with VC firms
+ LPs can select VCs on the basis of gender statements in the VCs' investment theses
+ Expand VC investment theses and personnel expertise beyond technology sectors
+ Create a transparent process for making decisions, including standardization of questions and evaluation metrics of entrepreneurs in pitch meetings
+ Track and disclose demographic data
+ Disclosing demographic representation data motivates firms' accountability

Make the loan application process more flexible and transparent

Why is this important?

+ Research demonstrates that women are more likely to be asked to provide additional documentation when applying for loans.[54] This may be because women are less likely to have collateral, and banks therefore request additional information in order to have more data points on which to base a decision. The request for additional documentation may be, in other words, an attempt to mitigate bias towards women loan applicants.
+ Regardless of the reason, requesting additional information may be considered burdensome, particularly in a context that was not designed to accommodate most women's life course trajectories (for example, gaps in managerial experience, less financial stability due to taking time out of the paid labour market for child rearing, and less likelihood of being socialized into financial literacy based on gendered upbringings and education).

Key actions to consider

- Expand the qualification criteria. According to a recent survey by WEC, one-third of the women entrepreneurs surveyed had requests for non-WEC funding declined. Of those, the majority said they were turned down because they didn't have enough collateral. WEC suggests that broadening the qualification criteria, including redefining risk, will attract a more diverse group of entrepreneurs.[55] SheEO, a woman-focused alternative funding model, provides a good example of this: they have broad qualification criteria with applications open to companies that are women–led, majority women–owned, and have over $50,000 in revenue. SheEO has a 95 percent repayment rate among its funded ventures and a 0 percent interest rate.
- Redesign the loan application process to meet the realities of working women. Significantly more women work in the paid labour market now compared to the time when traditional loan arrangements were first designed and institutionalized. While they are engaging in more paid labour, women spend twice as much time as men performing unpaid childcare.[56] This needs to be kept in mind when it comes to designing the loan application process—a process that often involves cumbersome, time-consuming application packages. The WEC survey also finds that over 50 percent of survey respondents find the process of applying for funding to be somewhat or very difficult. Appendix 1 includes a case study of Vancity and their successful attempt to redesign a loan program for women-identified entrepreneurs.
- Hire a user experience professional (UX) who is well versed in the systemic and attitudinal barriers women entrepreneurs face to review the bank loan application process.[57] A UX professional may be useful for surfacing aspects of the loan application process that can be anonymized to mitigate bias or that are exclusionary (for example, language usage and the way that information is conveyed and requested).
- Be transparent about the interview process. To help make loan application steps more accessible, banks can provide loan interview questions in advance to give applicants more time to prepare.
- Adopt an application review process that removes any and all identification details from candidates' resumes and applications and incorporates reviewers from different branches as a way to mitigate bias.

Pitfalls to avoid

- It is challenging to walk the line between ensuring there is a general, baseline metric from which to judge loan applicants and ensuring there is room for variation in assessment. FIs will have to work to balance these two goals for loan application assessments.

Provide concierge service during the loan application process at financial institutions

Why is this important?

- Building trust with loan officers is important for underrepresented groups that are unable to benefit from in-group preference (recall that research finds men loan officers exhibit bias in favour of men loan applicants).[58] High turnover among loan officers makes it all the more difficult to establish rapport and build trust throughout the loan process.

Key actions to consider

- Have dedicated staff hired into concierge positions. Encouraging long-term tenure in concierge positions can facilitate relationship-building between loan applicants and the banking staff responsible for rendering loan decisions.
- Streamline access to information. Concierge service providers at financial institutions can streamline access to loan information, making it easier for BIPOC women, trans women, and non-binary entrepreneurs to secure capital.
- Foster community engagement. Concierge service providers can encourage community engagement by hosting monthly “office hours” or meet and greet sessions with community members interested in learning more about the business loan application process.
- Those who identify as women’s banking champions can set up a specialized sales force dedicated to supporting the women entrepreneurs value proposition.

Pitfalls to avoid

- Avoid over-burdening concierge service providers. Assign a reasonable number of loan applicants to each concierge service provider in order to facilitate meaningful relationship-building.
- Don’t silo the concierge service. In order to be transformative, a concierge service would need to extend through the entire financial system—from product development to marketing, sales, and credit.

Make intersectional gender equity a part of LP due diligence when deciding to work with VC firms

Why is this important?

+ Diverse representation in terms of gender, race, ethnicity, sexual orientation, class, disabilities, and more fosters innovation and potential for growth.[59]
+ There is a growing body of convincing evidence that women-led start-ups, when funded, produce significantly more revenues than men-led investees, and their investment efficiency (the amount of revenues per dollar invested) is also better compared to men's.[60] A study by BCG finds that companies with more diverse management teams have 19 percent higher revenue due to innovation.[61] Similarly, having more women represented on boards also enhances firm performance.[62]
+ LPs concerned about the poor returns for many VC funds may want to investigate or query the funds they sponsor about the proportion of women-led start-ups among the VC's portfolios.
+ More women investors are entering the field, but the rate of funding women start-ups is not improving. Research by Iris Bohnet indicates that a minimum of 30 percent diversity on investee teams is needed for the diversity of VC teams to be realized.[63]

Key actions to consider

+ Make intersectional gender equity (for VC portfolio firms at least) a criterion for financing funds, and funds of funds; this can begin to move the needle for VC returns and carried interest for LPs. This includes ensuring there is diverse representation and domain expertise among VC partners such that certain VC partners will have expertise in sectors where women and BIPOC entrepreneurs are more likely to be concentrated.
+ While the evidence suggests that more women-led portfolio start-ups can improve returns to a fund, it is not clear that more women investors are able to make a difference in VC funding of women start-ups.[64]

LPs can select VCs on the basis of gender statements in the VCs' investment theses

Key actions to consider

+ LPs can set guidelines for VC funds, including forcing compliance for reporting gender-disaggregated data of their VCs and their portfolios, increasing the percent of capital that is invested in women entrepreneurs, and committing to investing only in funds with gender-diverse investment teams.
+ LPs can share and VC firms may incorporate a series of recommendations for supporting BIPOC asset managers under the Due Diligence Commitment pledge, including considering track record alternatives and reassessing assets under management as a risk metric.

Pitfalls to avoid

+ A pledge is not the same as a target. A recent study by the International Finance Corporation (IFC) finds that nearly 60 percent of surveyed LPs did not have investment goals related to gender diversity of VC partners or their portfolio companies. Broad, vague prescriptions will be insufficient for improving equitable outcomes. LPs can set hard targets to demonstrate their commitment to intersectional gender equality.[65]
+ Be mindful of how definitions of majority-woman ownership affect access to resources. When funding growth through equity or venture capital, women-led firms may risk losing their certification due to capitalization table expansion; the addition of men venture capitalists as equity partners can change the gendered balance of firm ownership, and women founders may subsequently become ineligible for government programming that facilitates access to procurement opportunities and other corporate supply chains. As an industry, we need to be mindful that women founders raising VC may be penalized.

Expand VC investment theses and personnel expertise beyond technology sectors

Why is this important?

- Innovation and scalability are linked not only to technology, and there are opportunities for success in a wide range of sectors. Razor blade companies, coffee companies, and sock companies can be billion-dollar businesses.[66]
- According to Statistics Canada, "Although policy-makers tend to associate high-growth firms with innovative high-tech firms, the reality is that these firms are found across all industrial sectors."[67]
- In addition, traditionally non-tech enterprises may have untapped technological applications but require further coaching and development to realize them. In these contexts, VC fund partners can play an important mentorship role in realizing such potential.

Key actions to consider

- Meet women where they are. Women report having to engage in "shadow negotiations" in order to dispel unspoken norms and biases that trail them into pitching contexts, including the gendered labour of having to explain the value proposition of women-focused products and services.[68] Men working in VC can alleviate shadow negotiations by developing expertise in female-concentrated markets and/or hiring fund managers with such expertise.
- Expand partner funding expertise. This can be accomplished by recruiting and hiring women, BIPOC, and non-binary partners, thereby diversifying both demographic representation and sectoral expertise within VC firms.
- While implementing changes to investment theses and VC team experience is an incremental process, a more agile stopgap is to raise demonstration funds, smaller funding allotments that are less risky but that nevertheless enable teams to develop experience and expertise in new markets.
- The51 and Sandpiper Ventures are great examples of woman-focused funds that have successfully incorporated a diverse range of companies into their portfolio.

Pitfalls to avoid

- Avoid tokenism. Those with funding expertise in sectors where women-led firms are more highly represented (for example, retail and entertainment) should not be expected to speak on behalf of all underrepresented groups, and efforts should be made to ensure they do not feel tokenized on the basis of their expertise.
- Call in LPs. The ability to expand funding expertise cannot be solely determined by VC firms; LPs often set the parameters of a VC firm's investment strategy and may be better positioned to encourage a wider, more diverse range of sectoral expertise and personnel.

Create a transparent process for making decisions, including standardization of questions and evaluation metrics of entrepreneurs in pitch meetings

Why is this important?

+ Bias in the pitch process is well established; quantitative analyses document implicit bias in favour of men entrepreneurs. The high-growth women entrepreneurs who participated in the first phase of BII+E's investigation of scaling women-founded firms acknowledged instances of explicit discrimination. One participant was told in a pitch meeting, "I think you're going to get married and pop out a couple of kids, and I'm not interested in investing in a mompreneur." Another was told, "I don't even know why I'm meeting with you . . . [you don't look like] you make the hard decisions that need to be made in order to really succeed in business."[69]

Key actions to consider

+ Consider a peer-selected investment process. For example, SheEO and Village Capital's model of delegating investment decision-making to a diverse group of entrepreneurs has equalized capital allocation. At Village Capital, 44 percent of the capital invested is going to women, more than twice the industry average.[70] And at SheEO, 100 percent of the capital invested is going to women-led companies.
+ Develop a checklist for structured interviews to ensure equal treatment of founders. See Appendix 3, which reproduces a checklist for VS partners by Siri Chilazi.

Pitfalls to avoid

+ Don't assume that standardizing questions can solve problems associated with bias. Implicit bias is persistent, and as Siri Chilazi recommends, "remembering that your brain isn't a perfect decision-making machine will allow you to examine and re-examine your impressions and check for overtly biased assessments."[71]

Track and disclose demographic data

Why is this important?

- Collecting demographic data assists in identifying underrepresentation along lines of race, ethnicity, gender, ability, class, and sexual orientation and helps firms determine whether and how they need to alter practices to mitigate discriminatory behaviour.[72]

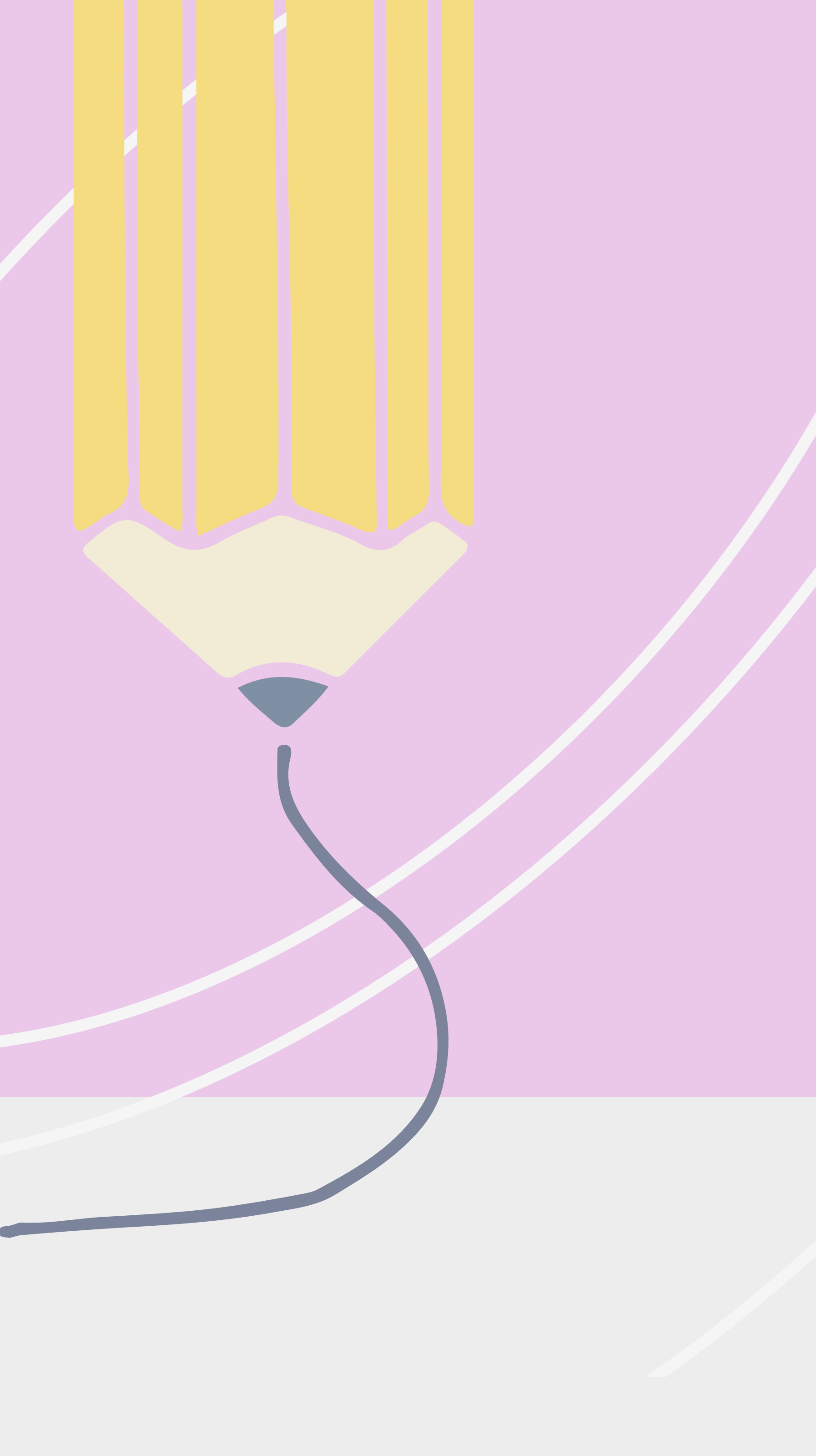
Disclosing demographic representation data motivates firms' accountability

Key actions to consider

- In Appendix 3, we include a checklist of the kinds of data that may assist in identifying gaps, including hiring, promotion and performance evaluation, compensation, and deal-sourcing data.
- Woman-focused business support organizations, such as accelerators and incubators, are often well networked and familiar with non-binary and racialized women entrepreneurs. VC firms may consider establishing partnership and sponsorship/mentorship connections with such organizations in an effort to expand their own business networks. In Appendix 2, we provide a link to WEKH's list of women-focused business support organizations.
- Initiatives such as ISED's 50/30 Challenge outline how to set actionable targets for increasing representation.
- Firms can onboard a third party for collection and assessment of demographic data to uphold accountability.
- ISED has developed a performance measurement framework for business accelerators and incubators (BAIs). Data provided by participating accelerators and incubators is aggregated by Statistics Canada. The standardized list of measures and data enables business support organizations to have a benchmark against which they can assess their organization's progress. The VC industry can consider such a partnership in an effort to develop standardized metrics.

Pitfalls to avoid

- Collecting demographic data can raise privacy and security concerns. Ensure that data is collected legally and ethically and that the intended use is clear and not open ended. In addition, data should only be circulated and reported in the aggregate in order to protect the confidentiality of those providing the data.
- Integrating consideration of intersectional gender equality into products, processes, practices, and services is challenging, not least because it requires buy-in from a wide variety of stakeholders. Wherever possible, this toolkit corroborates recommendations with examples and empirical evidence to help change agents make their case more forcefully. It is also important to note that many of the recommendations included in the toolkit are underway within the North American funding ecosystem. In order to demonstrate what change can and should look like, the following section provides examples of funders that are successfully integrating an intersectional gender lens into their operations.



APPENDIX 1: CASE STUDIES

We provide several case studies of organizations that have successfully integrated a gender lens into their programming, products, and/or services in ways that benefit women and racialized entrepreneurs.

CASE STUDY I:

Gender lens funding in financial institutions

VANCITY'S PARTNERSHIP WITH WOMEN'S ENTERPRISE CENTRE

Vancity

WOMEN'S ENTERPRISE CENTRE

What this initiative aimed to achieve

The COVID-19 pandemic is having deleterious consequences for working women. Research suggests that work stoppages caused by the pandemic have set women's employment gains back 20 years in what has been dubbed the "she-cession." This is likewise the case for women entrepreneurs; the impact of COVID 19 has been harshest on those running small- and medium-sized enterprises (SMEs) with under 20 employees and those in service sectors—both areas where women entrepreneurs are overrepresented.[73]

Vancouver City Savings Credit Union, commonly referred to as Vancity, is a member-owned financial co-operative headquartered in Vancouver, British Columbia. Recognizing that the pandemic was affecting many of their members, the credit union decided to offer a loan service focusing on women entrepreneurs to meet members' needs.

Who was involved

Vancity collaborated with WEC, a non-profit organization devoted to helping BC women start, lead, and grow their own businesses. The two organizations, which had a pre-existing relationship, believed that a financial service intended to meet the needs of women entrepreneurs could be best achieved by combining Vancity's expertise in financing and WEC's expert understanding of the entrepreneurship community. Vancity provides financial support while WEC provides loan applicants with business advice, mentoring, and access to their network of entrepreneurs and funders. The resultant program is called the Unity Women Entrepreneurs Program.

Results

The program was officially relaunched in February 2021 and representatives from Vancity report that the service is already in high demand and exceeding expectations. Even applicants that are not approved for funding are able to access WEC's resources so they can improve their business understanding.

Challenges

The program was initially launched in August 2020, and while there was much interest from the entrepreneurship community, very few applicants were found to qualify. Initially, Vancity offered only one funding option for up to $150,000 and required applicants to provide a minimum of two years of financial records as well as a nine-page application form. Vancity decided to pivot and reevaluate the service. They onboarded three client-facing staff members to help provide a user experience lens. Vancity management encouraged blue sky thinking to widen the number of eligible entrepreneurs. The outcome of the service redesign strategy was to offer two different streams of loan support: one for start-ups offering up to $20,000, based on credit ratings and one for growing firms that have been in operation for longer than 12 months offering between $20,000 and $100,000. The second stream is based on more wide-ranging criteria, including financial projections and pandemic pivoting strategy.

Lessons

Vancity management's approach to integrating a gender equity lens into its services began internally through inclusive hiring practices and adapting office culture—for example, by providing gender-neutral bathrooms onsite and ensuring that their women-focused services are available to everyone who identifies as women or non-binary. With a culturally inclusive foundation in place, Vancity management reports that it is not difficult to subsequently offer equitable products and services. In addition, as an organization they embrace a philosophy of "when you make mistakes, you make it right." In the case of the Unity Women Entrepreneurs Program, this meant recalibrating service offerings and relaunching rather than giving up.

CASE STUDY II:

Redefining innovation

A NON-TECH FIRM'S SUCCESSFUL ACQUISITION OF VENTURE CAPITAL

BLUME

What this initiative aimed to achieve

Blume is a woman-led company that provides dependable, high-quality, and safe menstrual and wellness products. Whereas the majority of mass-produced period products take centuries to biodegrade and contain chemical ingredients, Blume's products are organic. The company offers a subscription box starting at $11 per month and a wide range of life products such as organic tampons and pads, remedies for PMS, and a first period starter kit that includes conversation prompts for discussions with a trusted adult.

Who was involved

Blume was founded by Vancouver-based sisters CEO Taran Ghatrora and COO Bunny Ghatrora. The Ghatroras were motivated in part by the lack of quality education for girls regarding menstruation. In North America and globally, girls are socialized into conflicting information regarding periods; they are taught that menstruation is normal yet traumatic and something surrounded by secrecy.[74] The devaluation of menstruation is likewise demonstrated by the fact that in Canada, period products were considered a luxury item and subject to taxation until 2015. The failure to acknowledge menstruation as a natural biological function extends to the design of period products, and companies have come under fire for not disclosing the chemicals used in the manufacturing of maxi-pads and tampons.[75] The Ghatroras are hoping to change sex education policy via the self-care business, particularly in the United States, where the majority of their customer base is located.[76]

Results

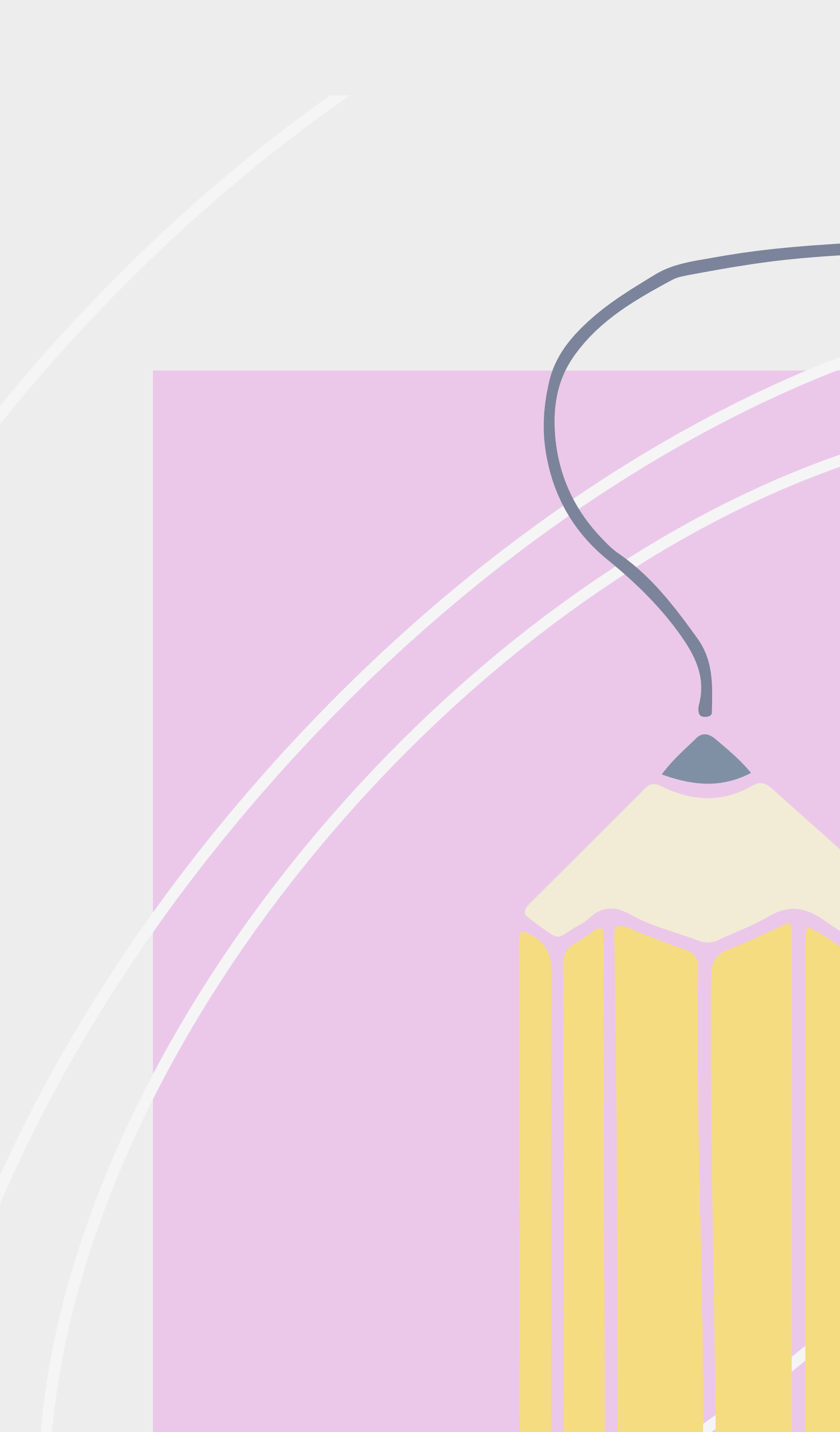
In 2019, Blume led a $3.3 million Series Seed funding round from several investor participants. The round is led by Grace Chou and Victoria Treyger, partners at Felicis Ventures, with participation from Victress Capital. Other investor participants include Panache and Eric Ries. According to VC News Daily, Victress Capital partner Suzanne Norris felt there was a sizable gap in the $15 billion personal care market for products designed for and marketed to Gen Z girls. "Blume is the only brand that is approaching the Gen Z consumers' needs in this cohesive way across both commerce and content, and we believe they will develop the next generation of confident, tenacious and conscious women. We strongly support Blume's mission and we are honored to partner with their team," said Norris.[77]

Challenges

Venture Capital firms are most likely to invest in tech start-ups and scale-ups, owing to tech firms' scalability, high growth rates, and margins. As with a product-based company like Blume, it can be difficult to acquire VC funding. Whether by fate or strategy, Blume aligned with a majority-woman and racialized VC firm, Felicis Ventures, that aptly recognized the company's potential. The *VC News Daily* states that Victoria Treyger was "impressed by Blume's holistic approach to transforming the [personal care] category—starting from an expanding line of wellness products, to authentic educational content on physical and mental health, as well as innovative omnichannel concepts that resonate with teens."[78]

Lessons

Blume is not an outlier; plenty of non-technology based companies are candidates for successful venture capital. LOLA, a US-based menstrual hygiene company, has likewise closed on $24 million in Series B funding.[79] In addition, Blume aligned with a VC firm consisting of partners that could accurately assess the company's value and potential.



CASE STUDY III:

Leveraging the power of limited partners

ACREW CAPITAL'S DIVERSIFY CAPITAL FUND

What this initiative aimed to achieve

Limited partners are institutional or individual lenders that invest capital into VC funds. LPs may include endowments, corporate pension funds, or wealthy families. As holders of the purse strings, LPs have the authority to review and restrict VC firms' investment strategy and assess whether they stick to it. LPs are, in other words, highly influential players in the field of venture capital. Much as with the rest of the venture capital ecosystem, women and BIPOC individuals are underrepresented among limited partners. Venture capital firm Acrew Capital is aiming to change this by raising a new fund that will usher in a more diverse collection of LPs.[80]

Who was involved

Acrew Capital is led by founding partner Theresia Gouw. Her company's new Diversify Capital Fund will target LPs from underrepresented backgrounds. Acrew acknowledges that "one area that hasn't gotten much attention is who benefits from the venture capital firms behind high-growth companies. With only 1.1 percent of all private funds managed by women or people of color, not surprisingly, the underlying investors of those firms also reflect the lack of diversity. This tight network means it's challenging to even have the opportunity to invest until the company is public."

Results

Acrew's goal is to increase the representation of women and BIPOC investors on cap tables in later-stage rounds, when companies are between one and three years out from an initial public offering (IPO). Focusing on high-growth companies means that historically underrepresented investors will see a financial return within a shorter time frame, thus allowing them to reinvest more quickly and expansively.

Challenges

As with any effort to include individuals from underrepresented backgrounds, it will be important for Acrew to ensure that women and BIPOC LPs do not feel tokenized on the basis of their social location and can invest in ways that suit their needs. Fortunately, Acrew is well positioned to ensure this does not occur since within Acrew itself, 63 percent of the investing team are underrepresented minorities and 88 percent are women or people of colour.[81]

Lessons

Acrew is demonstrating that being strategic and being inclusive are not mutually exclusive. According to founding partner Lauren Kolodny, "a growing number of start-ups is focused on enhancing diversity in the boardroom, and having a diverse LP base of individuals who it can connect with interesting board roles is likely to work out well for everyone involved, from Acrew, to the companies, to its new LPs."[82]

What this initiative aimed to achieve

The underrepresentation of racialized entrepreneurs has a ripple effect across the entrepreneurship pipeline. Because entrepreneurs who have successfully exited ventures are more likely to become venture capitalists, a lack of entrepreneurs of colour leads to a lack of racialized VC and angel investors. Increasing the financing of companies led by people of colour is thus a crucial means of mitigating inequality in entrepreneurship. Many people have a misguided perception that prioritizing the funding of underrepresented groups is at odds with maximizing ROI. Research demonstrates that this is untrue; diversity improves profitable investments at the individual portfolio company level, as well as overall fund returns.[83] Nevertheless, it remains rare for VC firms to actively pursue diverse representation as a strategy for increasing ROI. Backstage Capital aims to change this by prioritizing the provision of investment funds to companies led by underrepresented founders.

CASE STUDY IV:

Building equity into capital allocation

BACKSTAGE CAPITAL

BACKSTAGE CAPITAL

Who was involved

Backstage Capital was founded in Los Angeles in 2015 by Arlan Hamilton. It is a VC firm which focuses on providing capital to underrepresented founders. According to Hamilton, "We invest in the very best founders who identify as women, People of Color, or LGBTQ. I personally identify as all three." The firm has secured funding from accredited angel investors and independently wealthy investors.

Results

Over the last five years, Backstage Capital has invested in more than 160 companies led by underrepresented founders. As of February 2021, anyone can have a stake in the umbrella company of Backstage. This enables those less familiar with investing—even those who are not considered accredited under regulation of the Securities and Exchange Commission (SEC) and those who are not in the United States—to have an opportunity to build wealth. Hamilton sees great value in this, having witnessed her 71-year-old mother invest $500 in a company through a private lending platform and develop her own portfolio. She also sees the impact youth can have in steering the direction of wealth for themselves and their families.

Challenges

Hamilton has to deal with the misplaced perception that there is no real process behind her team's investing in companies led by underrepresented founders. In an interview with *The Verge*, she shares, "I think people still believe that I'm just looking at someone's profile. If you're a Black founder, you walk through the door, I write a check for you. My main job is to make money for myself, my team, and our investors." For Hamilton and her team, the question is "What sort of impact does [the company] have financially and socially?"[84]

Lessons

Since 2015, Backstage Capital has heard over 10,000 pitches. Of those 10,000 pitches, 170 have led to companies being funded. Arlan Hamilton demonstrates that having social justice impact and prioritizing inclusion of underrepresented entrepreneurs does not have to be mutually exclusive with making profit.

APPENDIX 2: OTHER RESOURCES FOR LEARNING ABOUT INTERSECTIONAL GENDER ANALYSIS

For those interested in furthering their understanding of decision-making with a gender lens, we outline the following resources:

- **WEKH** provides a database of organizations supporting women entrepreneurs across Canada that may help VC firms expand their networks.
- Founder and investment strategist **Bonnie Foley-Wong** has written an informative article that includes ideas for fund investors to affect change and support a diverse, next generation of venture capital investors.
- **The Rose Report** provides a checklist of best practice processes for VC, private equity and institutional investors. It includes such vital advice as ensuring that one's firm is worthy of great talent by reflecting on how the behaviour of leaders and senior investment partners is viewed by women and minority employees.
- The State of Diversity & Inclusion Report by the **Canadian Venture Capital and Private Equity Association (CVCA)** and BDC Capital provides a snapshot of the current state of diversity and inclusion within the Canadian private equity and venture capital sectors. It establishes baseline data based on CVCA membership responses to the survey to measure the sector's progress over the coming years.
- **Harvard University**'s Project Implicit offers a variety of tests designed to reveal implicit biases, including a test that reveals associations between gender and careers and gender and science, among others.
- **The European Commission** has recently published a series of case studies highlighting how to integrate a gender lens in scientific research, including a case on venture funding.
- **Women and Gender Equality (WAGE) Canada** has a glossary of terms and concepts that can facilitate an understanding of intersectionality.
- **Zebras Unite** is a social justice movement designed to create the culture, capital, and community necessary for an economy that prioritizes quality, creation, and sustainable growth.

APPENDIX 3: CHECKLISTS FOR STANDARDIZING PITCH INTERVIEWS AND COLLECTING DEMOGRAPHIC DATA

The following checklists are reproduced verbatim with permission from Advancing Gender Equality in Venture Capital by Sarah Chilazi at the Women and Public Policy Program, Harvard Kennedy School.[85]

Checklist for Structured Interviews

Traditional, unstructured interviews where candidates get asked whatever questions interviewers want are a breeding ground for bias because they do not allow for direct and objective comparisons across candidates. Instead, they give interviewers the freedom to base their questions and evaluation on personal opinions and experiences, making them susceptible to such biases as homophily, or our tendency to bond with similar others; the halo effect, in which an initial positive impression colours how we perceive a person overall; confirmation bias, which leads us to favour evidence that confirms our existing beliefs and ignore evidence that challenges them; and the peak-end rule, where we make judgments based on the most intense and memorable experiences rather than the average or overall experience.

Structured interviews minimize these problems because they focus on job qualifications, enable direct comparisons across candidates, and thereby lessen the impact of unconscious biases. The checklist below is intended for interviews in a hiring context and has been adapted from Bohnet (2016)[86]. It can also be modified for use in the entrepreneurial pitch process and in pitch meetings to increase standardization and to ensure fair, unbiased, and objective treatment of all founders and their ventures.

Before the Interview

+ Determine the target number of interviews (use your own data!). There is no magic “correct” number of interviews—this varies from one company to the next. Track your patterns over time and determine how many interviews you need to conduct before candidates’ scores start to converge and additional interviews yield no meaningfully new information.

- Determine a list of questions in advance (use your own data!). Ideally, the questions you ask in interviews are actually predictive of people's performance on the job. Start tracking the questions that are asked in job interviews and their correlation with employees' success on the job.

During the Interview

- Interview one-on-one (no group interviews). As humans, we are prone to groupthink whereby we subtly and unconsciously influence each other's decision-making. Multiple interviewers are not able to produce genuinely independent assessments of a candidate; rather, they will influence each other's perceptions. Therefore, interviews should always be conducted one-on-one to yield the best data.
- Ask questions in the same order and stick to it. Following this practice will enable the least biased and most direct comparisons across candidates (see recency bias below).
- Score answers to each question separately and score immediately afterwards. Recency bias causes our minds to overweight the most recent information and discount earlier data. By scoring each answer in the moment, your evaluation of an earlier question will not influence your evaluation of the candidate's performance on the current question.
- Be aware of your biases. While simply being aware of your biases isn't enough to eliminate their effects, remembering that your brain isn't a perfect decision-making machine will allow you to examine and re-examine your impressions and check for overtly biased assessments.

After the Interview

- Compare answers to questions across candidates, one question at a time. For the most accurate and unbiased comparisons, assess all candidates' responses to a particular question to calibrate your judgments and minimize the impacts of homophily, recency bias, and the halo effect.
- Use pre-assigned weights for each question to calculate a total score. In case all interview questions are not weighted equally, weights should be pre-assigned to prevent confirmation bias whereby we seek evidence that confirms our existing opinions (and to prevent us from re-tooling systems to yield the results we want to see).
- Submit your scores to the lead evaluator. Each interviewer or evaluator should evaluate a candidate independently to minimize groupthink; the lead evaluator (which can be software) should simply collect and compile all scores and share them in aggregate.
- Meet as a group to discuss controversial cases and calibrate. Any group discussion should occur at the very end of the hiring process to minimize groupthink and the influence of any power and status dynamics on decision-making.

Checklist for Collecting Demographic Data in VC Firms and Portfolio Companies

The following is a list of recommended data for VC firms and their portfolio companies to collect and track regarding diversity and inclusion. These data and metrics may not be applicable to all firms and contexts, so the list below should be viewed as a starting point. While examples are given for gender, the same data could be collected and tracked by any category of diversity (for example, race, LGBTQ status, disability).

Hiring & Demographic Data

+ Full workforce by gender, race, level, and function
+ For VC firm: total workforce of all portfolio companies by gender, race, level, and function
+ Number and percentage of female and male job applicants by role/level and by channel (referrals, networks, own website/LinkedIn/other job sites, campus recruiting, etc.)
+ Number and percentage of female vs. male candidates hired, broken down by level

Promotion, Performance Evaluation & Development Data

+ Number and percentage of women and men promoted, broken down by level
+ Tenure in previous role before promotion, broken down by gender and level
+ Performance scores and evaluations given to women and men, broken down by level/rank, tenure in the organization, tenure in the current role, etc.
+ Correlation between performance scores and promotions by gender
+ Professional development and developmental programs—for example, leadership trainings by gender (both who is invited to participate and eventual attendance)
+ Work/project assignment by gender

Compensation Data

- Total compensation by gender, controlling for level, tenure, education, office/geography, etc. (analyze all possible components of pay: salary, equity, performance bonuses, discretionary awards from peers/managers, etc.)
- Starting pay for new hires in the organization, controlling for level, tenure, education, office/ geography, etc.

Other Data

- Number and percentage of employees leaving the organization, broken down by gender, level, and tenure at company at the time of exit
- Qualitative data from satisfaction/engagement surveys or exit interviews (analyze by gender to identify any gaps)

Deal Sourcing Data

- Meetings taken by founders' gender
- Formal pitches heard by founders' gender
- Investments ultimately made by founders' gender

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ENDNOTES

1 This project applies an inclusive definition of women that recognizes and welcomes non-binary persons, trans women, queer women, women of colour, Indigenous women, women with disabilities, and women from all socio-economic backgrounds.

2 The BII+E/WEKH partnership uses the Organisation for Economic Co-operation and Development (OECD) definition of a high-growth firm, which is a company that has an average annualized return of at least 20 percent in the past three years with at least 10 employees in the beginning of the period. We recognize that companies may have their own understanding of what constitutes a high-growth firm. In addition, high-growth women-led firms tend to have fewer employees on average. In the context of the toolkit, the OECD definition of high-growth can be thought of as a guidepost and not definitive.

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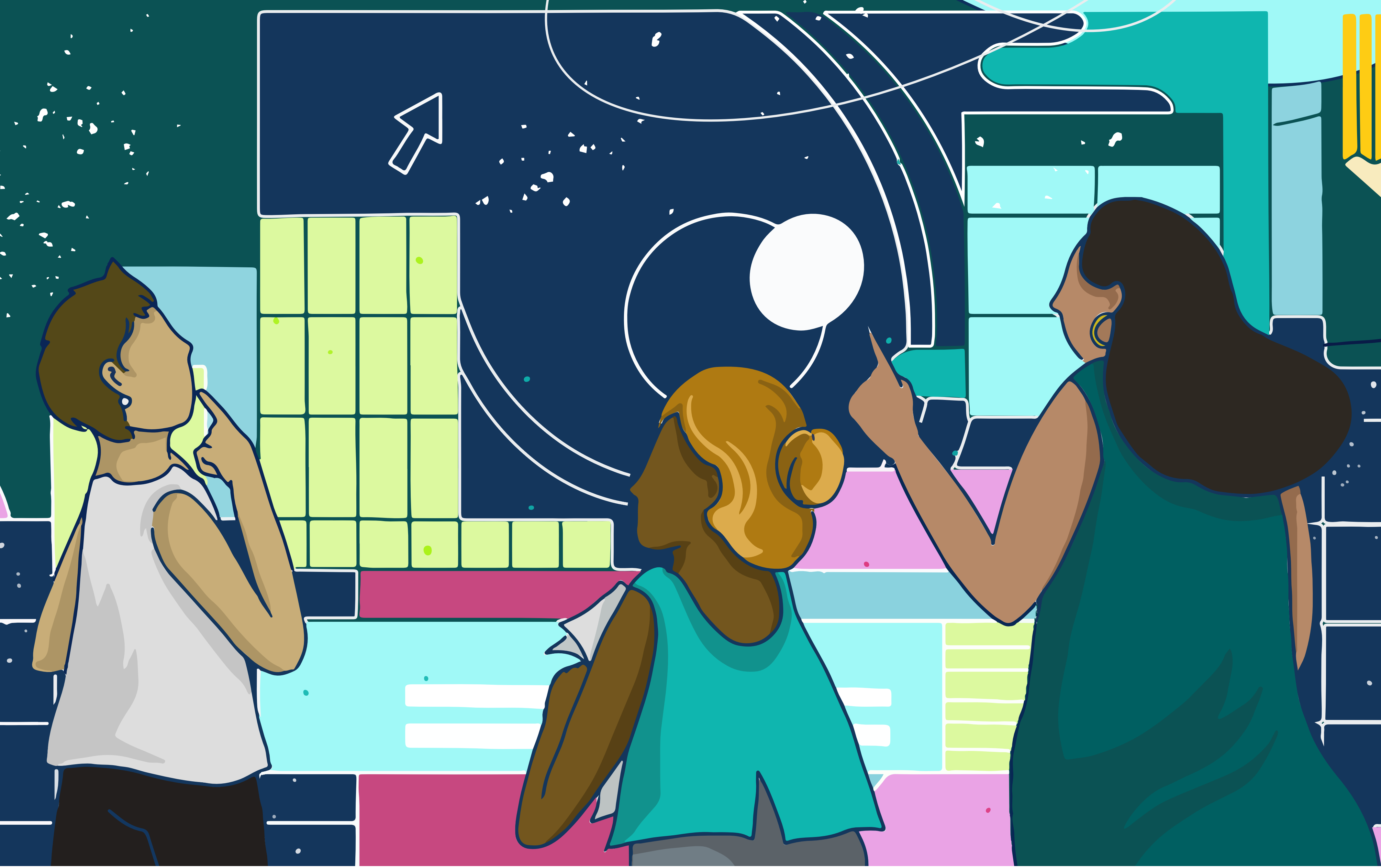

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