

Statement of Maryam Haque
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before the Committee on Financial Services Task Force on Financial Technology
**“Combating Tech Bro Culture: Understanding Obstacles to Investments in Diverse-
Owned Fintechs”**

June 30, 2022

Chair Lynch, Ranking Member Davidson, and Members of the Task Force, thank you for the opportunity to testify today on the important topic of diversity, equity, and inclusion (DEI) in the U.S startup ecosystem and share what the venture capital (VC) industry is doing to address this. My name is Maryam Haque, and I am the founding Executive Director of Venture Forward, a 501(c)(3) supporting organization to the National Venture Capital Association (NVCA) with a mission to diversify, educate, and empower the VC investor class to advance the industry and maximize impact and returns.

The fact is that women, people of color, other marginalized communities, and investors and founders based outside of historically-dominant startup hubs are underrepresented in VC. Venture Forward’s mission is to change that. Our work empowers talented individuals to become VC investors by creating opportunities and opening doors that might otherwise have been closed to them. For VC investors and firms, we represent a “square one” resource to help them implement meaningful DEI practices. We are the only organization advancing diversity from an intersectional lens, supporting investors from a cross section of backgrounds and demographics.

Venture Forward provides education, resources, and connections to drive intersectional diversity within the VC community. Our work primarily focuses on the investor base because investors control where and how capital is deployed to founders, and data shows that more diversity among investment check-writers leads to a more diverse set of founders raising capital. Our work revolves around three key pillars:

- **Educate:** We educate aspiring VC investors and provide insight and resources to help them succeed in the field.
 - We democratize access to VC education through VC University, a certificate course co-led with NVCA and UC Berkeley, full scholarships, and dedicated mentorship.¹
 - We offer highly curated half-day workshops (through the Limited Partner (LP) Office Hours program) where underrepresented and emerging managers receive guidance from experienced LPs about fundraising best practices.²

¹ VC University, <https://venturecapitaluniversity.com>

² LP Office Hours, <https://ventureforward.org/lpoh>; Limited Partners (LPs) are the entities that invest in venture capital funds. Examples of common LPs include pensions, endowments, foundations, family offices, and individual investors.

- We provide training, educational programs, and other resources to meet the needs of the community of aspiring investors.³
- **Empower:** We empower current investors to implement and administer meaningful DEI strategies and policies within their firms to create change in the industry. Alongside our parent organization NVCA, we are uniquely positioned to transform the industry from within.
 - Every two years, we conduct a Human Capital Survey of VC firm workforce demographics and talent management strategies to measure the industry’s DEI progress.⁴
 - We host DEI workshops and events for industry leaders and experts to foster discussion of progress, opportunities, and challenges.⁵
 - We facilitate tangible engagement and support between VC firms and underrepresented emerging investors, via scholarships and curated mentorship opportunities.⁶
- **Engage:** We help current investors engage with aspiring investors by sharing job and mentorship opportunities, introductions, and frameworks for collaboration.
 - Through our VC University program, we offer experienced VCs the opportunity to help educate the next generation of investors.⁷
 - Our Mentorship Program matches scholarship recipients from historically underrepresented backgrounds with two mentors—an Experienced VC Mentor and a Peer Mentor.⁸
 - We guide VC partners in hosting office hours for emerging managers from historically underrepresented backgrounds to share fundraising guidance and best practices.

Impact highlights of Venture Forward’s programs and initiatives include:⁹

- Collected workforce demographics and talent management data from more than 375 VC firms through the VC Human Capital Survey as we continue to measure the industry’s DEI progress.
- Educated more than 2,270 aspiring and early-career VCs through VC University ONLINE and VC University LIVE.

³ For example, Brand Building workshops for underrepresented VC investors: Comms 101 <https://ventureforward.org/event/comms-101-building-your-brand-as-a-vc-investor/2021-02-23> and Comms 201 <https://ventureforward.org/event/comms-201-building-your-brand-as-a-vc-investor/2021-03-02>

⁴ *VC Human Capital Survey*, powered by NVCA, Venture Forward, and Deloitte <https://www2.deloitte.com/us/en/pages/audit/articles/diversity-venture-capital-human-capital-survey.html>

⁵ For example, virtual workshop on “Leveraging Human Capital Survey Insights to Drive DEI in VC,” April 2021, <https://vchumancapitalsurvey2021.splashthat.com>

⁶ VC University Mentorship Program, http://bit.ly/VCU_Mentor_Info

⁷ VC University Lunch & Learn webinars, <https://ventureforward.org/vc-university/#lunchandlearn>

⁸ VC University Mentorship Program, *Mentoring Forward*, <https://ventureforward.org/resources/mentoring-forward>

⁹ Venture Forward Impact & Testimonials, <https://ventureforward.org/impact-and-testimonials>

- Encouraged VC activity outside the traditional startup hubs by hosting VC University LIVE at the University of Michigan, Tulane University, SMU, and the University of North Carolina at Chapel Hill.
- Provided more than 360 VC University full scholarships to emerging investors from underrepresented backgrounds.
- Matched more than 190 VC University scholarship recipients with 2 mentors each – an Experienced VC mentor, and a Peer Mentor in a highly-rated Mentorship Program.
- Facilitated more than 500 one-on-one and roundtable meetings for 175 emerging and underrepresented VC fund managers to meet with LPs and experienced VCs to learn about fundraising best practices via LP Office Hours.

Venture Forward’s work is guided by years of tracking, listening, and learning from the VC industry. NVCA publicly launched Venture Forward in June 2020 after incubating Venture Forward programs (including several of those highlighted above) under NVCA. Our work dates back to 2014 with the formation of a Diversity Task Force.¹⁰ It continued with the release of the first VC Human Capital Survey in 2016, and with updated surveys in 2018 and 2020.¹¹ These biennial surveys have been critical to tracking and measuring the VC industry’s DEI progress. We will be fielding the 2022 survey in the second half of the year. In 2017 and 2018, we worked with industry leaders to create and release resources and best practices to address harassment and discrimination.¹² We have also supported and led VC firm commitments through the White House Demo Day Pledge in 2015 and the #VCHumanCapital Pledge in 2020.¹³

How Venture Capital Works

The impact and success of venture capital over the past 50 years stems from its unique structure. There are approximately 2,890 active U.S. VC firms in existence today. These VC firms provide risk capital for high-growth, innovative startups to build and scale their companies. These are equity investments that are essentially illiquid and worthless stock until a company matures and succeeds, which can take 6 to 10 years for an acquisition, public listing, or other liquidity event. VC is a risky and long-term investment, and the likelihood of success is low.¹⁴

VC investors invest out of funds that are structured as limited partnerships, where the investors are LPs and the VC firm itself as the general partner (GP). The alignment of interest among the LP, GP, and startups are critical to the VC model. Value creation is not driven by financial

¹⁰ Press release, *NVCA Forms Diversity Task Force to Foster Greater Inclusion across the Innovation Ecosystem*, December 8, 2014, <https://nvca.org/pressreleases/nvca-forms-diversity-task-force-foster-greater-inclusion-across-innovation-ecosystem>

¹¹ *VC Human Capital Survey*, powered by NVCA, Venture Forward, and Deloitte

<https://www2.deloitte.com/us/en/pages/audit/articles/diversity-venture-capital-human-capital-survey.html>

¹² Press release, *NVCA Unveils Resources to Help Address Sexual Harassment in Venture Ecosystem*, February 22, 2018, <https://nvca.org/pressreleases/nvca-unveils-resources-help-address-sexual-harassment-venture-ecosystem>

¹³ Press release, *Leaders of the Venture Capital Industry Commit to Actions to Advance Inclusion in the Entrepreneurial Ecosystem*, August 4, 2015, <https://nvca.org/pressreleases/leaders-of-the-venture-capital-industry-commit-to-actions-to-advance-inclusion-in-the-entrepreneurial-ecosystem>; #VCHumanCapital Pledge signatories, <https://nvca.org/nvca-and-venture-forward-vchumancapital-pledge>

¹⁴ *NVCA 2022 Yearbook*, <https://nvca.org/research/nvca-yearbook>

engineering, debt, or transaction fees. VC firms actively engage with a founder and company, providing strategic and operational guidance, connecting entrepreneurs with investors and customers, taking a board seat at the company, and hiring employees. The company's stock only yields value at the time of an acquisition or public listing (which can happen a decade after the initial VC investment). Founders benefit from appreciated stock and stock options, while the GPs and LPs share the capital gains. During the lifetime of the VC fund, the GP also receives a management fee from the LP (typically 2% of the fund size) for general fund operations and expenses.¹⁵

State of Diversity, Equity & Inclusion in Venture Capital

The VC industry has lacked diversity, equity, and inclusivity. But the good news is that the industry has seen some progress (albeit slow and uneven), and it is working to improve itself. According to our latest *VC Human Capital Survey* that collected data as of June 30, 2020, females constituted 16% of investment partners, up from 11% in 2016. There has been little progress though in the equitable representation of Black or Hispanic investment partners, which represented 3% and 4%, respectively, of investment partners in 2020.¹⁶ However, the demographic composition of junior investment professionals reflects greater diversity, and the wider adoption of diversity-focused talent management and recruitment practices suggests some cause for optimism.

Another area for optimism comes from more firms explicitly assigning responsibility for promoting diversity and inclusion internally — 50% of firms had a staff person or team tasked with this responsibility (compared with 34% in 2018 and 16% in 2016). Simultaneously, diversity and inclusion strategies are becoming more widespread; 43% of firms had implemented a diversity strategy (against 32% in 2018 and 24% in 2016), while 41% had an inclusion strategy (versus 31% in 2018 and 17% in 2016).

This intentionality translates to improved diversity outcomes. Firms with dedicated DEI staff, strategies and programs achieve greater gender and racial diversity on investment teams and among investment partners.¹⁷ The increased emphasis on DEI is also a broader ecosystem trend. More firms reported that LPs and portfolio companies had requested their DEI details over the past 12 months.¹⁸

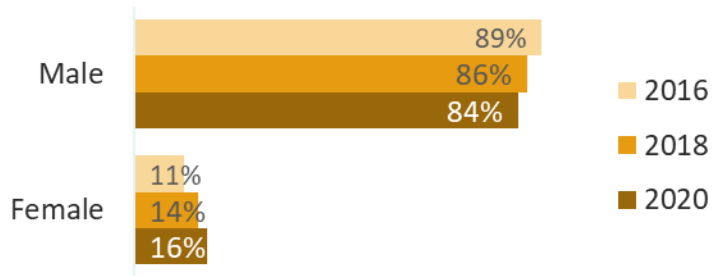
¹⁵ See “VC 101” section of *NVCA 2022 Yearbook*, <https://nvca.org/research/nvca-yearbook>

¹⁶ The survey questions on race and ethnicity had a different format in the 2016 survey and are not comparable to those in 2018 and 2020.

¹⁷ Op-ed referencing *VC Human Capital Survey*, “Taking stock of the VC industry’s progress on diversity, equity and inclusion,” <https://techcrunch.com/2021/04/27/taking-stock-of-the-vc-industrys-progress-on-diversity-equity-and-inclusion>

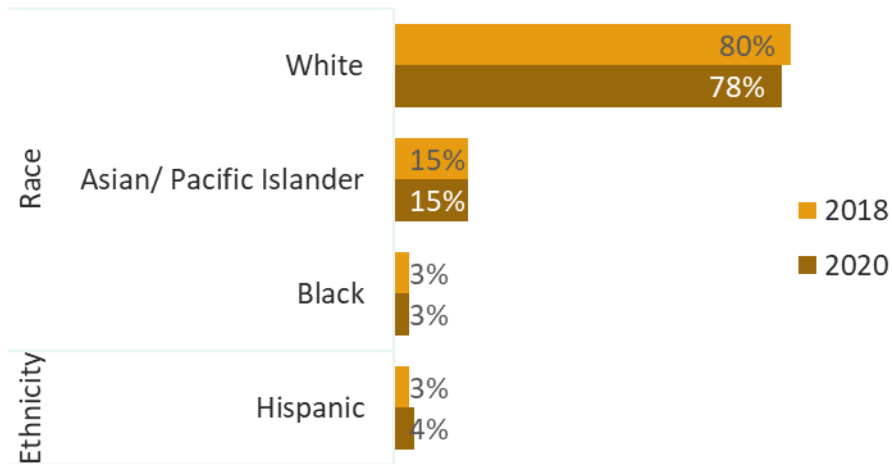
¹⁸ *Id.*

% of investment partners by gender



Source: 2020 VC Human Capital Survey

% of investment partners by race & ethnicity



Source: 2020 VC Human Capital Survey

Note: Figures for 2016 are not shown because the survey questions on race and ethnicity had a different format in the 2016 survey and are not comparable to those in 2018 and 2020.



Source: 2020 VC Human Capital Survey

Our survey results also highlight the importance of intersectional approaches to DEI. For example, the data shows that progress within one demographic element can be more nuanced when considering people who represent multiple marginalized communities (e.g., the percentage of investment partners who are women has steadily increased, but the percentage of investment partners who are women of color has not).

The lack of diversity among founders largely mirrors that of investors. In 2020, companies with a female founder accounted for 25.2% of total VC deal count, while black-founded companies accounted for 2.6% of total VC deal count.¹⁹ Latinx-founded startups comprised 1.7% of total VC dollars invested in 2020.²⁰

Geographically, VC activity has also been concentrated in three states—California, Massachusetts, and New York—which accounted for where 84% of VC assets under

¹⁹ Q1 2022 PitchBook-NVCA *Venture Monitor*, <https://nvca.org/research/pitchbook-nvca-venture-monitor>; Crunchbase, *VC Funding To Black-Founded Startups Slows Dramatically As Venture Investors Pull Back*, <https://news.crunchbase.com/diversity/vc-funding-black-founded-startups>

²⁰ Crunchbase, *VC Funding To Early-Stage Latinx-Founded Startups In The US Has Stalled. Here's Why That Matters*, <https://news.crunchbase.com/startups/latinx-startup-founders-vc-funding-something-ventured>

management were based at the end of 2021; 54% of total VC deal count in 2021; and 73% of total VC dollars invested last year.²¹

Founders and funders who are women, people of color, represent other marginalized communities, and dispersed across the country have not had equal access to VC or equal opportunity to succeed and share in the success of VC.

DEI in VC: Challenges & Opportunities

The structure of VC, how it works, how decisions are made, and how firms approach DEI historically have brought challenges towards progress.

Structure of VC

- **Financial risk and security:** VC is a risky and long-term asset class, where most investments inevitably fail. For someone without financial security or personal wealth (or connections to wealth), the barrier to entry can be high when the upside is risky.
- **Long-term industry means longer success (or failure) cycle:** Success as a VC can take more than 10 years to measure, which makes the industry quite unique from other sectors of the economy. In addition to the risky nature of VC investing, it can take years for success to be determined and for an investor to see the potential investment upside, adding to the longevity of financial risk an investor can face.
- **Low turnover, small industry with few opportunities for new entrants (fund economics):** VC firms tend to remain small (median of 6 employees and 4% turnover among senior investment professionals) to maximize the financial benefit for the investors. The economics of a fund are such that GPs are mainly operating with the support of management fees until investments are realized. The limited number of VC firms, low turnover at existing firms, and the high barrier to entry to new fund managers also means there are few “available” opportunities for new entrants.²²
- **VC firms are small and oftentimes lack resources/organizational priority on DEI:** Low headcounts and low turnover, coupled with the priority on investment professionals, VC firms have historically put little resources towards prioritizing DEI. However, the latest *VC Human Capital Survey* shows that this is changing, and more firms are prioritizing.
- **Limited partners are capital allocators:** LPs are the allocators of capital to VC firms, who operate primarily as fiduciaries to their stakeholders, essentially controlling where and how much capital is committed to VC firms. Recently, more LPs have started to prioritize DEI when evaluating fund managers or in the GP reporting process, but this remains far from the norm.²³
- **Limited access to education and information on VC:** VC is rarely taught in a structured format or in a way that is widely accessible, and the historically small

²¹ NVCA 2022 Yearbook, <https://nvca.org/research/nvca-yearbook>

²² *VC Human Capital Survey*, powered by NVCA, Venture Forward, and Deloitte

<https://www2.deloitte.com/us/en/pages/audit/articles/diversity-venture-capital-human-capital-survey.html>

²³ Id.

industry has largely operated through an apprenticeship model.²⁴ This has been an additional barrier to entry, which Venture Forward has made a priority to address through programs like VC University.

Decision-making process

- **Homophily:** Homophily has been prevalent as VC investors tend to gravitate towards people who are from the same demographic group.²⁵
- **Unconscious bias:** Unconscious bias stems from stereotypes that can influence how investment and hiring or promotion decisions are made.²⁶
- **Pattern matching:** This occurs when investors rely on common attributes or create a frame of reference of past hiring or funding decisions that led to success to inform future decisions.²⁷
- **Network effect:** Historically, investors have tended to rely on their existing networks when sourcing talent.²⁸
- **Subjectivity vs. objectivity:** Soft skills are frequently cited when VC investors assess talent. However, soft skills are often subjectively measured compared to other objective metrics, increasing the possibility of unconscious bias creeping into talent-related decisions.²⁹

DEI approaches

- **Lack of emphasis on the E and I:** Initiatives that have focused on bringing more underrepresented investors into the industry have not fully considered how to support, retain, and promote that talent once they enter the industry. Equity is the outcome of diversity and inclusion, wherein all people have fair access, opportunity, resources, and power to thrive. Inclusion refers to the actions taken to understand, embrace, and leverage the unique strengths and facets of identity for all individuals so that all feel welcomed, valued, and supported. Both equity and inclusion go beyond representation (i.e., diversity).³⁰
- **Lack of emphasis on intersectional approaches to DEI:** Some industry and firm initiatives that have focused on a specific demographic have not recognized that individual experiences can be based on multiple and intersecting identities that can

²⁴ VC is an Apprenticeship Business, <https://www.youtube.com/watch?v=JWjTQyOmjIQ>

²⁵ Homophily refers to the desire to associate with those similar to you. It can arise from similarities in demographic characteristics, such as ethnicity, age, and gender, and from acquired characteristics such as education, occupation, and religion. Source: Homophily in Entrepreneurial Team Formation, https://www.nber.org/system/files/working_papers/w23459/w23459.pdf; Examples: VC firms with female partners are 2x more likely to invest in companies with a female on the executive team, 3x more likely to invest in companies with female CEO. Black-funded venture firms have invested in Black-founded portfolio companies at a rate 4x higher than non-Black-founded VC firms. Investors belonging to the same racial group increases the propensity to work together by 39%. Investors having a degree from the same school increases their propensity to work together by 34%. Source: The Other Diversity Dividend, <https://hbr.org/2018/07/the-other-diversity-dividend>

²⁶ Paradigm IQ, Unconscious Bias FAQs, <https://www.paradigmIQ.com/2016/07/21/unconscious-bias-faqs>

²⁷ Harvard Business Review, A VC's Guide to Investing in Black Founders, <https://hbr.org/2020/06/a-vcs-guide-to-investing-in-black-founders>

²⁸ *VC Human Capital Survey*, powered by NVCA, Venture Forward, and Deloitte <https://www2.deloitte.com/us/en/pages/audit/articles/diversity-venture-capital-human-capital-survey.html>

²⁹ Id.

³⁰ Id.

contribute to unique experiences and may expose individuals to double or even triple barriers. This has led and can lead to uneven diversity progress.³¹

The good news is that there is a growing recognition and acknowledgement among the industry of these historical barriers. More VC firms are acting with intentionality to address challenges brought on by structural issues and the decision-making process, and implementing DEI practices to drive meaningful change. Furthermore, Venture Forward, and other organizations like BLCK VC, LatinxVC, VC Familia, and All Raise, are providing valuable programs, resources, guidance, and connections to help VC firms expand their networks and support underrepresented and emerging investors.

Seeing the industry's impact statistics over the past 50 years is also important to shining a light on the potential opportunities that could be unlocked by an industry that further prioritizes DEI. Three areas where DEI progress in VC has the potential to have a bigger, positive impact:

- **Innovation:** VC is funding the innovation of tomorrow. Firms will have blind spots on innovation if they're only focusing on the same networks and demographics for talent and funding.
- **Expand & unlock opportunities:** The industry's success and impact to date has largely lacked DEI focus. An industry focused on DEI has the potential to surpass that and unlock its full potential.
- **Financial performance & returns:** Diverse teams (at both the company-level and firm-level) outperform non-diverse teams.

The Outsized Impact of VC-backed Companies

As someone who has been in the VC industry for 15 years and who has researched the profound positive impact VC-backed startups have had on our economy, jobs, innovation, and value creation, I frequently cite noteworthy statistics to quantify this impact. These are important to juxtapose in conversations about DEI because they show the potential to unlock even more positive impact if we have a more diverse, equitable, and inclusive ecosystem.

- Employment at VC-backed companies grew at a rate of 8 times compared to non-VC backed companies from 1990 to 2020.³²
- VC-backed companies constitute 50% of all U.S. public companies founded after 1968 and that went public after 1978. These companies represent 77% of total market capitalization.³³

³¹ BSR, Why Company Diversity, Equity, and Inclusion Programs Need Intersectional Approaches, <https://www.bsr.org/en/our-insights/blog-view/company-diversity-equity-inclusion-programs-need-intersectional-approaches>

³² Employment Dynamics at VC-Backed Companies in the United States: 1990 to 2020, <https://nvca.org/employment-dynamics>

³³ Gornall, Will and Strebulaev, Ilya A., *The Economic Impact of Venture Capital: Evidence from Public Companies* (June 2021). Available at SSRN: <https://ssrn.com/abstract=2681841> or <http://dx.doi.org/10.2139/ssrn.2681841>

- VC funds posted the highest pooled internal rate of return (IRR) for 7 vintage years between 2011 and 2019 compared to other private market asset classes.³⁴
- 42% of drugs approved by the FDA between 2009 and 2018 originated with VC funding.³⁵

Although the U.S. VC ecosystem is relatively young compared to other sectors of the economy, and may appear small, it has had an outsized impact in almost every facet of the lives of Americans.

Conclusion

The health of the U.S. startup industry and the opportunity for even greater success and impact are dependent on today's industry leaders advancing a more diverse, equitable, and inclusive ecosystem. I appreciate the Committee's attention to this important topic. As we can see from the data, there is more work to do, and Venture Forward remains committed to its leadership role on this issue.

³⁴ PitchBook, *Global Fund Performance Report*, [https://files.pitchbook.com/website/files/pdf/2022 Global Fund Performance Report as of Q3 2021 with preliminary Q4 2021 data.pdf](https://files.pitchbook.com/website/files/pdf/2022%20Global%20Fund%20Performance%20Report%20as%20of%20Q3%202021%20with%20preliminary%20Q4%202021%20data.pdf)

³⁵ SVB, *Trends in Healthcare Investments and Exits 2019*, <https://www.svb.com/globalassets/library/managedassets/pdfs/healthcare-report-2019-midyear.pdf>