



INCLUSIVE ENTREPRENEURSHIP:

**Growing the Startup Economy
through the Power of Inclusive
Entrepreneurship**



EXECUTIVE SUMMARY

It's a fact: Startups are the backbone of the U.S. economy, adding jobs and attracting talent in unrivaled ways. New businesses account for nearly all net new job creation and almost 20 percent of gross job creation,¹ yet the U.S. is creating successful startups at alarmingly low rates.² The industry needs more sources of high-quality talent and deals.

Turning a startup into a successful high-growth business is a constant race against time. Superior execution depends on creative, tenacious, and singularly-focused startup teams. Companies with diverse founders, leaders, advisors, and teams typically out-perform industry norms and achieve better financial results.³ Racially and ethnically diverse companies are 35 percent more likely to outperform the national industry norm.⁴ Gender-diverse companies are 15 percent more likely to exceed their peers.⁵ Greater diversity holds significant potential to increase the likelihood of success for entrepreneurs and investors alike.

Until there are no statistical reasons to talk about inequality or bias within the startup ecosystem, it is incumbent upon practitioners to approach the issues with intellectual honesty and transparency. This paper discusses the challenges and opportunities for accelerating startup success by providing a more inclusive high-growth startup community and ecosystem, which we call Inclusive Entrepreneurship.

REV1 VENTURES - 2016 IMPACT

22%

Client Engaged Companies
Are Minority-led

Diversity That Is
4X
Industry Average

17%

Client Engaged Companies
Are Women-led

44%

Diversity in
Rev1 Labs Residents

45%

Diversity in
Attendance At Events

52%

Diversity in
Companies Completing
Rev1 Customer
Learning Lab

WHAT IS INCLUSIVE ENTREPRENEURSHIP?

Inclusive Entrepreneurship provides a framework to connect the startup economy with the best available talent to achieve the greatest possible outcomes.

Inclusive Entrepreneurship effectively leverages the economic potential of untapped talent and market opportunities represented by diversity of all types (gender, race/color, ethnicity, national origin, cultural beliefs, sexual orientation, age, social or economic status, and experiences), with an emphasis on women-led, minority-led, and veteran-led companies.

Diversity, in and of itself, is not the goal of Inclusive Entrepreneurship; it is the measure of results.



WHY DOES INCLUSIVE ENTREPRENEURSHIP MATTER?

The share of U.S. private firms that are less than one-year-old hovers around 8 percent, without any appreciable rebound from the 2008 recession.⁶ If the U.S. was creating new companies at the same pace as in the 1980s, we would add more than 200,000 companies and 1.8 million jobs per year. Inclusive Entrepreneurship is the path to restoring growth by tapping a broader, diversified base of entrepreneurs that access new markets and customers with novel products and a deeper talent pool.

When more women, minorities, and other diverse populations are fully included and engaged, those individual, unique perspectives and abilities are a beacon encouraging the best and brightest entrepreneurs and their startups to reach for their highest potential.

- **Companies with diverse founders, leaders, advisors, and teams achieve better financial results.**

Diverse teams drive successful companies. For every 10 percent increase in racial and ethnic diversity on a senior executive team in the U.S., earnings before interest and taxes rise 0.8 percent.⁷ The reverse is also true. Companies that are in the bottom quartile in diversity are 25 percent less likely than average companies to achieve above-average financial returns.⁸

Given these results, we could also expect that other types of diversity are likely to produce competitive advantages as well.

- **Inclusive entrepreneurship brings a competitive advantage to sales and customer relationships.**

Scaling a startup is all about breaking into new markets and signing up new customers.

Ignoring or minimizing women and people of color, misses huge markets and millions of minds. Women are involved in 85 percent of consumer purchases in the US.⁹ Population growth is fastest among minorities.¹⁰ More than 40 percent of Millennial adults (the largest living segment in the U.S. and bigger than Baby Boomers) are people of color.¹¹ Immigration is adding more numbers to this group.

Diverse organizations can recognize different needs, anticipate upcoming trends and market shifts, and develop products and features that solve problems for untapped segments in unexpected ways. Companies with greater

racial diversity brought in nearly 15 times more sales revenue than companies with the lowest diversity.¹² A team member who shares a client's ethnicity is 152 percent more likely than another team member to understand that client.¹³

- **Diversity helps a startup gain access to more sources of much-needed talent.**

More companies than ever are recruiting for tech jobs.¹⁴ The demand and competition for top talent is fierce, yet employment patterns in high tech (which encompasses diverse industries) indicates forfeited talent opportunities.

Compared to overall private industry, the high-tech sector employs a larger share of whites (68.5 percent) and men (64 percent).¹⁵ Yet, women are 50 percent of the U.S. population; blacks and Hispanics are one-third.¹⁶ Millennials are the most diverse population segment alive today. Taken together, these cohorts are where the work force is; it is an abundance of talent too precious to ignore.



CHALLENGES to LEVERAGING INCLUSIVE ENTREPRENEURSHIP

An industry-wide study by JPMorgan Chase and Initiative for a Competitive Inner City¹⁷ of high-tech accelerators analyzed four broad challenges preventing more women/minority entrepreneurs from participating: Recruitment, Selection Bias, Program Design, and Culture.



1. Recruitment

The Challenge:

Recruitment may be the number one reason there aren't more women and minorities creating and building more high-tech companies. Women and minorities don't have the contacts and aren't in the networks that feed high-tech both in terms of talent and capital. In venture capital, for example, firms rely on their networks (intra-firm, peers, personal contacts) to identify talent. Those who share gender, ethnicity, and social background are already connected. Those who don't are often overlooked.

That women and minorities are also underrepresented in STEM¹⁸ (science, technology, engineering, and math) at the university level and, consequently in the industry, is a further challenge to their participation in universities' and research institutions' technology transfer initiatives.

What's Working:

When women and minorities know more about and have greater access to the opportunities of advanced technology entrepreneurship and support services that are available to them, they engage.

If we only talk to people in "our group," whatever that group is, we will continue talking only to each other. Expanding outside our "group" broadens the connections that make the potential of Inclusive Entrepreneurship possible.

- **Create and staff a position dedicated to community outreach and inclusion.** Measure the impact of this position by how many entrepreneurs from diverse backgrounds are actively engaged and in the funding pipeline.
- **Deliberately expand access and networks to include organizations where women and minorities are.** Key partnerships with grassroots efforts reach and serve audiences and populations different than the "usual" leverages these one-to-many relationships.

Partnerships with grassroots organizations, such as i.c. stars, <BLK Hack>, Bunker Labs, Venture for America (VFA), OSU's REACH for Commercialization, Women for Economic and Leadership Development (WELD), and Small Business Development Center (SBDC), broaden the circle of outreach and inclusion.

2. Selection Bias

The Challenge:

Multiple factors, supported by considerable research, define Selection Bias as an inhibitor.¹⁹ Factors range from deep-seated ideas of what a successful entrepreneur looks like to unconsciously associating women and minorities with less credibility, especially in the pitch process, an integral step in fundraising.

A critical limiting factor for female and minority entrepreneurs is access to capital. Women and minorities are coming up short.

Even though nearly 40 percent of new businesses are started by women; less than 6 percent receive venture capital funding.²⁰ Minority firms receive equity investments that average 43 percent less than non-minority firms.²¹

With only 7 percent of all decision-makers at VC firms being female, black, or Hispanic, and Latino employees just 3 and 4 percent respectively of the VC workforce, it is not surprising that companies with all-male management teams are four times more likely to receive VC funding than businesses with even one woman, and receive 16 times more funding at that.²²

This leads to a corrosive cycle of women and minorities being viewed as less competitive for capital *because* of their track record of raising less capital.

What's Working:

Inclusive Entrepreneurship calls for responding to under-represented talent in a way that all participants in all cohorts “feel” a part of the whole and are motivated to engage to their fullest potential.

- **Create an effective and unbiased process to source quality deal flow.** Rev1 leverages a unique product/market validation laboratory, called Customer Learning Lab, which provides a streamlined, repeatable, completely open and transparent method to guide entrepreneurs in validating their ideas with potential customers. More than 400 entrepreneurs have completed the program, which is recognized in the startup community as an unbiased process that “lets the market speak” rather than a subjective process influenced by who you know or who you look like.

- **Deploy a talent management strategy aimed at inclusion.** Talent management strategies have an effect. In firms with a human capital strategy, 54 percent of employees are women or minorities versus 41 percent in firms without a strategy.²³ CrunchBase found that one woman in a VC firm doesn't seem to correlate with investments in more female-led companies, but when the partnership is founded by a woman or there is a relative high percentage of female partners, investments in women-led businesses exceed averages.²⁴ Rev1 has made a conscious effort to increase diversity at all levels. Overall, the team is more than 50 percent diverse; and the venture team is 30 percent diverse. Portfolio companies are 22 percent minority-led and 17 percent female led.
- **Build a diverse cadre of advisors and mentors.** These vital relationships may not be as welcoming or comfortable when there aren't at least some advisors with whom the entrepreneur shares a common identity. Over the last four years, Rev1 has developed a First Connect team of more than 100 advisors and 60 expert services providers, who are themselves diverse. These "people like me" connect Central Ohio's entrepreneurs with the innovation economy and are role models and examples of diversity to male, female, majority, and minority entrepreneurs.
- **Support early entrepreneurship modeling.** Connect with existing student-led technology and STEM organizations such as Young Entrepreneurs Academy (YEA!), to engage students early. Rev1 supports local YEA! groups, CoolTechGirls, Invention Conventions, and provides student tours of Rev1 Labs. More than 800 students are engaged per year via supported programs.



3. Program Design

The Challenge:

There is more focus than ever on inclusion and diversity. While the metrics are not great yet, more people than ever care. Many organizations are creating dedicated programs and designated funds to leverage the under-utilized talent and opportunity that women and minorities represent.

It is critical to have focused programs to engage more women and minorities in high-growth businesses, but if a program designed to achieve the benefits of greater diversity isn't having that impact, the innovation economy continues to miss out on talent that has been proven to increase revenue and market share.

When only 17 percent of startups have a female founder,²⁵ when blacks and Hispanics represent less than 10 percent of the full tech industry, and when most businesses that are being started by women and minorities are Main Street and *not* high-growth,²⁶ one-size-fits-all programs designed to support entrepreneurs who are already pursuing high-growth concepts may not be reaching women and minority entrepreneurs who are not yet considering high growth concepts as a possibility. Women and minorities need to recognize that not only can they be entrepreneurs, they can think big—big ideas, big markets, and big companies.

What's Working:

Rev1 Venture's programs are intended to help entrepreneurs create more fundable, high-growth companies. Diversity is key to that success and an intentional aspect of our investment strategy. While we don't expect a program to have an immediate effect when women and minorities are not starting high-growth companies, we do focus on:

- **Measuring outcomes:** How many entrepreneurs from diverse backgrounds are actively engaged and in the funding pipeline. More than 50 percent of the entrepreneurs who accessed Rev1 services in 2016 were diverse.
- **An expanded front-end process to help women and minorities uncover high-growth potential within their concepts.** When programs are not aligned with where these entrepreneurs are—and that's often the case—we take the steps to help more women and minorities think about their business opportunities differently, to uncover high-growth opportunities in their ideas. Sometimes this works; sometimes not, but in the long run it helps more women and minorities recognize that high-growth entrepreneurship is a possibility.

4. Culture

The Challenge:

People are drawn to environments where they believe they might fit. High-tech can be an exclusive, macho, and even potentially abusive world (as we have seen in recent first-hand accounts and company reports).

Our Approach:

Culture is where all the other efforts in Recruitment, eliminating Selection Bias, and Program Design come together. When you want it to be, culture can become very diverse and welcoming.

Inclusive Entrepreneurship creates an environment where all cohorts “feel” they are part of the whole and are motivated to do their best. Broadening access at the top of the funnel through an intentionally welcoming and inclusive culture that creates a sense that “people like me” can be entrepreneurs and fit into the ecosystem. This approach removes Selection Bias as part of its inherent design.

- **Create environments and place where all feel welcome.** Greater diversity in Rev1-supported companies produces greater diversity in our halls. Rev1 Labs is 44 percent diverse. Our residents’ networks expand and overlap. Connections happen organically.
- **Include diverse populations in every event.** It is not uncommon to attend a tech event where the audience is homogenous. Rev1 has broken out of this mold, forming relationships with organizations like <BLK HCK> and i.c.stars to tap into and bring diverse groups to our programs and out building. It’s working: about 45 percent of our event attendance is minority. Anyone can come to a meetup here and be comfortable.
- **Showing that Inclusive Entrepreneurship can be done is half the battle.** Rev1 actively promotes diverse founders, highlighting their challenges and successes via social channels, public relations plans, investor days, and widely attended networking events, including Founders’ Lunches, Startup Week, Demo Day, Innovation Hop, and targeted public relations initiatives.

AREAS OF PROMISE AND PROGRESS

There is more focus than ever on inclusion and diversity. While the metrics are lagging, more people than ever care and want to move the needle.

Women are entrepreneurial and starting businesses. Over the last 10 years, the number of women-owned firms increased by 45 percent, compared to a 9 percent increase in all businesses.²⁷ That's five times the national average.

Employment in women-owned firms is up 18 percent since 2007, compared to a 1 percent decline across all U.S. firms, with the strongest growth between 50 and 99 employees. Of net new women-owned firms, 78 percent are owned by women of color.²⁸

There's progress on the VC front as well. In 2016, women-led businesses increased their share of all VC deals to almost 5 percent—the highest level in 10 years.²⁹

In a first for the industry, the National Venture Capital Association (NVCA)³⁰ launched what will become a regular survey of diversity in the industry with the stated intent to use the “data to further inclusion.” This data will inform decisions regarding the content and structure of programs and initiatives formulated to increase diversity to make the best use of talent and to increase and accelerate the formation of high-tech startups.

Inclusive Entrepreneurship opens new and creative ways to expand the deal pipeline, to identify the highest quality deals at every stage, and to attract and engage the best talent available to help portfolio companies scale.



In Central Ohio, Inclusive Entrepreneurship has had a measurable impact. It has come from intentional work to connect the broader community to identify, support and fund the best and brightest entrepreneurs.

Rev1's Results since 2016 show:

- **Diversity that is 4 times the industry average for technology-based startups**
 - 22% of engaged companies are minority-led
 - 28% are led by women or women of color
- **44% diversity among Rev1 Labs residents**
- **52% diversity in companies completing Rev1 Customer Learning Lab**

We recognize that there is still much work to be done to further leverage the opportunity represented by underserved and diverse populations in our region and beyond. We are seeing measurable results from our initiatives. We are committed to leadership in this area because we know it leads to more high-quality startups that scale.





About Rev1 Ventures

Rev1 is a venture fund that helps entrepreneurs build great companies. Combining investment capital with a unique blend of services through our startup studio, we propel innovation for startups and corporate innovation teams. Our seasoned, data-driven team helps lay the foundation for scalable growth with the skills to evolve a product, sell to customers, and build the right team. Named a top VC investor in the Great Lakes Region, Rev1 manages a continuum of financial support from corporate and community partners, as well as the Ohio Third Frontier. Rev1 was named the Most Active VC in Ohio in 2017 by CB Insights.

For more information, visit www.rev1ventures.com.

END NOTES

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