



REPORT

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# Initial Recommendations for Improving DEI within CVC Deal Flow Pipelines and Portfolios

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## FOREWORD

**Silicon Valley Bank is pleased to sponsor this work, to engage the corporate venture community in thoughtful discussion and, more importantly, action toward a more inclusive ecosystem.**

**At SVB we believe a truly high performing environment comes from having a diverse employee base and an inclusive culture that encourages all employees to feel as though they can do their best work every day.**



We believe our approach to inclusion and diversity creates opportunities for people and drives better business outcomes:

- A competitive edge. Innovative thinking and inventive approaches enable companies to deliver greater value to clients and shareholders alike.
- A foundation for growth. When employees feel welcome and valued, they can build a career that leverages all their strengths to help their clients succeed.
- Individuals operating at their full potential. When all individuals feel free to bring their best, teams work at a higher level, increasing productivity and effectiveness.
- Complements our rich culture. The more we are successful at attracting and retaining top talent, the more innovative our thinking will be—and the more top talent will want to be a part of our company.

We hope this paper sparks ideas for you to pursue at your firm and we encourage you to share back with the group. Collectively is the only way we will truly make progress.

**Tracy Isacke,**  
*Silicon Valley Bank*



## FOREWORD

**Samsung NEXT supports entrepreneurs and innovators as they build, grow, and scale their software and services ideas to help make Samsung products the most innovative and beloved in the world.**

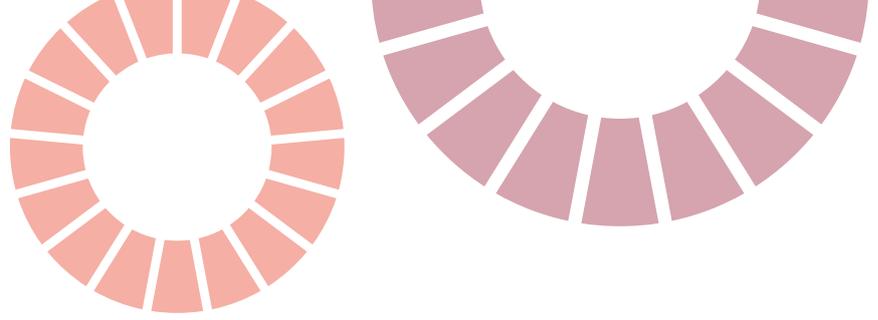


*Gus Warren,  
Samsung NEXT*

Our diversity and inclusion (D&I) efforts are focused on broadening our understanding of our end consumers, unlocking the potential of underrepresented communities (through programs like our employee-driven Diverse Founders Initiative), and serving the unique needs and preferences of the entrepreneurs and products we support.

We believe that a commitment to D&I will not only help to reduce barriers for those who have long been left out of the conversation but will also help ensure that we are unhindered in carrying out Samsung NEXT's primary mission: identifying and cultivating the best talent - employees and entrepreneurs - around the world.

As a member of the D&I Subcommittee for the GCV Leadership Society, we proudly contribute to this paper, with the hope that more will join us on this journey.



## INTRODUCTION

**Many industries have begun the hard work of improving Diversity, Equity and Inclusion (DEI), but the venture capital industry has lagged significantly behind in impactful DEI progress, both in terms of hiring underrepresented investment professionals and investing in underrepresented founders.**

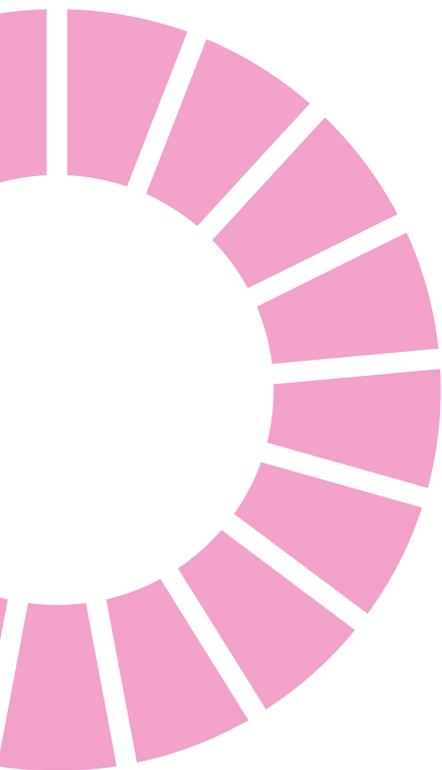
At GCV, we believe corporate venture capital (CVC) groups have a unique opportunity to take a leadership role in DEI. Accordingly, at the 2019 Monterey Summit, GCV's Leadership Society established a DEI Subcommittee to outline ways that our members could improve DEI within their teams and within their deal pipelines and portfolios.

The DEI Subcommittee then partnered with third party DEI experts to create the following document, which specifically focuses on how to improve DEI within deal flow pipelines and portfolios. The document a) illustrates the severe underinvestment in underrepresented founders among traditional VCs and CVCs, b) articulates why CVCs are especially well-suited to drive change in this area, and c) suggests a set of best practices for affecting change.

It's important to note that many of the tools outlined in the "best practices and suggested guidelines" section have not been tested in multiple contexts and it is possible that not all of the suggested guidelines will apply to every CVC group.

That said, we do hope that the guidelines will act as a catalyst for establishing consistent practices among the CVC community, so that we can collectively start to accurately track (and eventually publish) consistent DEI metrics across the CVC sector.

Finally, because we would like all CVCs - even those outside of the GCV membership - to join us in this important work, the DEI Subcommittee has made the decision to publish this document as a free and public resource.



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‘...less than 3% of the over \$40 billion of VC investment in 2017 went to Black- and/or other minority-owned startups.’

## THE SEVERITY OF THE PROBLEM

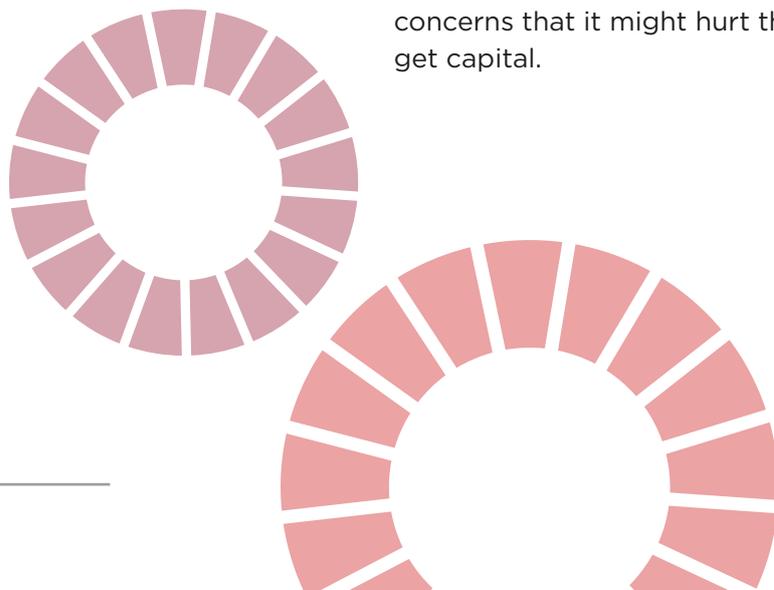
The state of DEI is grim among VC-backed and CVC-backed companies.

In 2019 AllRaise found that a mere 11% of partners, GPs, and MDs at traditional VC firms with funds over \$25 Million are women, and 71% of traditional venture firms have no women partners. This may explain why only 2.3% of funding goes to women-only founded companies, and 11.7% to women co-founded companies.

In another report, researchers found that less than 3% of the over \$40 billion of VC investment in 2017 went to Black- and/or other minority-owned startups. They further noted that the same percentage decreases precipitously if owners fall into more than one underrepresented group (i.e., Women of Color claim only 1% of funding, with black women receiving just 0.2%.)

Latinx founders make up less than 2% of those receiving funding. Those from the Middle East totaled less than 3%.

Only 12% of VC funding goes to LGBT founders and 37% of those chose not to self-identify as members of the LGBT community, 12% citing concerns that it might hurt their chances to get capital.



# WHY CVCS SHOULD CARE ABOUT DEI

**While there is little data on the direct financial benefits of DEI for CVC's specifically, well-established evidence shows that increasing DEI in founders can lead to better market positioning, increased financial returns, and more stable portfolio cultures (including increased talent attraction & retention, and more creativity and innovation).**

Data from the Diana Project suggests that venture capital-funded businesses with women on the executive team perform better on multiple dimensions. In addition, companies in the top-quartile for ethnic/cultural diversity on executive teams were 33% more likely to have industry-leading profitability.

Clearly, CVCs could benefit in multiple ways by increasing DEI:

- **Access to new markets and consumers**
- **Potential for better financial returns**
- **The relative stability of healthy, inclusive company cultures**

## ***Access to New Markets and Consumers***

As the consumer spending landscape becomes more diverse, investing in underrepresented founders is one way for corporations to tap into emerging or overlooked markets. The economic power of underrepresented minorities is growing rapidly, both domestically and, increasingly, globally. By 2045, the United States Census estimates the number of people of color in the country will grow by 74 percent. Specifically, the demographic breakdown in the U.S will be 7.9 percent Asian, 24.6 percent Hispanic, and 13.1 Black. The buying power of Black, Asian, Hispanic, and Native Americans is \$3.9 trillion and rising.



## ***Potential for Better Financial Returns***

In addition to helping corporate parents tap into new markets, diverse CVC portfolios have the potential to deliver outsized financial returns. As one example, Kapor Capital invests exclusively in “impact” startups that are dedicated to increasing access, opportunity, and outcomes for low- income communities and communities of color. In 2019, Kapor Capital reported that it broke into the top quartile of venture funds of comparable size, with a Total Value to Paid In (TVPI) multiple of 3.0 and an Internal Rate of Return (IRR) of 29.02%.

In a 2018 report, Harvard Business Review states that “venture capital firms that increased their proportion of female partner hires by 10% saw, on average, a 1.5% spike in overall fund returns each year and had 9.7% more profitable exits (an impressive figure given that only 28.8% of all VC investments have a profitable exit).

There are also clear penalties for opting out of DEI. Companies in the bottom quartile for both gender and ethnic/cultural diversity are “29% less likely to achieve above-average profitability.” Research from Emory University shows that mixed gender teams outperformed all male teams on both revenue generation and number of employees. However, mixed gender teams received substantially less equity funding - about a third less - to achieve this growth than all male teams.



### ***The Relative Stability of Healthy, Inclusive Company Cultures***

A healthy, inclusive workplace culture is an undervalued factor to the success of companies, and should be a priority for investors as their portfolio companies grow. In addition to increased creativity and innovation, diversity and inclusion can positively affect recruiting, retention, employee satisfaction, and employee performance. A 2013 report found that “employees in a ‘speak up’ culture are 3.5 times as likely to contribute their full innovative potential.” Employee satisfaction has also been linked to higher stock returns and increased loyalty. Conversely, unsafe workplaces have a detrimental effect on employee tenure, especially for those from marginalized backgrounds. A 2017 study found that nearly half of employees who left their tech organizations did so due to unfairness. Having a diversity program was associated with significantly fewer reports of unfairness, and harassment.

# CVCS ARE UNIQUELY POSITIONED TO DRIVE IMPROVEMENTS IN DEI

**While all venture capital groups have the capacity to drive change in DEI within their dealflow pipelines and portfolios, CVCs are arguably far better-positioned than traditional venture capitalists to do so, for multiple reasons:**

- 1) CVCs have resources that are especially helpful to diverse founders
- 2) CVCs have established DEI infrastructure
- 3) CVCs have a greater imperative to address DEI

## ***CVCs have Resources that are Especially Helpful to Diverse Founders***

Unlike traditional venture funds, CVCs have the potential to bring a variety of value-added resources to their portfolio companies, including brand capital, a large customer base, expanded distribution, and larger, more established networks. These can be essential for diverse founders who may be less likely to have established networks and customers, and who have historically had disproportionately less access to resources to help grow their companies.

## ***CVCs Have Established DEI Infrastructure***

Unlike traditional VCs, CVCs can also leverage the established DEI infrastructure of their parent companies. Most corporate parents have far more experience addressing DEI than traditional VCs, a fact that can make it easier for a CVC to experiment with novel DEI initiatives, funds, programs, and sourcing strategies.

Intel Capital is an example of how established corporate infrastructure can lend itself to improving DEI within a CVC group. Intel Capital's corporate parent has a long history of being a leader in DEI. In 2015, Intel Capital leveraged this expertise to undertake a significant focus on diversity, committing to invest in technology companies led by underrepresented minorities (African Americans, Hispanics, and Native Americans) and women. The \$125 million fund also eventually expanded to include disabled entrepreneurs, U.S.-based entrepreneurs from the LGBTQ community, and U.S. military veterans. By 2018 (two years ahead of schedule) the Intel Capital Diversity Initiative had exceeded its initial investment target of \$125 million. It currently has \$357 million invested in companies led by diverse teams constituting 14 percent of Intel Capital's active portfolio.

## ***CVCs have a Greater Imperative to Address DEI***

The same advantages that uniquely equip CVCs to undertake DEI work, are also what makes not undertaking it more risky for CVCs compared to traditional VCs. If a CVC is not funding diverse companies, this can send a signal to entrepreneurs, existing and potential employees, shareholders, and customers that DEI is not a core value of the company.



# BEST PRACTICES AND SUGGESTED GUIDELINES

**As stated in the foreword, the following is an initial list of suggestions. It is not meant to be exhaustive, nor are each of these suggestions universally applicable. Instead, the goal of this list is to initiate a conversation within the GCV community around a set of consistent practices that we would ideally all adopt, with the goal of tracking standardized metrics across our sector and, eventually, publishing these metrics.**

## ***Defining “Diverse”***

The first step in any DEI initiative should be to define what “diverse” means for your specific program. Each CVC organization should define “diverse” based on respective organizational values and needs. The definition of “diverse” can vary significantly depending on geography and societal norms. Keep systemic factors in mind, such as marginalized status and current demographics as well as desired outcomes. Balancing the ambitious with the achievable is a difficult but essential undertaking in effective programs.

## ***Measuring Current Deal Flow & Establishing Metrics***

Once you have defined what diverse means to your specific program, the next step is to measure the diversity of your pipeline and portfolio, by actively tracking DEI in your deal flow CRM.

It is important to measure diversity all of the way through the pipeline including but not limited to:

- 1. Total deal flow (top of the funnel entries in the CRM)**
- 2. Companies met with (F2F or Zoom)**
- 3. Introductory Memo**
- 4. Deep Diligence**
- 5. Investment Memo**
- 6. Partner Meeting Presentation and IC Vote**
- 7. Portfolio Company**

## ***Establishing Reasonable and Achievable Future Goals***

It’s also important to establish goals for how you want your pipeline and portfolio to change. This, too, will vary by program, as each CVC may decide to try to impact different points along the pipeline and with varying timelines.

For example, one member of GCV established a 2019 goal that 20% of all Introductory Memos will have a diverse founder or CEO. In this context, “Introductory Memo” refers to a company that is interesting enough that an Associate, Principal, or MD wants to formally socialize it during a weekly team/partner meeting. This 20 percent goal was established against a 2018 baseline of 16%. As a group, this GCV member has not yet established goals for 2020 and beyond. But they intend to systematically increase the 20% “Introductory Memo” figure each year, and start tracking the % of diverse companies all the way through the funnel, up to and including the % of portfolio companies.

It is important to keep in mind that when setting goals, protecting the privacy and rights of people involved is paramount. For instance, setting targets may not be appropriate for all groups - there may be stigma or methodological barriers to tracking identities: for instance, because sexual identity is not a requirement to collect for EEO data, it can be difficult to track. Asking people to identify as a way of assessing diversity can result in offense and legal action. Thus different methods, erring on the side of opt-in, should be taken to set metrics and goals around sensitive demographics.

For example, one GCV company is considering changing its processes such that all companies in its pipeline will be required to fill out an onboarding form which would include an optional question about founder diversity and executive team diversity.

### ***Publishing Baseline Metrics and Goals***

Once you have gathered enough historical data and established the short and long term goals going forward, seriously consider publishing your diversity metrics and goals, both internally and externally. As industry leaders, it's important to share our diversity metrics and goals to signal to the rest of the community that other CVCs should do the same. Publishing metrics sets a precedent. It telegraphs accountability and creates an incentive for other companies to follow suit.

An example is Pinterest's move to publish their numbers in 2016 in response to dismal numbers of under-represented minorities. While Pinterest did not meet all of their hiring targets, publishing their demographics represented a sea change, making the company a DEI pioneer and solidifying accountability for leadership. Most recently, Clio followed a similar path and found the same results - they doubled the number of women in their Engineering department after publishing ambitious goals. Twitter and Linked have taken similar public accountability measures.

### ***How to Best Leverage Your Existing Team***

Because building diverse teams of investment professionals can take years, it is also critically important that DEI programs include ways for your existing team of investment professionals to make meaningful progress in deal flow. Some of these suggestions may come across initially as orchestrated, but incremental behavioral shifts will yield social modeling and more empathy towards diverse founders within your existing teams.

### ***Active Event Participation***

Encourage active participation in a minimum number of events per quarter/year targeting diverse founders and CEOs. Active participation means attending and active value creation



(mentoring, hosting office hours/meetings, etc). It is also important for representatives to listen first and understand the problem before jumping into proposing solutions. Show up to events as students, not experts. When presented with issues or concerns, ask questions.

### ***Marketing Sponsorships***

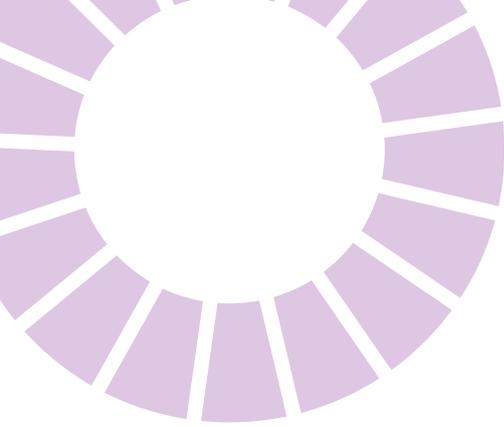
One way to increase accountability is to allocate a specific marketing budget to support high impact sponsorships or owned events targeting diverse founders and CEOs. It's also helpful to ensure that a part of your marketing budget is earmarked learning and development, culture building, etc.

Avoid sponsoring an event unless a meaningful number of individuals from your organization will be actively participating. Hosting events without substantive participation can come across as disingenuous and do more harm than good.

Have an institutional preference for multi-event/ ongoing engagement (i.e podcasts, hackathons, workshops) vs. one time engagements. One time only events can be perceived as shallow attempts at DEI without real substance or commitment. Strive for long-term and integrated DEI work.

### ***Quantifiable Relationship Management***

Many of the most successful DEI programs have cultures where the work is spread across the organization; in other words, where DEI is everyone's job. Toward this end, each investment



professional on your team should be responsible for establishing and maintaining a quantifiable number of relationships with a) diverse GPs and/or b) funds with a DEI thesis. Each professional will determine the appropriate level and type of ongoing contact (in-person meetings, email, etc.) Said relationships should include quarterly reporting on engagement with these GPs/funds.

### ***Thought Leadership***

You might also consider establishing KPIs which include research papers on DEI, speaking engagements on DEI, and blog posts on DEI. Or you might also explore partnering with third party DEI experts on white papers and blog posts.

### ***LP Investments***

Another option to consider is LP investing in funds that have underrepresented GPs and/or funds that are specifically focused on investing in underrepresented founders and CEOs. Structured correctly, with full transparency into underlying deal flow, LP investments can serve as a way to increase engagement with underrepresented GPs, founders and CEOs.

It's important to note that this approach does carry a risk of "checking the box" and prematurely creating a sense of DEI accomplishment. Put another way, it's not enough to invest arms-length in underrepresented founders; it's also critical to leverage the resources of your organization to take an active role in directly supporting underrepresented founders.

### ***Potential to Leverage Your Platform Group***

Consider whether your Platform group can play a role in your DEI strategy. Evaluate and decide whether your Platform group can do more to educate the existing portfolio on the importance of DEI to their own companies. If yes, consider ways to bridge knowledge gaps. For example, offer to pair new founders in your portfolio with existing founders that share their gender or racial identity. If there are no existing founders that share identity, make sure that someone is sponsoring them that understands some of the unique challenges of underrepresented founders.

Once there is a representative mix of founders within your portfolio, consider whether services provided by your current Platform group could be tailored to be more effective for maximizing the success of underrepresented founders.

### ***Credible Third-Party Consultation or Audit***

Leveraging advice and perspective from a third-party (i.e. Project Include, ReadySet) can provide invaluable support. Externally-led assessments locate gaps in DEI, provide actionable solutions, and build DEI credibility externally.

Third-party DEI organizations should meet certain criteria including but not limited to:

- Subject matter expertise signaled by research and projects that are at the intersection of diversity/VC/tech OR
- Track-record of diverse investments and/or underrepresented professionals on the investment team
- Credibility and/or familiarity working with corporate executives, managing directors/partners, and, if applicable, a Head of DEI

You may also choose to add third party audits from subgroups such as Human Rights Campaign, Out in Tech, Afrotech, and various women advocacy groups.



## **NEXT STEPS**



**We hope this document has outlined the severity of the problem, the unique opportunity CVCs have to address it, and some initial steps each of our groups can take to start affecting real change.**

**As a next step, we'd like to encourage each GCV member to a) adopt a consistent way of tracking DEI metrics inside your organization and b) come to Monterey in January 2020 having instituted these changes.**

**Our goal would then be to track this data in a consistent way throughout 2020, and publish industry-wide metrics in late 2020 or early 2021.**

**If you have any questions about how to implement a consistent way of tracking DEI metrics, please don't hesitate to reach out to anyone on the DEI Subcommittee listed at the top of this document.**

