ASPEN TECH POLICY HUB

The Opportunity Pledge

Accelerating Equity in Startup Opportunities

Mariah Lichtenstern

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Contents

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Executive Summary

Income inequality makes it difficult for the majority of Americans to launch successful startups. This is especially true for underrepresented founders, particularly people of color, who are often less resourced due to systemic economic oppression and the resulting wealth gap.[1] The U.S. Securities and Exchange Commission (SEC) further constrains capital formation by segregating investors based on income and net worth, making it legally and financially prohibitive for most underrepresented founders to raise enough capital from friends and family to achieve the milestones heuristically hailed as requirements for venture capital (VC) funding. When underrepresented founders of color *do* make it to a venture-backable position, they receive less than five percent of total venture capital, despite data showing that diverse teams have higher returns on positive exits than their all-White counterparts.[2]

Black and Latinx representation is also lacking among investors. Only six percent of venture capitalists are Black or Latinx (two percent at firms that are ten years or older).[3] Less than five percent of angel investors are Black or Latinx.[4] Several studies have indicated that this lack of representation is caused by *and* contributes to discrimination within the tech industry at all levels.

According to research by Rate My Investor and Diversity VC, venture capitalists hire other venture capitalists and invest in founders who are similar to themselves.[5] This creates systemic barriers to entry for both underrepresented founders and general partners which, in turn, impacts hiring and the economy at large. For instance, the Center for Global Policy Solutions found that investors' discriminatory financing practices and bias toward companies primarily operated by White males cost the United States over 9 million jobs and $300 billion in annual collective national income.[6]

The Opportunity Pledge and its corresponding framework are designed to serve as a first step for institutional investors to analyze their role in and optimize their progress toward achieving tech funding equity. These tools are intended to provide structure for ongoing engagement and accountability, without using guilt or shame to drive results. Finally, they provide an opportunity for organizations to build upon the efforts of others and share what is (and what is not) working, so actions can evolve as necessary. By encouraging participants to share their outcomes, the Tech Funding Equity Project can benchmark aggregate efforts to inform industry-wide practices and progress.

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A Pledge for Tech Industry Investors

Venture capitalists bear the brunt of media criticism for demonstrated inequities in tech funding. A closer look reveals that the limited partners who invest in venture capital funds, and regulators who constrain capital formation, are also part of the larger, systemic problem. However, when underrepresented founders overcome higher barriers to entry, it is unacceptable that they do not have equal opportunity to access capital.

In the midst of the COVID-19 pandemic and Black Lives Matter protests following the deaths of George Floyd, Breonna Taylor, and Ahmad Arbery, the industry began to acknowledge the need to change, with some, as TechCrunch reported, "looking to create benchmarks and internal surveys to monitor their progress and find out where their firms and portfolios are falling short."[7] At the same time, Black investors and founders warned against mere lip service with the hashtag #hireorwire, encouraging companies to "make the hire or send the wire [to fund underrepresented founders]" as ways to demonstrate a genuine commitment to ending racism.[8]

Venture capitalists and limited partners can leverage the zeitgeist of this transformative time to usher in better policies and practices, imbued with conscious leadership,[9] to create a more fair and efficient startup ecosystem.

The Opportunity Pledge, an Aspen Tech Policy Hub project modeled after the Mekong Club's successes with "The Business Pledge: A New Roadmap for The Private Sector to Address Modern Slavery,"[10] offers a timely response to those objectives, giving investors the opportunity to take concrete steps to respond to inequity. The Pledge also takes into account the Aspen Institute's Racial Equity Theory of Change, particularly the cycle of "progress and retrenchment," a "structural racism system" that "works to maintain a steady state of white privilege wherever there is progress toward racial equity."[11] The framework and action steps included alongside the Pledge serve to anticipate and mitigate this cycle to sustain continued progress.

WHO/WHY

The Pledge targets both venture capital firms *and* limited partners (LPs) who invest in them. To facilitate transparency, the Tech Funding Equity project lists the names of the venture capital firms and LPs that the project approaches to take the Opportunity Pledge. This may serve partly as an indication of which firms are committed to tech funding equity, and also to acknowledge that some firms may not be represented because they have not been approached. Priority outreach will go to those that have expressed a desire to invest more equitably in underrepresented founders and to increase opportunities for underrepresented emerging managers. This may aid in the "Entrenchment" component of the Pledge, whereby firms have an opportunity to share better practices.

Venture Capitalists

On the venture capital side, the project will focus on private and corporate venture capital firms that invest in technology and technology-enabled companies. These firms have the infrastructure to bring on venture scouts and partners who have access to deal-flow from underrepresented founders. The project will share resources, including data demonstrating the business case for diversity, to help venture capitalists recognize how committing to the Opportunity Pledge can enhance their job performance and potentially increase their internal rate of return (IRR). As venture capitalists are influenced by their LPs, the project assumes that engaging LPs (see below) will also incentivize more venture capitalists to participate.

Limited Partners

Increasingly, LPs seek transparency from venture capital funds into the performance of individual portfolio companies; they often aim to make direct investments alongside venture capitalists.[12] LPs also have a large influence on venture capital firms' governance and investment criteria via limited partner advisory committees (LPACs) and their own funding heuristics.[13] Here, the project hopes to encourage LPs to include mandates that incentivize more equitable outcomes. Many LPs have diverse and emerging manager programs, but have divested or deferred allocation into private venture. This project will approach LPs that may include (but are not limited to) pension funds, endowments, foundations, single- and multi-family offices, and select angel investor groups, encouraging boards to revisit private venture asset allocation, particularly in their diverse and emerging manager programs.

The Pledge

As limited partners, venture capitalists, and members of the private-equity community, we declare our commitment to help advance more fairness and efficiency in the technology industry, ***with a goal to increase investment to underrepresented venture capitalists and founders by 10X by 2025.***

We recognize that gender and the social construct of "race" have socioeconomic implications that influence and perpetuate both wealth and funding gaps. These gaps impair equitable participation in investing and entrepreneurship, and create inefficiencies that harm economies.

We recognize that our position is one of privilege and power. Our privilege stems largely from access to exclusive networks and opportunities. Our power lies in our stewardship of resources. Such privilege and power come with great responsibility. We pledge to exercise our power and privilege to respond to the historic and persistent inequities that put underrepresented founders at a disadvantage, particularly with regard to capital formation, including the lack of representation among angel and institutional investors.

We recognize that implicit and explicit biases lead investors to invest predominantly in those most like them, and that when partners from underrepresented backgrounds are decision-makers, they are often pressured to invest in founders that align with the status quo among their predominantly White peers. This results in suboptimal investment decisions and inefficient outcomes.

We recognize that similar biases and barriers that impact founders also impact underrepresented emerging managers, who, as new venture capitalists, face systemic barriers to establishing investment track records. Increasing representation among investors improves the likelihood that underrepresented founders will be equitably funded.

Photo by Julian Wan via Unsplash

We recognize that gender and ethnic diversity, along with socioeconomic and geographic diversity, and diversity of skills, experience, and other factors, improve business outcomes. We also recognize that diverse founding and executive teams outperform their homogeneous counterparts on realized returns.

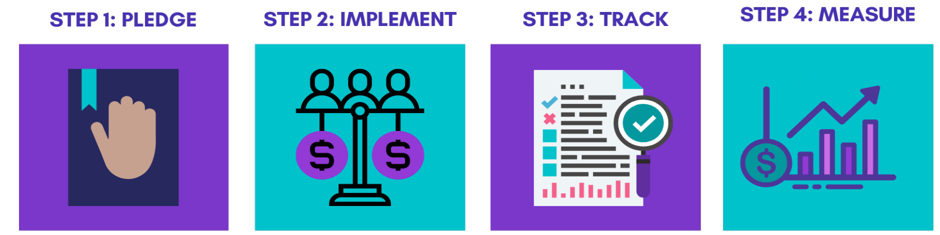
Therefore, we commit to engaging diverse and emerging managers through programs that provide training, support, an attributable investment track record, and compensation. We do so with the goal of expanding our networks to more equitably consider, invest in, and add value to underrepresented founders.

We will carry out this commitment without relying exclusively on gatekeepers, or sources that offer a concentrated pool of candidates from underrepresented backgrounds, but exclude a higher percentage of candidates integrated into the larger talent pool.[14]

We will make a best effort not to limit access based on network, geography, affinity group, or other overt or covert barriers to entry. As we do so, we will collect and volunteer relevant information with our peers and be intentional about making business decisions that promote tech funding equity.

We will also engage in personal work to take "radical responsibility"[15] *to build relationships with underrepresented emerging managers and founders, and honor their authenticity, individuality, and lived experiences. We acknowledge that doing so will help us achieve better financial outcomes, fulfill our fiduciary duties, and make a positive contribution to the moral and economic well-being of society.*

Methodology



STEP 1
PLEDGE: COMMITTING TO TECH FUNDING EQUITY

Recognizing that inequities in tech funding and the underrepresentation of women, Black, and Latinx managers are both 1) systemic and 2) business issues, participating companies will have a representative complete an engagement letter affirming the Pledge, agreeing to:

- Assign a person or position to carry out the Pledge assessment;
- Perform an assessment of decision-making, including by identifying policies and practices that inhibit equitable inclusion of underrepresented founders and investors;
- Devise a tech funding equity strategy as a result of this assessment (per Step 2: Implementation);
- Review their tech funding equity strategy and key performance indicators on a quarterly basis internally, and annually with the Tech Funding Equity team (per Step 3: Track);
- Display their logo and agree to be acknowledged on the Tech Funding Equity website (techfundingequity.com) and in promotional collateral (print, web, video, etc.).

Participating in the Pledge does not require any additional terms and conditions or mandatory disclosures. Per Step 4: Measure, scores and outcomes will not be made public for individual companies. However, Tech Funding Equity will publish which companies were approached about taking the Pledge, and will share aggregate findings.

STEP 2

IMPLEMENT: USING THE FRAMEWORK

Modeled after the Mekong Club[16] anti-slavery checklist, a methodology that enlists the private sector in supporting government efforts to eradicate modern-day slavery tied to labor exploitation, the Opportunity Pledge framework has four categories — Assimilation, Engagement, Execution, and Entrenchment — divided into subcategories: Awareness-Raising, Policy, Governance, Recruitment, Resources, Building Capacity, Monitoring, Fundraising & Investment, and Mentoring. Within each subcategory, companies can pull from suggested actions (or not), create their own actions, and optionally contribute to the list of suggestions. Not all companies need to adopt the same actions, but they should commit to undergoing internal analysis, determining actions, and remaining accountable to implement and track those actions.

On an annual basis, an Opportunity Pledge survey will solicit responses from companies to determine in what categories and subcategories they have taken action, what actions they have taken, and the effectiveness of these actions. Companies that have participated in a similar framework with the Mekong Club[17] reported two useful benefits:

- Company-wide, inter-departmental conversation on the issue; and
- Helping companies anticipate and prepare for compliance as governments consider legislation mandating greater accountability.

Opportunity Pledge Framework Sample Actions

Category | Assimilation	
Sub-category	**Suggested action (examples)**
Awareness-raising	Offering formal opportunities to engage in tech funding equity topics at least once yearly.
Category | Engagement	
Sub-category	**Suggested action (examples)**
Policy	Making a public commitment to tech funding equity.
Governance	Publishing a board-approved, anti-racism/anti-discrimination code of conduct.
Category | Execution	
Sub-category	**Suggested action (examples)**
Recruitment	Working with diversified sources of talent – with conventional and non-conventional backgrounds – to access diversified deal-flow.
Resources	Sharing resources with emerging managers to facilitate deal-flow tracking, due diligence, reporting, and ongoing support of startups attributable to emerging managers.
Building capacity	Providing information and training on topics related to tech funding equity for internal and external stakeholders to accelerate capacity-building.
Monitoring	Tracking channels and methods for recruiting talent and sourcing deals.
Category | Entrenchment	
Sub-category	**Suggested action (examples)**
Fundraising & Investment	LPs: investing directly in diverse emerging managers. VCs: providing fundraising opportunities and introductions for diverse emerging managers.
Mentoring	Sharing what is (and what is not) working internally, among peers, and in external publications.

STEP 3
TRACK: FRAMEWORK REVIEW

Companies schedule a quarterly internal review of efforts in each category. The outcomes may or may not be shared with Tech Funding Equity. On an annual basis, for a period of at least two years, companies should participate in an annual survey with an option to schedule a web or phone meeting of 30-60 minuteswith one or more representatives of the Tech Funding Equity project. Through the survey and discussion, companies can share what has been accomplished, discuss additional information or insights gained, and identify any difficulties encountered. These items may be shared on a confidential basis.

The objective of this process is to: 1) provide a roadmap that will support design, implementation, and modification of strategies for achieving tech funding equity; 2) facilitate data gathering for reporting and compliance purposes; and 3) measure performance (per Step 4: Measure). Tech Funding Equity representatives may provide referrals, resources, advice, or additional support to aid companies in executing or modifying their strategies.

STEP 4
MEASURE: CREATING ACCOUNTABILITY

In response to the Tech Funding Equity Survey, each signatory is assigned a score based on whether the organization has taken action on each of the sub-categories. The score is determined by adding up points for each category, weighted by presumed impact and effort required (see below for a draft points scheme). Effort, not effectiveness, is the criteria. Efforts are reflected by taking action in one or more subcategories, and will be used to determine effectiveness of the actions used. Learnings, shared in aggregate, can support organizations to develop better practices that may evolve over time as necessary.

As with the Mekong model[18], the results of individual organizations will not be shared publicly, as the intent is neither to "name and shame," nor to make a competition out of metrics (companies may evaluate their outcomes internally and make public at their discretion). The Tech Funding Equity approach is to: 1) encourage companies to participate voluntarily; 2) establish dialogue with companies; 3) gather insight; and 4) offer support and advice based on outcomes to optimize the efforts of companies that have demonstrated their commitment to accelerating tech funding equity.

OPPORTUNITY PLEDGE SUBCATEGORY SCORE

Assimilation	Awareness-raising	15
Engagement	Policy	5
	Governance	5
Execution	Recruitment	10
	Resources	10
	Building capacity	10
	Monitoring	5
Entrenchment	Fundraising & Investment	30
	Mentoring	10

FRAMEWORK
Categories & Subcategories

The four categories and nine sub-categories are modeled on the Business Pledge designed by the Mekong Club to reduce and end modern slavery.[19] The following section provides a summary of each category, in addition to examples adapted from those provided by participants in the Business Pledge, to align with tech funding equity. This methodology was adopted because, as the anti-slavery project notes, pledges are used for various causes, but seldom include a framework to support signatories in taking action and measuring the impact of their engagements. The framework encourages companies to remain engaged by providing practical guidelines, external accountability, positive encouragement, and support.[20]

Photo by LinkedIn Sales Navigator via Unsplash

ASSIMILATION

We cannot assume that companies know which resources or information can best contribute to an understanding of the systemic barriers that create tech funding inequities. Past surveys, such as the LinkedIn member survey on the state of diversity in venture capital and startups,[21] indicate there has been a lack of awareness and concern with diversity in the tech and VC ecosystem. However, in response to the recent tipping point in the Black Lives Matter movement, venture capital firms and limited partners are: 1) acknowledging systemic racism; 2) seeking to understand its persistent impact on underrepresented founders and emerging managers; 3) learning the business benefits of diversity; and 4) accepting the moral imperative to act now.[22]

To support this momentum, several organizations have responded with recommendations and resource repositories to accelerate understanding among stakeholders. Signatories of the Opportunity Pledge can draw from and share these resources with their peers and with the Tech Funding Equity project. This aligns with the "Awareness-Raising" sub-category of the Opportunity Pledge:

Awareness-Raising
Goal: Create awareness about tech funding equity — internally, externally, and systemically
Examples of actions that can support this sub-category: • Establishing a scout/venture partner program that affords emerging managers the opportunity to develop an attributable track record. • Implementing analysis tools such as the Harvard Bias Tests;[23] • Offering formal opportunities to engage in tech funding equity topics at least once yearly; • Developing/deploying content to highlight emerging managers and underrepresented founders to create awareness and normalization; • Providing mandatory tech funding equity training to new employees through the onboarding process and ongoing education; • Distributing a tech funding equity policy internally; • Distributing a diversity and inclusion code of conduct internally; • Watching educational videos and subscribing to relevant content feeds; • Hosting virtual panels on topics related to tech funding equity; • Providing workshops; • Generating content on awareness-raising materials and learnings; • Distributing information through the company website and social media; • Supporting related third-party activities; and • Incentivizing employees to self-study and share learnings on topics related to tech funding equity, through bonus allocations, rewards, and/or other recognition.

ENGAGEMENT

Engagement builds upon companies' efforts to collect and assimilate information on tech funding inequities. During this phase, staff and stakeholders can coordinate efforts by reviewing policies and practices internally and externally, setting goals toward achieving tech funding equity, and putting governance structures in place to support tech funding equity goals.

Policy
Goal: Evaluate and re-shape company policies and practices to promote tech funding equity and ensure they are reviewed and updated regularly
Examples of actions that can support this sub-category: • Publishing a public commitment to supporting tech funding equity; • Establishing and publishing anti-discrimination and anti-harassment policies; • Establishing a scout/venture partner program that affords emerging managers the opportunity to develop an attributable track record; • Auditing and updating policies and practices for recruiting and hiring talent, including sources of referrals and language used in job/opportunity descriptions, evaluating each for implicit bias; • Auditing and updating policies and practices for identifying investment opportunities, including inbound and outbound sourcing of deal-flow; • Eliminating requirements for "warm introductions" for underrepresented founders who are less likely to be currently networked or able to access referrals due to bias and segregation;[24] • Reviewing criteria for hiring and investing to determine if they are based on factual data, or assumptions that cannot be supported by data; • Reviewing contracts and sources of platform services responsible for hiring/recruiting underrepresented talent for portfolio companies

Photo by Scott Graham vi Unsplash

Governance
Goal: Ensure that the company's tech funding equity strategy is managed with clear accountability.
Examples of actions that can support this sub-category: • Establishing a schedule to review and recalibrate policies to meet goals; • Identifying a person, team, or task force to oversee tech funding equity progress; • Delegating responsibilities to staff/stakeholders to ensure company-wide involvement in tech funding equity; • Including a call to action in external communications to portfolio companies, encouraging more referrals and hiring of underrepresented talent on an ongoing basis; and • Establishing an advisory committee or corporate social responsibility (CSR) board to support tech funding equity; or, if such a committee or board exists, add tech funding equity to mandates under its purview.

EXECUTION

With policies and governance aligned, the next step is execution. This involves recruitment, internally and externally; creating, allocating, and disseminating resources; building capacity; and monitoring progress.

Recruitment
Goal: Identify, engage, and compensate underrepresented emerging managers as scouts, venture partners, or other investment roles that support them in establishing attributable investment track records.
Examples of actions that can support this sub-category: • Adding language to the website announcing opportunities for diverse and emerging managers to participate in the company's program(s); • Publishing an announcement via email and social media channels; • Working with promotion partners to generate awareness; • Participating in events targeting underrepresented emerging managers and founders; • Producing events targeting underrepresented emerging managers and founders; • Subscribing to and advertising in publications geared toward emerging managers; • Contracting with consultants and advisory firms that have relationships with underrepresented emerging managers and founders; • Creating a newsletter catered to underrepresented emerging managers and founders and providing access to subscribe to the newsletter on the website and other channels; • Soliciting referrals from subscribers to other individuals and organizations that support talent; • Following the "Rooney Rule,"[25] commiting to interview at least one candidate for every open role from groups currently underrepresented on the team.

Monitoring
Goal: Encourage commitment to tech funding equity and measure the impact of efforts in order to optimize and accelerate progress.
Examples of actions that can support this sub-category: • Establishing key performance indicators (KPIs) to track performance and progress; • Using internal or external tools to collect and analyze data; • Sharing findings in quarterly internal check-ins and an annual progress survey; • Disseminating findings in publications.

Resources
Goal: Create, allocate, and disseminate various resources that accelerate tech funding equity.
Examples of actions that can support this sub-category: • Creating a repository of newsletters and resources geared towards underrepresented emerging managers and founders (e.g. advice, software, administration, directories); • Seeking advice to ensure that resources are not condescending, tone deaf, or misguided; • Creating collateral designed to promote resources; • Sharing resources as part of recruitment efforts; • Allocating budget to support training and tools; • Allocating budget/carry (fund managers' share of investment returns) to compensation of emerging managers as scouts/venture partners; • Allocating budget to attend conferences and seminars on topics related to tech funding equity and creating equitable opportunities for underrepresented managers and founders; • Joining multi-stakeholder organizations and initiatives that support resource-sharing.

Building Capacity
Goal: Develop and support cultural competency to identify and address internal and external tech funding equity issues.
Examples of actions that can support this sub-category: • Applying policies, practices, and resources to build the capacity of staff and stakeholders; • Sharing resources to build the capacity of vendors, portfolio companies, and external colleagues; • Engaging external organizations and consultancies, like Emtrain, Conscious Leadership, and Culture Shift Labs, to accelerate capacity-building; • Establishing partnerships that support capacity-building; • Recognizing and rewarding employee commitment to and progress toward capacity-building.

Photo by airfocus via Unsplash

ENTRENCHMENT

As companies execute on the actions to which they have committed, they may experience newfound or heightened "diversity fatigue."[26] This can easily lead to "progress and retrenchment," a dynamic indicative of structural racism that, according to The Aspen Institute's Roundtable on Community Change, "works to maintain a steady state of white privilege wherever there is progress toward racial equity."[27] Opportunity Pledge signatories should anticipate and proactively plan to mitigate this falling back by focusing on *entrenching* tech funding equity, a process that ensures that outcomes are established. This framework includes two subcategories to achieve tech funding equity entrenchment: Fundraising & Investment, and Mentoring. The first ensures that emerging managers are prepared to "spin out" into new firms that will continue the work of investing in underrepresented founders. The second involves using peer mentoring to normalize the work of dismantling systemic inequities in venture capital while providing a support system to acknowledge, encourage, and reward ongoing engagement.

Fundraising & Investment

Goal: Increase the number of underrepresented founders raising institutional capital and ensure that allocations are equitable to those of their counterparts, in part by increasing the number of underrepresented managers attributed with raising and/or deploying capital.

Examples of actions that can support this sub-category:

- Supporting new and seasoned professionals in establishing investment track records by implementing a venture scout/venture partner initiative that includes compensation;
- Investing as an LP in emerging managers' funds;
- As an established General Partner, supporting underrepresented emerging managers in raising a fund managed by your firm;
- Allocating investments to founders who are identified by underrepresented emerging managers and meet investment criteria;
- Setting clear targets for the percentage of assets under management that will be allocated to underrepresented founders or emerging managers.

Mentoring

Goal: Support the success of emerging managers and improve the industry at large by sharing "better practices."[28]

Examples of actions that can support this sub-category:

- Arranging group and individual meetings with underrepresented managers in scout/venture partner program(s) to engage in mutual mentorship (exchanging insights and experiences) towards achieving tech funding equity;
- Sharing successful practices and lessons-learned through newsletters, blog posts, op-eds, social media, panels, and other channels;
- Disclosing KPIs and other indicators of progress made toward goals;
- Sharing challenges and obstacles faced in achieving goals and solicit advice on remediation.

Next Steps

The goals for next steps are to onboard participants in the Opportunity Pledge, implement an operational plan, and raise funding to hire staff. The project seeks a permanent home to provide consistent support and grow the scale of operations. The project also seeks to build a coalition of stakeholders to address systemic barriers to tech funding equity.

Join the Opportunity Pledge for tech funding equity!
Contact us at info@techfundingequity.com

For more information and to make the pledge, visit:
www.techfundingequity.com/opportunity-pledge

ABOUT THE ASPEN TECH POLICY HUB

This project was incubated at the Aspen Tech Policy Hub, a West Coast policy incubator, training a new generation of tech policy entrepreneurs. Modeled after tech incubators like Y Combinator, we take tech experts, teach them the policy process through an in-residence fellowship program in the Bay Area, and encourage them to develop outside-the-box solutions to society's problems.

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About Mariah Lichtenstern

At the intersection of technology, entertainment, and venture capital, Mariah Lichtenstern began her entrepreneurial journey as an undergraduate activist during the dot-com era. She entered the finance industry to fund her graduate education, earning Financial Industry Regulatory Authority (FINRA) designations. Gaining understanding of securities laws and regulations shed light on systemic inequities that disproportionately disadvantage underrepresented entrepreneurs.

Leading up to and after the 2008 downturn, she exited finance and started a media and technology consultancy. There, she focused on front-end web and mobile app development, social media integration, e-commerce, and digital video. With the passing of the JOBS Act, she decided to re-enter the tech scene to increase access to capital for entrepreneurship.

Today, she is the Founding Partner of DiverseCity Ventures and Managing Director of the Founder Institute, Sacramento, California, which was recognized by *Forbes Magazine* as the third-most gender-diverse chapter in the world.[29] She serves as an advisor for the California Clean Energy Fund's CalSEED initiative, Berkeley Skydeck, Village Capital Finance Forward, FourthWave [female founder] Accelerator, and the Yale University School of Medicine's Digital Innovation and Diversity Initiative. She is a member of UCLA Ventures and an Aspen Tech Policy Hub Fellow, where she advocates to close the tech industry funding gap.

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