**Measuring Equity: A Preliminary Analysis of Diversity and Inclusion Statements in Venture Capital- A Year Later**

Building on the seminal work by Professor Josh Lerner, the Jacob H. Schiff Professor of Investment Banking of Harvard Business School and the Private Capital Research Institute on the question of diversity in asset management, we plan to understand the correlation between investor diversity and diversity in investments. According to a 2017 study authored by Josh Lerner, firms owned by women and minorities control less than 1% of total industry assets.

As part of our ongoing research, we intend to measure different characteristics of the investment team, like gender and ethnicity, and correlate those to diversity in the management teams they invest in. We are partnering with Crunchbase to examine its expansive datasets to measure diversity across investors and correlate diversity scores of management teams.

The first part of our research examines the inclusion and diversity commitments made the private equity and venture capital industry in the wake of the resurgence of the Black Lives Matter movement in the summer of 2020.

As economic injustice, born of systemic racism in the United States, continues alongside a pandemic related economic crisis, venture capital firms are joining the chorus of industry leaders pledging their support to the cause of racial and intersectional equity.

Over the summer of 2020, firms like, Sequoia, Bain Capital, and The Carlyle Group pledged support for racial justice on social media, pledged efforts to close the representation gap in their firms and commit to transformation measures geared towards increasing diversity and inclusion. Bain Capital, The Carlyle Group and Sequoia have close to half a trillion dollars in combined assets under management. Sequoia alone controls $1.3 trillion in portfolio companies.

A year later, it is important to take stock of the action taken. Several firms made financial commitments to racial justice organizations, including the Equal Justice Initiative, the Southern Poverty Law Center, and NAACP, and also pledged new steps to ensure that within its own operations, it will promote Black entrepreneurs and investors. The firms also promised to create a public database of Black founders working on enterprise startups. They pledged to increase their recruitment at HBCUs and land-grant universities to focus more on a diverse group of recruits and conduct internal training from within portfolio companies to create a new generation of historically underrepresented entrepreneurs. Several firms have chosen to publish how many diverse founders they have invested to date with annual evaluations. This measurement tool could increase transparency and accountability.

Few firms, however, publish such statistics publicly, and the data is not always readily available. On the other hand, the data on inequality in the venture capital industry is a major concern.

We have begun to evaluate this commitment by rating specific action steps they have proposed, tracking follow-ups, measuring financial commitments, and indexing their investments in diverse management teams. Our end goal is not to “name and shame” but rather to understand what tangible steps to make a strong commitment might look like and share recommendations and best practices.

To evaluate a commitment to diversity and inclusion and eventually provide suggestions to advancing diversity and inclusion, we must first define what true commitment to diversity and inclusion looks like. We believe that true commitment requires a holistic approach: financial commitment, development of internal programs, a diverse team and board, and diverse investments. Therefore, moving forward in our research, we seek to exemplify those who both internally and externally dedicate themselves to diversity and inclusion.

As part of our preliminary study, we have researched approximately 15 Venture Capital and Private Equity firms based on a variety of ranking systems, including top firms by AUM and top firms by status. By analyzing multiple ranking systems, we were able to identify “Top 15” Venture Capital firms and “Top 15” Private Equity firms, and from that list of 30, chose 15 firms that had publicly obtainable diversity statements made in the wake of the resurgence of BLM in the summer of 2020.

After sourcing and scoring each diversity statement, we have analyzed that every firm took a different approach to taking action on their commitments to diversity, but in general, most firms either took an internal approach (developing programs, hiring a diverse workforce etc.) or an external approach (donating money to racial justice organizations). Internally, standout firm Andreessen Horowitz created the Talent X Opportunity Fund, a fund designed to help entrepreneurs that have historically lacked the resources to be successful. Additionally, Bain Capital pledged to create an economic development initiative in Boston to focus on supporting minorities and women, in addition to improving their own diversity in leadership and expanding employment opportunities. The Carlyle Group appointed a Chief Diversity & Inclusion officer and using ERG’s redesigned its employee benefits for more equity and inclusion. More commonly, we saw firms such as KKR, Accel, and TPG Capital promise to hold more conversations about important topics.

Externally, we noticed that most firms mention donating to social justice organizations, but few commit to either matching employee donations or donating a specific number. Out of the 15 companies we chose to analyze, only four pledged to match employee contributions, and only two of those four committed to donating in addition to matching. Andressen Horowitz pledged $2.2M plus $5M of matching funds; Bain Capital pledged $100M and 2:1 matching; The Carlyle Group Inc. pledged to match up to $1000 from each employee; and Sequoia Capital pledged to match employee donations 2:1. Many of the firms mentioned getting involved with social justice organizations like the NAACP but did not give details on their involvement. It is important to note that these financial pledges come from funds controlling trillions of dollars in portfolio companies.

Our research on follow-up action revealed that many firms have continued to act with diversity and inclusion in mind, but certain firms are outdoing others and more can be done to actualize the commitments. One year later, Sequoia Capital signed on with The BLCK VC Scout Network to support more Black Investors. Andreessen Horowitz continues to take in new cohort classes for the Talent X Opportunity Fund. KKR added at least two diverse directors to the board of every company they control. Bain Capital allocated $2.5 million to accelerate Black and Latinx owned businesses and created a jumpstart program to support young children. GGV Capital made Juneteenth a company holiday. Index Ventures posted internal conversations and videos about raising diversity online. Bessemer Venture Partners got their certification for diversity from Diversity VC. The Carlyle Group enhanced recruitment, development, and accountability by requiring at least two diverse candidates be interviewed for every role, training promotion nominees in inclusive leadership, and launching programs for Black, Latinx, women, and multicultural nominees. TPG Capital started TPG Next, a program to support more fund managers who are women, POC, and LGBTQ+. The Blackstone Group created many new internal programs such as "The Women's Initiative" and "The Diverse Professionals Network." Y Combinator continues to write on their blog to help other companies strive for diversity and inclusion, as well as releasing their own numbers about diverse investments.

In order to analyze a firm's public D&I statements made in the summer of 2020, we sourced these statements from many different locations, such as Twitter, a blog, or the firm's website. Once the statement was sourced, we scored each statement using a set of categories. These categories include:

- Do firms have a D&I statement?
- Who said or signed it, and in which medium it was released?
- Mention of any specific target groups
- Any specific action steps the firm will take?
- Any internal commitment to employees, the board, or their own best practices?
- Any financial commitment declared?

In our analysis of "soft" vs. "hard" commitments, we find a statement signed by a CEO or high executive to be more valuable than a statement unsigned or signed by a D&I chair because the former shows that high-level leadership is committed to diversity and inclusion. Second, we believe that addressing intersectionality or multiple groups and their unique problems within BLM would be most desired in a statement. Third, we value some form of action steps because they show the firm's intent to change. Fourth, internal commitment is an important component of a statement because it reveals that the firm is interested in bettering its own spaces as well as external spaces. Finally, we find value in a pledged financial commitment because it is a tangible and powerful step to measure. We find each of these categories important because they reveal a holistic commitment to diversity and inclusion if all present.

Below, we have provided a breakdown of two example statements to further explain the scoring system and what we find valuable in a public D&I statement.

*Sequoia Capital*

**To: All Sequoia**
**Subject: Empathy and Action**

We are all paying close attention to the heartbreaking events unfolding in Minneapolis and across the country. The murder of George Floyd wasn't an isolated incident. Racial injustice in America remains deep and persistent. We at Sequoia condemn racism towards the Black community. We condemn acts of violence. We condemn bigotry. We condemn hate.

Change doesn't happen somewhere else. It starts with each of us holding ourselves accountable and then taking personal actions towards a better, more just world.

Many of us have already taken action by donating to civil rights organizations that work on the frontlines. Sequoia partners will match employee contributions 2:1. Please see the #sequoiagiving Slack channel for details. We must also deepen our empathy for those who experience daily injustice. We will be rolling out internal programs to create safe spaces to share, listen and learn. Also, if you wish to talk to a professional counselor, we have virtual mental health resources available to employees via OneMedical, UNUM, and Blue Shield.

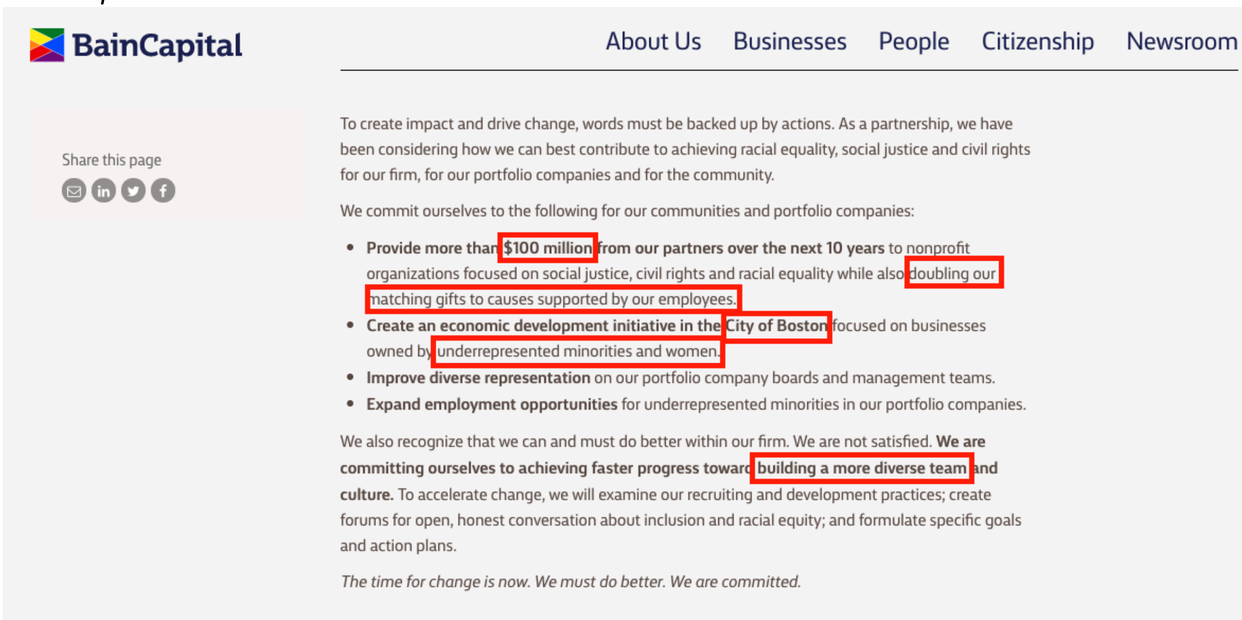
The Ford Foundation, MacArthur Foundation, James Irvine Foundation, Rockefeller Foundation and Annie E. Casey Foundation and many of our other LPs are actively fighting social injustice. Sequoia's returns have fueled their work for decades. This matters to us and to the founders with whom we partner.

Together, our individual positive actions have the power to add up to something significant.

-Team Sequoia

Sequoia's first pledge conveyed a message of support to the Black community with strong language (highlighted in blue). However, the language around specific actions steps are vague (highlighted in red). For example, we don't yet know the current level or process for employee contributions. We don't know what steps deepen empathy and only understand the internal programs at a high level.

*Bain Capital*



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To create impact and drive change, words must be backed up by actions. As a partnership, we have been considering how we can best contribute to achieving racial equality, social justice and civil rights for our firm, for our portfolio companies and for the community.

We commit ourselves to the following for our communities and portfolio companies:

- **Provide more than $100 million from our partners over the next 10 years** to nonprofit organizations focused on social justice, civil rights and racial equality while also doubling our matching gifts to causes supported by our employees.
- **Create an economic development initiative in the City of Boston** focused on businesses owned by underrepresented minorities and women.
- **Improve diverse representation** on our portfolio company boards and management teams.
- **Expand employment opportunities** for underrepresented minorities in our portfolio companies.

We also recognize that we can and must do better within our firm. We are not satisfied. **We are committing ourselves to achieving faster progress toward building a more diverse team and culture.** To accelerate change, we will examine our recruiting and development practices; create forums for open, honest conversation about inclusion and racial equity; and formulate specific goals and action plans.

*The time for change is now. We must do better. We are committed.*

The first line of Bain Capital's message speaks to the need for action to drive change. They list concrete actions steps for their company internally, their portfolio companies, and their community. They also share a specific financial commitment to nonprofits focused on social justice.

The pandemic and the renewed public reckoning on racial justice have spurred corporate pledges. However, we need to measure the actions taken by the venture community because statements are only as powerful as the concrete action taken both internally and externally. Collecting follow up action will enable us to analyze action beyond what would otherwise be an exercise in public relations.

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