

**Harvard
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Review**

Race

A VC's Guide to Investing in Black Founders

by James Norman

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Illustration by Aaron Marin

Summary. Right now, Black founders receive roughly 1% of VC funding. One of the reasons for this is that venture capital investors, who are largely white, aren't good at recognizing and developing Black entrepreneurs. Four main areas are misunderstanding are: 1) different... [more](#)

In the midst of a pandemic, I don't think we ever expected to see one of the most energized social justice movements in the past few decades. Emboldened by the movement, many are engaging in more frank discussions about the role race plays when it comes to funding opportunities for early-stage tech companies. As a result, venture capitalists, a group historically dominated by white men, has shown increased interest in finding and funding Black founders.

While the energy is appreciated, there are unknown and unspoken nuances that will challenge most VCs when it comes to actually getting into a deal with a Black founder. Taking a meeting is one very small step in the process.

There is more to getting behind Black founders (like me) than just writing a passionate blog post or taking a meeting.

In order for the energy of this moment to birth change in Silicon Valley and beyond, it's important to break down the core challenges that ultimately set the stage for why Black founders receive <1% of venture capital. There is a story behind why you find yourself passing on the few, if any, Black founder deals that come across the table (assuming you're a VC who hasn't funded

many people of color). Unconscious bias is, of course, a part of the problem here, but let's dive deeper than that. Doing so will help you gain access to amazing new opportunities.

These are the four key things you need to understand in order to get into a deal with a talented Black founder, and maintain a positive working relationship that can take you and them to a successful outcome.

TL;DR

- **The Four Key Challenges You Need to Overcome:**

1. We Solve Different Problems and Have Different Solutions
2. Different Surroundings, Different Resources
3. Different Culture, Different Communication
4. The Continuous Threat of Unconscious Bias

- **The Reasons Why You Should Invest Black**

- **Guide to Sourcing Black Founders**

An important note: These are high-level concepts. Know that Black people are not a monolith and that there is no universal experience for any group of people when you look closely. This is presented as a generalized set of circumstances, trends, and cultural insights so that we can cover as much ground as possible in a short article. Now, with that out of the way, let's start getting you up to speed!

The Four Key Challenges You Need to Overcome

1) We Solve Different Problems and Have Different Solutions

“Once I had a VC ask if I made up the word ‘unbanked.’ After explaining it in detail, he couldn’t understand how there are people in 2019 without a bank account. So, naturally my company was a big ‘no’ for him.” – Sheena Allen, CEO/Founder at Capway

“Not only do we exhibit some of the most critical attributes to bring an idea to market [and gain traction], but we also have a clear track record [with respect to] generating new social norms, adapting to changing landscapes, and instituting new cultural and institutional patterns.” – Joan Spearman, CEO / Founder at Localeur

We often come from different circumstances than the average founder and frequently have alternative world views because of this. So, it’s common that we see different large-scale problems and solve problems with different solutions.

When a founder is pitching a VC, the typical approach is to evaluate a company and gain a frame of reference through all the other deals they’ve already seen. But remember you haven’t seen many Black founders, and this typical framework hasn’t yielded diverse investments. This is known as *pattern matching*. When you don’t meet many Black founders, you’re likely not used to hearing about market opportunities you have no framework for.

So, it becomes easy to say, “I don’t know if this is as big as you think it is,” or “I think it’s too early for us, keep me in the loop moving forward.”

If you believe in a Black founding team’s abilities but you don’t understand the unique market opportunity they’re presenting, recognize that you should go and learn about that market and verify whether or not you’re missing out on returns for investors. Furthermore, recognize that even when our companies focus on a more common market problem/opportunity, we will still likely have different solutions.

As entrepreneurs, we know the most common way of doing things is not necessarily the most innovative. When there is an existing company performing well, addressing a problem and leading the market, it’s not out of the norm for Black founders to challenge that position. This is either because the company is not properly serving people of color, or they have a large hole in their solution that presents a tremendous opportunity. Let this be a motivating factor for you to investigate this opportunity further rather than an excuse to tell the founders why they won’t win against the 10-ton behemoth. The reality is, most of the large competitors don’t have any people of color in leadership or on their product teams. There is a reason they don’t see the opportunities we see, and they won’t until we’ve made it relevant.

Thus, after many early noes from investors on our minimum viable product (MVP) and product vision, our journey of building with little to no funding begins.

2) Different Surroundings, Different Resources

“I built ThankYouKindly’s front-end and launched a paid beta while [doing] my full-time job because it was the only way I could afford to be a founder in San Francisco. I wouldn’t have made rent. [It was clear] no one would recognize my company without us having revenue [and recognizable clients].” – Ebere Anosike, CEO / Founder at ThankYouKindly

Since Black founders grow up in environments that are more financially disadvantaged, the fact is that the vast majority of us have no access to what Silicon Valley labels as the “friends and family” round of fundraising.

Receiving \$50k, \$100k — and sometimes more — from family and peers is not part of the average Black founder’s journey. Personal loans, credit, and day job salaries often serve as a substitute for readily accessible capital from their social network. Yes, we usually have another job to keep us afloat while still building a functional product that is further along than that of other founders — who are funded and don’t have other responsibilities.

This isn’t to say we all come from lower class backgrounds, but no matter our financial circumstance our communities tend to be less exposed to and familiar with the goings on in the technology

sector. People around us are familiar with entrepreneurship in the context of physical businesses, but not so much in regard to technology startups.

Where we come from dictates our personal network and how we interact with it. If you're the first person from your family to go to college, it's unlikely that you had anyone in your network who could help propel your entrepreneurial dreams forward prior to the age of 18. When we go to college (which, by the way, I don't think should be a prerequisite for starting a company), we're often one of a few Black people. Socially this can be challenging, and we may not develop as many close connections as other students. (As a side note, in the case of Black VCs, nearly all of them join Minority Leaders in Training or a prestigious MBA program to help supplement for their network deficit.) This means when we are on our journey, we are starting nearly from scratch with regards to the professional network that we need in order to get in front of investors, early potential team members, and other highly successful entrepreneurs.

Take the team aspect, for instance. The first step in the process of building a tech startup is finding a co-founder to help. Pre-seed, this is considered one of the most important signals to an investor in Silicon Valley during a stage that's all about the people. The typical pattern match for this signal is that teams should be composed of two or three co-founders who have known each

other for years. Most Black founders don't have that. (This is also a key signal for top accelerators and a reason why we aren't often accepted.)

The path to recruitment is different for Black founders, too. For example, say someone founding a startup knows a talented Black developer who is doing great things as a consultant or an employee. However, that developer is almost guaranteed to have less risk tolerance and they likely don't feel they have the freedom to just leave their job — because they came from financial disadvantage, they crave stability. For that potential co-founder there is no fail-safe, such as parents or relatives who can pitch in when things get tough. So, don't be surprised when you meet a Black solo founder. More than half of us are solo founders because of this. When you meet that solo founder, see it as a badge of honor that they made it all the way to speak with you about their early success without the same privilege or financial access.

For those of us that get a solid MVP to market, we get to graduate to pitching investors — while some other founders are able to get funding with no product at all. Unfortunately, you can count on one hand the number of investors that have first-hand experience with our journey, and there are only a handful more investors that look like us. By this point some portion of these underfunded founders have had to begin focusing on revenues to ensure they can pay their bills. This often changes how a subset of Black

founders see their roadmap. It's hard to think about running a company that won't make money for years, and scale wildly, if you have rent due next month you can't cover.

3) Different Culture, Different Communication

“I’m pitching and I’m telling him that I know the game better than everyone else in the space. He said, ‘Your confidence comes off as arrogance. It’d serve you well to dig deeper on your competition because you should never take them lightly.’ I couldn’t believe he didn’t think I’d done my research.” – Sean Green, CEO / Founder at Arternal

As Black people in America, we live in a white world every day. We are constantly fine-tuning how we move through the world and communicate to dodge systematic barriers and secure success.

This part isn't rocket science, we have different cultural norms. To take a thought from Thomas Kochman, author of *Black and White Styles in Conflict*, “Blacks and whites interpret verbal and non-verbal cues differently, resulting in numerous misunderstandings in communication.” Yet, the full burden rests on the founder to identify and navigate these communication gaps.

In Black culture, people say what they mean, and often expect direct communication in return. In the Black community, your word (declaration of position) is your most valuable asset. When we pitch you, it is out of norm for us to purposely deceive you or withhold key information. When you ask a question about our

market, product, or next steps in strategy, expect that we are going to be more declarative in our answers than other founders might be. This is a different communication style than you'll be used to. Other founders are not likely to handle a Q&A in the same way.

The hardened journey of a Black founder is only traveled through by someone with above-average confidence. This isn't unfounded. When stepping into a realm where we know we'll be challenged, it is our culture to arrive triple buttoned up; we've never had an option to do otherwise. Do not automatically misconceive our confidence as arrogance, ego, or ignorance. This is perseverance. (And showing it doesn't make a female founder an angry Black woman, while we're on the subject.) We are not meeting with you to attack your position or intelligence, we just want it to be clear that we've done our homework and that we unquestionably belong in the room.

In a professional setting, we're direct communicators. Some of the things you may notice are:

- We look you in the eye while speaking;
- We adjust our vernacular and sometimes appearance;
- We may not smile as much because we are serious about our work;
- We might be quicker to answer key questions, because we've really done our homework to be as prepared as possible as not to be wasting your time.

We do these things because we were raised to make these adjustments to be perceived as equal in conversation. We want to be taken seriously. In a professional interaction, this is our form of showing respect.

In both social and professional interactions, we place a strong emphasis on respect. Bring respect for the Black founder across the table from you in the pitch meeting. We are meeting you more than halfway. To engage with a Black founder authentically, it will take effort on your end. If it helps, think about how you apply yourself cognitively when you're engaging with an Israeli founder. They exhibit some similar communication demeanor, but in their case people typically attribute it to them being foreign. Black people in many cases are actually foreign to you, and this is why we see unconscious bias (the elephant in the room) continue to play a role in where these conversations do — and don't — end up.

4) The Continuous Threat of Unconscious Bias

“There was one VC in particular who said he just couldn't wrap his brain around investing in an [ex-inmate]. A second VC that I pitched told one of my co-investors he hesitated to invest because I look like I spent more time working out in prison than reading books.” – Frederick Hutson, CEO / Founder of Pigeonly

You have unconscious bias that you don't even recognize. So, simply be conscious that you do have unconscious bias. To manage your conversation and evaluation based on the previous

three challenges, you will need to spend more mental cycles being self-aware of any bias that you may have.

When you are talking with us, or evaluating a pitch, here are some things you could ask yourself to manage your own unconscious bias:

- Would I ask this question of the last five founders I spoke to?
- Am I imposing a different standard for progress and performance than other companies in my portfolio? (There are companies in your portfolio not performing as well as some of these companies pitching you.)
- At the pre-seed or seed stage, ask: Am I diving too deep into details on the product as opposed to better understanding the opportunity and the founder story?

Keep yourself honest in these interactions, and it will go a long way to help increase your chances of getting to better know us, our company, and the opportunity ahead of us. (Also, don't ask if we know Tristan Walker as a way to get to know us. We don't all know each other.)

The Reason Why You Should Invest Black

1) Statistically Higher Opportunity for Returns

“I do fundamentally believe that, really, global culture is influenced by Black culture in the U.S., and I think that is underappreciated in Silicon Valley. This region doesn’t know enough about the most early adopting culture.” — Ben Horowitz

The statistics speak for themselves: You are unequivocally missing out on tremendous opportunity by not knowing where Black founders are and not funding them. Take that in as a fact. If you’ve only spent 1% of VC dollars, if we can only find 227 venture-backed Black companies (while more than 9,000 companies were funded in 2018), you can be sure that you have not even funded the best of us yet.

Zuckerberg, Houston, Musk, the list could go on. You haven’t got in the deal with the Black founders who will have the equivalent impact of those who you revere in the tech community today. If you’re not investing Black, you will miss a myriad of unicorn opportunities that will have a lasting effect on culture in a different way than many companies today.

If you’re a sports fan, look at it like you haven’t even got behind Jordan or anyone else on the ‘85 Bulls team, let alone the ‘97 team. Our resilience, determination, and tumultuous journey to the investor table prepares us in a different way for the things to come in entrepreneurship. Backing Black founders is just good business strategy. Ask a colleague at these firms who have backed great Black founders.

2) Equality in America if You Believe in It #HireOrWire

This June, we've seen numerous VCs and individuals step out to help communities and rally people around donating to anti-racist causes (see Sarah Guo's efforts to fund these programs [here](#), for example). These are noble actions, and they're needed — these organizations work to maintain a sort of balance in rights and access.

However, these efforts are the equivalent of band-aids and ointments on a bleeding societal system. The reality is, the political and justice system of this country was built to purposely disadvantage Black people while advancing white people. Even if we had another Black president and a Black cabinet, it will not bring racial equality to our country, end police brutality, or affect the Black circumstance at large. The only thing that will allow Black people to have the agency, freedom, and equal footing in America is economic inclusion. We have been systematically removed from economic advancement since the beginning of time in this country that we built. To explain what economic inclusion means, I find it pertinent to give a quick history lesson on what economic exclusion is.

Consider a few examples of how Black families were systematically cut out of the process of building wealth. In the early 1930s, the U.S. government took its time coding communities within 250 metro areas from green to red (check out Oakland's map) — a practice called “red-lining.” This was to provide a guide that would encourage investment and development in yellow to green color communities. It was also

used by banks as a guideline to approve loans for Black people in the red zones and deny them in green zones. Then, in 1935, the Social Security Act was signed post-depression to ensure catastrophic events in capital markets would not wipe out the nation's livelihood. Before it was signed though, the southern congressmen had one hard negotiation point the north had conceded to in order to get it passed: Agricultural and domestic workers had to be excluded, ensuring a significant portion of the Black population at the time would not have Social Security. Next, from 1935 to 1962 the U.S. government put out \$120 billion into mortgage subsidies as suburbs were being built to escape city centers. The provisions of these subsidies were set up to exclude Black loan applicants.

As for all of the wealth, development, and support that went to these areas — well you guessed it — it benefited the white people who had moved there. Having more access to capital allowed for more property ownership by whites in areas that were being built for the better. This afforded the white community the ability to leverage their home value to start businesses, obtain a proper public education, have home stability and ultimately the ability to finance their families into higher education. All this while Black people owned property that would plummet in value, lacked public services, and had less opportunity for upward trajectory. This is just one example of systematic discrimination. Today, the Black homeownership rate is now 30.5 percentage points lower than non-Hispanic whites (72.2 percent) and 22 percentage points lower than the national homeownership rate of 63.7 percent.

Black people didn't create their circumstances through negligence or lack of capability — this was done to us. I'm here to tell you, we are going to change our circumstance, and we are going to achieve equality. We haven't come this far to fail. What you see in your streets now and hopefully for weeks to come is a representation of that. This moment is my generation's civil rights movement, and as in the past our progress galvanizes change for all minorities. Join us, become an ally not just with your thoughts but your actions. Let's push for economic inclusion to bring equality to all underserved communities, the way Martin L. King Jr. imagined.

Now if you're still with me and you're saddened by the disparity, emotional about our history and excited to pave a new path forward, continue reading to get tools that will help you get in on a deal with the right Black founder. If you're not with me, don't spend too much of your time trying to invest in us.

Guide to Sourcing Black Founders

Step one: Remembering you had to go through this guide to gain understanding, consider hiring a Black principal and/or investing partner, and put Black people on your board. There are plenty of talented black professionals in the venture industry ready for the opportunity (see BLCK VC). This will ease your issues in connecting with Black founders, but for now we will easily solve this problem with the following resources. Reach out to any of the organizations below to talk alignment with the operators, or to try

to get an intro to one of their founders. When you do get that intro, take it, do not pass it to an associate. If you want the deal, the decision-maker should be having the conversation.

- Transparent Collective
- Precursor Ventures
- MaC Venture Capital
- Backstage Capital
- A16z
- upslope
- Telescopic Ventures
- Nex3
- Realist Ventures
- (to name just a few...)

Sign up for access to our vetted report, The Black Founders list. This was hand-curated and is regularly managed by James Norman (www.pilot.ly), Yonas Beshawred (stackshare.io), and Sefanit Tades. These aren't just Black founders, but also talented business builders who have persevered through the challenging journey of raising venture capital against all odds. We are actively working over the next week to release a list of all Black founders currently raising capital, and we will release that via email to all those who sign up for this list.

Thank you for taking the time to read this letter to the venture capital community. The events of the past weeks really inspired me to bring clarity to this topic so all of the intros and meetings happening this week don't go to waste. I hope you've learned new things and there's a new fire in you to leverage your position to create real change. Be safe, stay positive and productive.

One Love,

James

Editor's note: This piece was originally published on Medium. It has been republished here with the permission of the author.

JN

James Norman is a serial entrepreneur who built his first online company at 16, and whose latest venture, Pilotly, is a consumer insights platform that enables content creators to get feedback from audiences at scale, used by NBCUniversal, Amazon Studios, Mattel, and others. He is a proud member of the 500 Startups family, and a co-founder of Transparent Collective, a non-profit that has accelerated 40 startups founded by unrepresented founders (women and people of color) to raise over \$35M in early stage funding. As partner of Transparent Collective, James works with the best and brightest Black founders to get the resources they need to scale.

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