The State of Responsible Innovation and Startups

Lessons and Insights From Founders, Investors, and Public Interest Tech Advocates on Launching and Scaling more Responsible and World-Positive Tech Companies
Consumers, regulators, and talent are increasingly pushing for new standards for tech companies

Responsible Innovation applies to more than just product development.

A new generation of founders is interested in learning more about ethical and responsible company building practices. However, they often lack resources, support, and community.

Very few venture capital firms provide portfolio services that help founders innovate responsibly.

ESG and/or impact frameworks can help founders and investors achieve long lasting improvements to their operations, strategies, and product.

If venture capital remains resistant to supporting a responsible innovation tech entrepreneurial ecosystem, limited partners will need to step up.

Impact + ESG investors need more activity at the front of the pipeline.

Conclusion

Footnotes
This is both an exciting and perilous time for the tech industry. Record high investments in startups are driving a period of rapid innovation. Prior to 2021, venture funding never reached $100B in a single quarter. In 2021, it’s exceeded $100B every quarter². The flood of money follows massive changes to the investment landscape itself, with nontraditional investors such as corporate venture capital funds, hedge funds, private equity firms, sovereign wealth funds, SPACS, and growth investors increasingly participating in early funding rounds.

This unprecedented investment in early stage technology companies promises to remake the infrastructure of how we live, work, and play over the coming decades — and is also being met with unprecedented skepticism, pushback, and distrust after nearly two decades of unfettered technology innovation.

The years since the 2016 US Presidential election have seen a reckoning for technology companies as they have been called to the carpet on issues ranging from consumer privacy, misinformation, predictive policing, surveillance, algorithmic bias, automation, exploitative business models, and worker rights. We have also seen a generational demand for action on structural racial inequality, with the private sector and technology companies in particular singled out as agents of bias and discrimination.
Surging worker organizing and unionization drives in some tech companies have demonstrated that tech workers want a greater voice at work and in particular with respect to their work’s impact on society. One recent study shows nearly 75% of tech workers want more time to think about the social consequences of their work, and public trust in technology companies has fallen to historic lows.

Meanwhile, 2022 is being touted as the year we begin to see the tech industry aggressively regulated in the US on multiple fronts, and a growing focus on environmental, social, and governance (ESG) in the public markets is beginning to enter the private markets as investors, consumers, and regulators alike push for greater transparency from private tech companies.

These efforts have resulted in growing interest around “ethical,” “responsible,” “public interest” and “humane” tech. These conversations have been focused overwhelmingly on problems that exist in tech itself (eg. bias in AI), rather than how technology companies themselves are actually launched, scaled, and funded.

This distinction is critical because technology is generally subordinate to the mission, values, business model, processes, performance incentives, operations, and culture of the organizations that bring it into the world.
Founders make a multitude of decisions each day about how to build their companies — in everything from investment terms, to org charts, to sales funnels, to performance incentives, to product sprints. These company building organizational structures, operations, and processes must be viewed through a lens of responsible innovation; and not only in hypothetical ethical scenarios or when examining the (very real) potential harms of specific technologies.

It is with this distinction in mind that we launched the Startups & Society Initiative (SSI) in 2020 to accelerate the mainstream adoption of responsible company-building practices in tech, with seed support from the Open Society Foundation and Ford Foundation. So far, we’ve interviewed 100+ influential founders, operators, investors, public interest technologists, and advocates. We also published a collection of micro case studies that touch on responsible company building practices at the preseed, seed, and later stages and held our inaugural responsible innovation conference, FutureProof Tech Summit, in October 2021. We launched this conference in partnership with The Long Term Stock Exchange, 500Global, Silicon Valley Bank, Beta-works, Eniac Ventures, DevColor, Ford Foundation, Omidyar, and the Guild of Future Architects.

Through our conversations and engagements with key stakeholders in the tech industry, it became clear that while the industry appears to be at an inflection point, things largely remain the same. Traditional influential Silicon Valley actors continue to promote the same culture and playbook for building, scaling, and funding companies and control the largest amount of investment capital with oversubscribed funds.
Nevertheless, there is a growing community of founders, technologists, and even investors who believe responsible innovation is both a business and societal imperative. The goal of this brief report is to highlight their thoughtful and practical new approaches for building, scaling, and investing in companies that emphasize responsible innovation.

Below are seven areas we wanted to focus on:
Consumers, regulators, and talent are increasingly pushing for new standards for tech companies

An increasingly discerning workforce, waves of tech worker organizing, generational demand for action on structural racial inequality, impending regulation, and shifting consumer preferences are signals that the era of creating tech and simply hoping for the best is over. Whether the tech industry opts to ignore or proactively engage them, consumers no longer passively accept Silicon Valley innovation without conditions. A broader set of stakeholders (e.g. workers, consumers, civil society, etc), are demanding that tech companies consider social and humanitarian concerns on par with technical and business motives. Relatedly, earlier this year Google named their first Head of Tech & Society to help the CEO focus on how tech affects society⁷.
To this end, tech companies need new business and operational practices, particularly at the early stage of company building. These can be informed by translating and operationalizing the concerns, views, and ideas of stakeholders and directly impacted communities. Further translation, can be done to ensure identify a set of standards as criteria for investment that venture capital firms and limited partners (more commonly known as LPs) can use. It will take some time for the market to catch up, but in this period of historic innovation the priority should be to accelerate this change and engage LPs in leading the change.
In the last few years we have seen a surge in technology companies publishing their ethical principles, particularly, in the context of developing machine learning and AI technologies as well as a growing number of risk-surfacing and design framework toolkits (e.g. EthicalOS toolkit, Doteveryone’s Consequence Scanning, Consumer Reports The Digital Standard, etc.) to help product developers understand how their work might have negative social consequences.

These toolkits serve as useful standalone resources, but it is critical to recognize that technology is subordinate to the business model, fiduciary responsibilities, values, and incentives of the companies that bring it into the world. If those basic company building blocks are not also aligned with a more stakeholder-focused model of innovating responsibly, “ethical” or “responsible” product development will end up being a band-aid solution.
Along with responsible and ethical product development, we also need to discuss and support founders around ways to improve the structure of decision-making, governance, and power within tech companies which leads to more sustainable and long-term outcomes.

From building diverse talent pipelines, setting ethical expectations with investors, aligning mission and growth, assessing the broader societal impact of products, etc., there are countless “company design” choices and practices founders can explore and implement to improve outcomes for the ventures and their stakeholders.

From top left and clockwise: Sofia Laurell, Founder/CEO Tiny Organics; Leonardo Bonanni, Founder/CEO Sourcemap; Diego Saez-Gil, Co-Founder/CEO Pachama; Kathy Pham, Senior Advisor, Mozilla. Fellow, Harvard; discussing impact as a core strategy during the inaugural 2021 Futureproof Tech Founders Summit.
A new generation of founders is interested in learning more about ethical and responsible company building practices. However, they often lack resources, support, and community.

In a year of record fundraising and valuations, a new generation of founders — many of whom are VC-backed — is committed to not build another unicorn at the expense of a healthy society and economy. In our interviews and discussions with them we cataloged the actions many founders are taking to innovate responsibly, while scaling a startup. These include things such as creating an internal values-based committee, incorporating a public benefit corporation, operationalizing equity into company DNA, or developing an underrepresented technical talent pipeline. Yet, despite their interest and commitment to explore more responsible or stakeholder-driven company building practices, these founders often lack the support, resources, community, and visibility.
An alternative path, standard, and exit model are needed for growing responsible tech companies. An emerging patchwork of organizations and institutions such as SSI, Venture Better, Responsible Innovation Labs, Zebras Unite and The Long Term Stock Exchange are filling this void by providing founders with tools, support, and infrastructure. Funders should heed close attention and support the emergence of this ecosystem.

FutureProof Tech Summit
Building World-Positive Companies

Aligning Growth and Values

Damola Ogundipe
Bo Ren
Iyah Romm
Alix Dunn

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startupsandsociety.org/conference

From top left and clockwise:
Damola Ogundipe, CEO Civic Eagle;
Bo Ren Director of Early Stage Startups @ Silicon Valley Bank; Alix Dunn, Founder Engine Room;
Iyah Romm, CEO CityBlock Health. Attendees listening to founders and investors talk strategies for aligning growth and values at Betaworks Studios.
Very few venture capital firms provide portfolio services that help founders innovate responsibly.

In our conversations with investors and founders the past two years, we found that very few VC firms provide founders with the tools and resources to navigate a rapidly changing regulatory landscape or identify and manage potential risks of their products and services (either through an ESG or other risk frameworks) or navigate a rapidly changing regulatory landscape. This finding is consistent with an Amnesty International report which found that leading venture capital firms were ignoring human rights when investing in technology\(^\text{10}\).
In our experience, some top VC firms continue to resist diversifying portfolio services to include information, tools, and resources for tactical responsible innovation strategies. Therefore, while we wait for VCs to more proactively support responsible innovation practices, LPs and a new generation of founders will need support in accelerating this change. In our experience, some top VC firms continue to resist diversifying portfolio services to include information, tools, and resources for tactical responsible innovation strategies.

On the screen, from top left and clockwise:
Bo Ren Director of Early Stage Startups @ Silicon Valley Bank; Alix Dunn, Founder Engine Room; Damola Ogundipe, CEO Civic Eagle; Iyah Romm, CEO CityBlock Health.
There is a growing body of work which highlights how incorporating ESG policy, impact frameworks, or stakeholder interests (e.g. of workers and civil society) into early stage company-building can lead to durable improvements in product, strategy, and operations. It can be useful for founders and investors to think of ethics as a type of risk. For many companies a baseline focus on timely issues such as data privacy or diversity metrics may be the best way to begin creating opportunities for founders and investors to have frank conversations around particular vulnerabilities and areas for improvement.

**ESG and/or impact frameworks can help founders and investors achieve long lasting improvements to their operations, strategies, and product.**
VCs are being encouraged to see ESG as a way for their companies to establish competitive advantage while also helping tools, resources, and support for founders. While the conversations in Europe are considerably further along, some prominent funds like 500 Global have been very engaged in supporting their portfolio companies to integrate ESG. Likewise, the global advisory firm VentureESG has been supporting venture firms in adopting ESG principles through the development of frameworks and resources. They have also partnered with Principles for Responsible Investing (PRI) to launch a new VC collaboration to convene VCs and asset owners that allocate to VCs to improve practices.
There is a growing focus on the role of LPs in fostering a more responsible tech innovation ecosystem. LPs include institutional investors (e.g. pension funds, foundations, endowments, banks and insurance companies) and family offices and high-net-worth individuals (HNWIs). They are the investors who provide venture firms and startups with capital (as well as connections to other VCs for follow-on rounds and LPs for future general partner (GP) fundraising). They are also well-poised to provide wider industry insights, distinct perspectives and best practices.

To this end, LPs are uniquely positioned to both influence venture firms on due diligence and portfolio services as well as startups on managing risk, incorporating ESG, or other risk frameworks. While ESG is at once both necessary and insufficient, it still presents a well-developed framework for LPs to begin having deeper conversations about responsible innovation.

If venture capital remains resistant to supporting a responsible innovation tech entrepreneurial ecosystem, LPs will need to step up.
As LPs are increasingly investing directly and “doubling down” on companies they believe in, or by co-investing alongside VCs, they can increase their focus on establishing new tech company standards as well as fostering more transparent relationships between founders and VC firms. In an era in which some top-performing VC firms continue to show resistance to responsible tech or have little acceptance of ESG as the purse-holders, LPs are poised to be able to engage them. Additionally, founders seeking to align their values with company-building practices and values-aligned capital are also increasingly vetting funds and investors.
Earlier this year, Y-Combinator announced new deal terms — $500k for every startup accepted into their batch — and their 2021 summer batch funded 377 companies. Many of these companies will go on to define the future of education, work, healthcare, transportation, housing, financial services, and more. Given their potential impact, it is remarkable how few impact, philanthropic, and ESG-focused investors continue to be largely focused on later stages — missing opportunities to influence how companies are built from the ground up.

There is much business value these investors can offer founders through fundraising, mentorship/support, best practices, and network building. For one, impact investors' dual aim of making a financial return and intentionally achieving measurable social or environmental results is poised to help founders integrate ESG and stakeholder values into their company building practices as well as assure mission-alignment as the company scales and grows.
Meanwhile, even though traditional philanthropy often moves slow and is risk averse, philanthropy could manage the investment risk—whether real or perceived—that comes with investments in early stage technology companies. In particular, philanthropy has two tools at its disposal: Mission Related Investments and Program Related Investments.

Both of these types of investments can support early stage companies and align with the mission of a foundation (e.g. climate change, public interest tech, affordable financial services, etc.) as well as make riskier investments that may yield a lower return, or require a longer timeline; but that could effectively subsidize return-seeking investors in order to jumpstart a sector that desperately needs capital. For example, a sector of more public-benefit oriented corporations.

Impact investors and the philanthropic world would be short-sighted in continuing to ignore the pivotal role they could play in nurturing and supporting more impact-focused founders. In order to do this they will have to become more active earlier in the pipeline and play an active role along with high integrity investors (both impact and traditional VCs) in helping startups form and scale more responsibly and be more proactive when problematic operational and business model practices arise.
In Conclusion

This report identifies key trends we heard while speaking with 100+ influential VC-backed founders, operators, investors, public interest technologists, and advocates. There is a new generation of tech founders who want a different playbook, and it has grown during the current “techlash” of Big Tech, BLM movements, and tech worker organizing. They want to be more proactive in integrating stakeholder-values, while centering workers’ voices, responsible innovation, and ethics into their company. However, they lack the resources and community to create this alternative pipeline.

With the exception of a few accelerators who are supporting companies around ESG frameworks, most traditional venture capital efforts still do not provide resources or portfolio services that help their companies think more responsibly. And while LP’s are showing increasing interest in ESG, most VC–funds remain oversubscribed with institutional investors who are not pressuring these funds to change. Despite this resistance to change, we remain committed to the idea that balancing financial and social interests to foster responsible innovation is a business and social imperative.
Footnotes


4. **Edelman Trust Barometer 2021.**


8. Limited partners provide funds to venture capital as well as invest directly in tech companies.


12. Such as program related investments which can be structured in many ways, including equity investments, loans, guarantees, and even recoverable grants, and can be done with both nonprofit and for-profit entities.
SSI Contributing Partners: Dr. Wilneida Negron, Lyel Resner, and Omosefe Aiyebomwan; along with Futureproof Tech Founders’ Summit, MC Roxann Stafford, Managing director of the Knight-Lenfest Local News Transformation Fund.

Not pictured: Contributing Partner Claire Veuthey.
This work would not be possible without our Advisory Board and funders:

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