Barriers & Exclusion

A baseline study on the LGBTQ+ Experience in Venture Funding

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Colorful Capital

Reader,

Thank you for your interest in questions of equity and access to capital for diverse founders in the United States. Before we dive in, allow me to share the impetus for this study and for our focus on access to capital as an entry point.

We have known for some time that coming out and identifying along the LGBTQ+ spectrum can often cause or exacerbate barriers to wealth and financial stability. We also know that these impacts run from family rejection, to denial of employment opportunities, to housing discrimination, to differentials in incarceration and institutionalization rates, to educational barriers, unsafe conditions, and more. This wealth gap is not experienced by the entirety of the LGBTQ+ community, rather it is experienced selectively and in a targeted manner, consistent with exclusions, structural racism, misogyny, transphobia, xenophobia, and so many other forces of a society grounded in exclusion. The United States LGBTQ+ community is, in fact, not a singular community. It is as varied as the U.S. itself in terms of identity, geography, economic foundations, education, employment, family composition, and more.

With such difference between those who enjoy financial and structural security and those who do not, we see similarities with and learn from the study of access to economic mobility and improved standing as seen with communities including Black Americans, Latinx Americans, Americans who have migrated or immigrated here, and other groups often impeded from wealth aggregation opportunities. In these areas of study and consideration, various paths to wealth accumulation and economic stability have been promoted, including homeownership, business ownership, education (attainment, savings, and debt elimination). A wide range of investment approaches and funds have also been developed with targeted strategies to address racial and other wealth gaps through investment in businesses started and owned by under-represented and under-values founders.

While these funds and investments do not purport to be the only approach to addressing wealth gaps and disparities, they are a crucial piece of an overall puzzle that includes advocacy, policy change, structural and systems change as well. As one of our close colleagues aptly said: “What we’re talking about here is dropping the myth of objectivity in the capital markets."

As someone whose work and professional community sit at the intersection of money and impact, and as a proud and out member of the broad LGBTQ+ community, the following study was a natural fit. We set out to understand the state of LGBTQ+ wealth differentials and the process of founding and scaling businesses as a lever to address those gaps. We wondered about the state of access to capital to start and grow a venture when it came to LGBTQ+ founders and what assets, barriers, and opportunities would reveal themselves through the course of our exploration.

The following paper allows us to share our journey and findings with you. These are the insights and learnings that have spurred us on to next steps, including the formation of a venture fund targeting investment in our country's under-estimated LGBTQ+ founders. Perhaps our findings, interviews with founders, and insights into the state of capital and support access for founders will spur you, reader, on to your own action steps.

In the course of this study, the words and perspectives of LGTBQ+ founders helped us see the underlying fabric of their experience. One founder's words in particular have stuck with me. She talked about encountering "lots of old white men with money" and reflected: "When they see somebody that is, in their view, an 'other,' they have no time for us." She continued by putting this into context, saying: "That's in the venture world, but also just in standard employment, people encounter that all the time." This is why we are here, why this paper is essential, and why we embark on this important work.

We look forward to building attention, resources, and opportunities to address wealth gaps and structural barriers while at the same time proving the incredible opportunity inherent to the talent and promise we see in founders who are from our broad LGBTQ+ community.

Warmly,

Megan Kashner
Co-Founder, Colorful Capital

Definitions

Throughout this study, we employ terms that might cause the reader to pause and consider. The following are some of these terms and uses that we'd like to call out and make available to our readers as they head into this analysis.

BIPOC

This term stands for Black, Indigenous, and People of Color and is generally pronounced "bye-pock." This is a term most often used in the United States and the intention behind this term is one of inclusion and representation. While for many years, terms like "People of Color'' might have melded or even obscured individual identities, the callout in this term for Black and Indigenous people is an acknowledgement of the systemic and race-focused injustices and barriers faced by those communities.

Intersectional

The Merriam-Webster dictionary defines "Intersectionality" as "the complex, cumulative way in which the effects of multiple forms of discrimination (such as racism, sexism, and classism) combine, overlap, or intersect especially in the experiences of marginalized individuals or groups." Those who use the term and embrace the perspective of intersectionality consider the ways in which inequality is based on many factors: gender, race, ethnicity, sexual and gender identity and orientation, disability, class, and more intersect to create unique effects that are specific and individual to each person. The intersections of identity, background, and experience when considered together help us better understand how a person's social, personal, and political identities overlay and result in different discrimination or priviledge at every turn.

Latine

Many uses of the root word "Latin" are employed in current discourse when referring to people of Latin American or Spanish descent. We choose the term Latine for this writing because it is at once more gender-neutral than Latino or Latina and because it is preferred by many for its ease of pronunciation in Spanish as compared with Latinx. Latine employs the letter "e" from the Spanish language as a signal of gender neutrality.

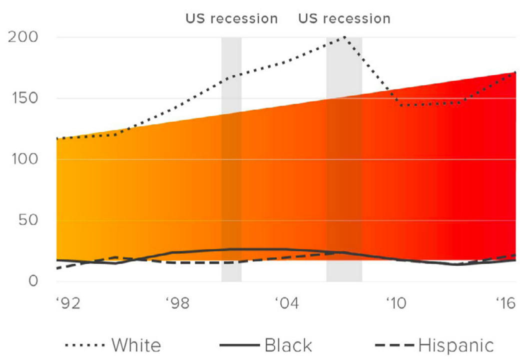
LGBTQ+

This version of the alphabetical representation of our broad community includes Lesbian, Gay, Bisexual, Trans, Queer, and other identities and experiences. Other versions of this term might include an I for Intersex and an A for Asexual or Aromantic. Many other letters come in and out of the lexicon. For this paper, we choose the shorter LGBTQ+ and use this to include any and all members of and identities within the broader community. At points in this paper, you will see the occasional "LGBT" or "LBG." In these instances, we are citing studies or writing that have limited themselves to these identifications and we include the term used by the original research and author in order to avoid any misrepresentation. One early example of this is our reference to a Gallup publication which uses "LGBT" as its base for their study and statistics.

Introduction

The United States has a history of systemic inequality that, to this day, impacts marginalized and overlooked communities. To achieve a society where opportunity is equitably dispersed among gender, racial, ethnic, geographic location, social class, and other invisible attributes, it will take large systemic changes and significant community empowerment.

Median family wealth 1992 - 2016
by ethnicity/race, $ thousand



One measure by which progress on societal inequalities can be qualitatively measured is in the wealth gap between historically marginalized communities and white households. When it comes to Black household wealth, for example, a study by McKinsey found that from 1992 to 2016, the wealth gap between Black and white families only grew from about $100,000 to $154,000.[1] This reality contradicts any claim that we are living in an equitable society. If the wage gap between Black and white families were narrowed, U.S. GDP could be four to six percent higher by 2028.[2]

Entrepreneurship presents a promising avenue by which a wealth gap such as this can be narrowed. Self-employed people on average are four times wealthier than non-self-employed people—and this is especially true for Black and Latine small business owners.[3] In order for entrepreneurship to be a viable option for members of historically marginalized communities, however, they must have access to investment capital. This is why early-stage investments are especially crucial for founders that don't fit the upper class, white, cisgender male, heterosexual mold. For this study, we explored the ways in which founders of color, women founders, and LGBTQ+ founders are being supported, or not.

1 (Noel et al. 2019)
2 Ibid.
3 (Headd 2021); (Tippett et al. 2014)

As we sought to understand the nuances of wealth inequality, capital access, and systemic barriers facing LGBTQ+ founders and leaders of early and scaling businesses, we proceeded along three paths of inquiry. We engaged in a literature review to determine the data, analysis, and findings currently available in the field at the intersection of venture capital and LGBTQ+-founded enterprises. We interviewed capital providers and LGBTQ+ founders to learn from their experience and hear their stories of access and barriers. Finally, we engaged with current researchers whose data analysis and research are ongoing in the field. Through these robust connections and conversations with researchers, we were able to learn about the data they were evaluating and about the shortcomings of data on LGBTQ+ communities and individuals from any source.

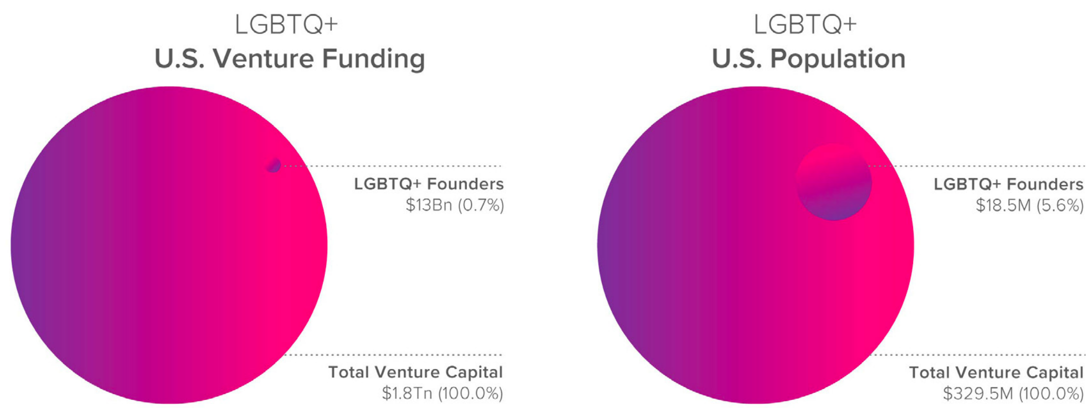
> There are essentially no holistic, concrete statistics that inform our understanding of how LGBTQ+ entrepreneurs fare in [venture capital funding].

What we found was, sadly, unsurprising. Access to capital continues to be unequally distributed towards white cisgender men, and LGBTQ+ founders experience clear barriers and discrimination in the process of seeking capital to grow their enterprises. In 2020, venture capital funding raised by companies founded exclusively by women decreased further yet—having received only 2.2% of the total capital invested in venture-backed startups in the U.S., compared to 2.6% the year prior.[4] Self-funding, friends and family support, bootstrapping, and other creative approaches are often the answer for those with limited access to investment capital. However, the wealth gap and economic realities faced by many members of the broad and diverse LGBTQ+ community make those difficult to tap into, compounding the limitations on capital access for these founders and leaders.

4 (“The US vc Female Founders Dashboard” 2021)

While figures are available for the amount of venture capital raised by several under-represented groups of founders - women, BIPOC, Latine, and people based outside of technology hubs - there are essentially no holistic, concrete statistics that inform our understanding of how LGBTQ+ entrepreneurs fare in this metric.

Several factors contribute to this lack of information, chief among them being that LGBTQ+ status is poorly tracked at a macro level. In addition, the continuing stigma associated with LGBTQ+ identification dampens any data collection attempted in this area.



Today, very few databases and studies are dedicated to providing quantifiable information on how entrepreneurship is experienced by LGBTQ+ innovators. Efforts like the Pride Economic Impact Index (SPEII) developed by StartOut, a nonprofit organization supporting LGBTQ+ entrepreneurs, aim to address this need by asking founders for self-identification and self-reporting to fill this gap. Their findings conclude that LGBTQ+ startup founders are absent in two-thirds of cities with 50 or more high-growth entrepreneurs. SPEII also reports that LGBTQ+ founders have raised $13 billion in venture capital, compared to $1.8 trillion raised overall.[5]

5 ("StartOut Pride Economic Impact Index" n.d.)

Even with complete data about the gender expression and sexuality of the founders of all venture-backed startups, however, venture capital does not alone paint a full picture of the LGBTQ+ founder experience. There is much more to be learned about the wage gap between LGBTQ+ people and their cisgender and heterosexual counterparts.

For LGBTQ+ or BIPOC people navigating a space dominated by white and cisgendered people, being visible and not conforming to a dominant culture can be uncomfortable at best, and violent at worst. Qualitative data and first-hand insights are a crucial supplement to what quantitative data exists in order for us to better understand and support LGBTQ+ entrepreneurs.

This paper addresses what we know, what we don't, and what we can infer about how we can support and empower LGBTQ+ entrepreneurs to scale their ventures and thrive. The founders we interviewed as we engaged in the research for this paper were our strongest source of insight to help us interpret the data, fill in the blanks, and understand the nuanced experiences that LGBTQ+ founders face along their entrepreneurial journeys. We are grateful to them and to the researchers and community organizations that have amassed the data available.

The LGBTQ+ Wealth Gap

With increasing visibility, societal acceptance, and the strengthening of legal protections for LGBTQ+ people, more people are choosing to come out than at any point in the past. This is reflected in Gallup's latest update on the LGBT community with 5.6% of U.S. adults identifying as LGBT—up over a percentage point from a similar study in 2017.[6] Still, when it comes to the economic well-being of LGBTQ+ people in the U.S., there remain systemic obstacles and significant differences that place LGBTQ+ people at a disadvantage.

6 (Jones 2021)

In the areas of earnings, employment, savings, assets, homeownership, credit worthiness, and retirement, LGBT people consistently stand at a disadvantage relative to their cisgender and heterosexual counterparts despite having, on average, a higher educational attainment than straight people.[7] Gay and bisexual men, for example, earn 11 percent less than heterosexual men despite having the same attributes and characteristics.[8]

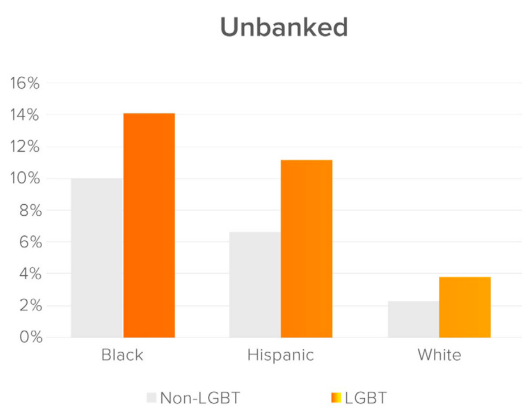
While this finding is concerning and points to significant disparities, it is important to consider that the experiences of LGBTQ+ people are varied and not a monolith. As such, it is crucial to apply an intersectional lens. We found many areas of intersectional identity in which economic standing is significantly disadvantaged relative to the average for the overall LGBTQ+ community. For example, according to a 2017 study analyzing educational attainment, transgender people graduated college at a lower percentage than other segments of the community.[9] Similarly, the study found that transgender people had lower household incomes and employment rates than cisgender men with similar characteristics.[10]

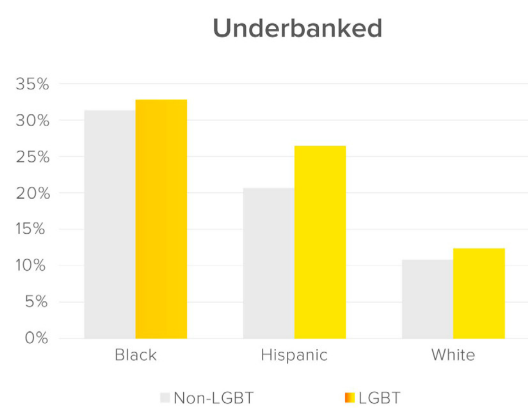
In terms of wealth creation, equitable access to banking, savings, and credit worthiness are factors greatly impacted by intersectional identities. According to a recent study by the Center for LGBTQ Economic Advancement & Research, 23% of LGBT households were unbanked or underbanked, with 46.9% of Black LGBT households and 37.6% of Hispanic LGBT households being unbanked or underbanked.[11] On the other hand, 18% of non-LGBT households were unbanked or underbanked in the U.S..[12]

Differentials in access to traditional financial services such as credit cards, savings accounts, and loans are not only indicative of permeating economic

7 ("The LGBTQ Wealth Gap Summary" 2019)
8 (Badgett, Carpenter, and Sansone 2021)
9 (Badgett, Carpenter, and Sansone 2021)
10 Ibid.
11 (Watson, McNeil, and Broisman 2021)
12 Ibid.

disparities, but also reflect a grave detriment for anyone starting or scaling a business — one of the most viable paths for creating wealth.[13] Access to capital is foundational to entrepreneurship, yet we know that LGBT people are seven percent less likely to have a savings account[14] and 1.5 times more likely to have been turned down for credit compared to non-LGBT peers.[15] Further compounding this disadvantage, and likely stemming from a range of social and economic factors, LGBT adults are 1.2 times more likely to "not at all" be comfortable taking financial risks.[16]





Despite these clear disparities in the economic well-being of LGBT people when compared to non-LGBT people, it is critical not to conflate LGBTQ+ experiences with racial and socioeconomic disparities. In the process of researching LGBTQ+ economic standing for this exploration, we engaged Bianca D.M. Wilson, a Senior Scholar of Public Policy at the UCLA School of Law Williams Institute, in conversation. Dr. Wilson informed us that her research indicates that socioeconomic background and race and ethnicity are more often better predictors of an individual's economic well-being than their sexuality or gender expression. Yet, in this nuance, Dr. Wilson noted that it is important to

13 (Headd 2021)
14 ("The LGBTQ Wealth Gap Summary" 2019)
15 (Watson, McNeil, and Broisman 2021)
16 Ibid.

acknowledge that there are indicators that people of color within the LGBT community face greater barriers than their non-LGBT counterparts. In one of Dr. Wilson's studies, she found that "nearly 40% of Black LGBT adults have a household income below $24,000 per year compared to 33% of Black non-LGBT adults."[17]

While there is limited data and research relating to the economic experience of LGBTQ+ people, important work being led by LGBTQ+ academics and allies make it clear that LGBTQ+ people are worse off with respect to many economic metrics as compared to non-LGBT people. For LGBTQ+ people of color, these disparities are further exacerbated. Lived experience of economic barriers, financial displacement, discrimination, and disrupted professional paths weave together for members of the LGBTQ+ community, painting a picture of the truly intersectional nature of economic dynamics across slices of the community.

In order to close the wealth gaps found between historically disenfranchised communities - including the LGBTQ+ community - and more privileged groups, no one solution or approach will suffice, but the call to action is urgent. With our focus on the business ownership avenue to wealth creation, we proceed in our inquiry process next to focus more squarely on the experience of LGBTQ+ founders in the United States. With others focusing on homeownership, educational attainment, and even guaranteed income approaches, we leave these paths to those groups and individuals pursuing them, and move forward in this investigation.

The LGBTQ+ Startup Landscape

Business ownership has been shown to be a significant path for creating economic mobility[18] and scalable startup and scaling ventures have the potential to create wealth in communities. This is evident with successful startup

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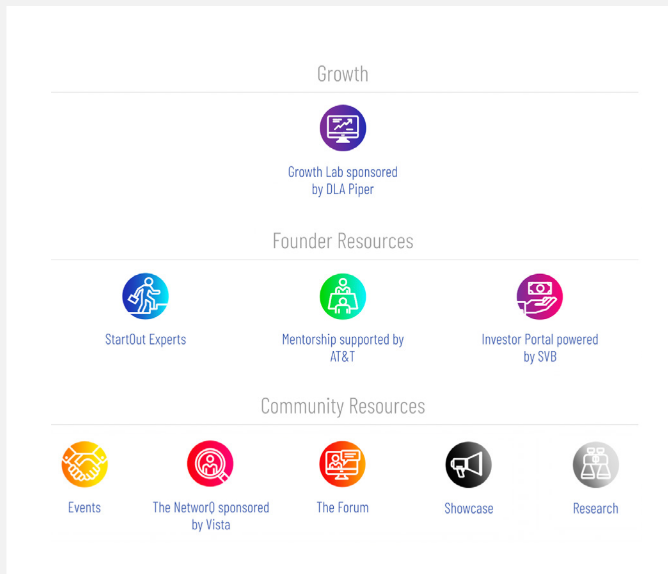
[17] (Choi, Wilson, and Mallory 2021)
[18] (Headd 2021)

founders turned investors, with entrepreneurs in the LGBTQ+ community such as TrackMaven's Allen Gannett, who is now an angel investor with investments including Violet (an identity-centered healthcare platform),[19] and SocialTable's Ben Stokes, who has launched Chasing Rainbows (a venture fund investing in diverse founders) helping to pave the way.[20] Supporting and empowering more LGBTQ+ founders to achieve venture successes is a critical factor for narrowing the LGBTQ+ wealth gap.

StartOut
Resources Overview

Startout is a nonprofit organization dedicated to enabling economic empowerment for the LGBTQ+ community through entrepreneurship. Their resources span mentorship, networking assistance, events, research, and more.

Source: https://startout.org/



We will shortly proceed to specify and analyze the experiences of LGBTQ+ founders. Before that, it is important to understand the space in which these founders operate. The LGBTQ+ startup community, though relatively nascent, is indeed flourishing. At the center sits the previously referenced StartOut, which supports LGBTQ+ entrepreneurs through mentorship, connections, accelerator

[19] ("PitchBook Profile: Allen Gannett" n.d.)
[20] ("Chasing Rainbows" n.d.)

programs, speaker series, hackathons, and networking events across the country. From hosting pitch competitions, to connecting founders with mentors in the venture capital space, to providing spaces for founders and operators to convene and create community, there is no minimizing the impact that the nonprofit StartOut has achieved in serving and creating access for LGBTQ+ founders.

Another crucial component in any startup ecosystem is the investor community. Today, the presence of investors focused on LGBTQ+ founders and their ventures is limited, but does include a handful of firms run by LGBTQ+ investors aimed at supporting the LGBTQ+ community. Following the tragic murder of George Floyd in 2020, many capital providers unveiled strategies aimed at investing in Black founders. Included in this wave of interest, many firms took this critical moment to examine the diversity of the founders within their portfolios more broadly, with many making clear callouts to all underrepresented founders, including women, Latine, and LGBTQ+ founders. Not only were there verbal commitments to improve portfolio diversity, new funds launched within existing firms created entirely new vehicles (such as SoftBank Group's SB Opportunity Fund), and new firms solely dedicated to supporting Black and other underrepresented groups were established.[21] This is an important and heartening development, yet it is important to note that while the percentage of total capital being raised by Black founders continues to climb year over year, that figure has yet to break two percent.[22]

For the LGBTQ+ community specifically, we find a handful of firms that have had in the past–or plan for a future focus on–invest in founders and leaders of the LGBTQ+ community. Of these, perhaps the best known is Gaingels, which began with but has since pivoted away from a focus on investment in ventures led by LGBTQ+ founders. Originally conceptualized as a group of LGBTQ+ angel investors backing LGBTQ+ founders, Gaingels has since shifted towards a broader investment strategy. Today, the Gaingels angel investor syndicate holds an investment thesis that hopes to advance LGBTQ+ inclusion by helping

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[21] (van Romburgh and Teare 2021)
[22] Ibid.

its portfolio companies improve the diversity of their boards, c-suites, and talent.[23] While Gaingels is the most renowned investor group in this space, only one current vehicle in this research has been found to target its strategy on exclusively backing LGBTQ+ entrepreneurs: Loud Capital's Pride Fund 1, a new venture capital fund that is seemingly in the process of being raised with a focus on Cleveland, OH.[24]

Additional venture vehicles with either carved out support or with a stated intention to include LGBTQ+ founded companies in its portfolio include The Marathon Fund, Adapt Ventures, Ulu Ventures, and 500 Startups. It is also worth noting there is a segment of firms that not only include LGBTQ+ targeting in their investment thesis but that are also founded and managed by LGBTQ+ investors, such as Backstage Capital and Chasing Rainbows. Increasing the diversity of investors has been a favored strategy for increasing the amount of venture capital directed towards overlooked entrepreneurs. So far, the correlation points towards being accurate. The percentage of Black venture capitalists has increased from three to four percent over two years, in tandem with a continuous increase in venture capital being invested in Black founders over the last five years.[25]

Optimistically, there are many more venture capital firms that are either run by or are investing in LGBTQ+ founders. However, one critical hole in this study is the fact that the representation of LGBTQ+ people, whether they be investors or founders, is not tracked or documented at a macro level. A potential explanation is that disclosing one's identity is not always in the best interest of founders or investors that are still very much operating in a space dominated by men in the traditional venture capital mold who continue to seek out founders with whom they can relate. Therefore, in order to have as complete an understanding as possible of what it is like to be an LGBTQ+ founder, a qualitative approach is warranted.

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[23] (Thorne 2021)
[24] ("Pride Fund 1" n.d.)
[25] (van Romburgh and Teare 2021)

The LGBTQ+ Founder Experience

This study has been strongly informed by the experiences of 10 founders from differing identities and genders, across a myriad of industries, in all regions of the U.S., running from pre-seed to seed stage startups. These founders' stories are summarized in the subsequent section and are broken down by thematic commonalities and consistent struggles in their journeys through scaling their ventures. To foster a transparent analysis and to protect the founders' privacy, identifiable information has been removed. We have learned a great deal from these founders' stories and include them here to bring clarity to the on-the-ground experience of entrepreneurship and capital raising on the part of members of the LGBTQ+ community.

01 Launching a Startup

In this study, the founders interviewed had a myriad of reasons for launching their startups, and more often than not, the solutions these entrepreneurs were bringing did not necessarily tie to their identity. Only one of the ten founders interviewed had launched a business geared specifically to the LGBTQ+ population. Two additional founders in this study had ethical and diversity goals informing the primary pursuit of their business plan.The remaining seven founders were focused on problems not explicitly tied to identity. Yet, all the founders interviewed believed that being visibly LGBTQ+ within the larger startup ecosystem was important to them.

For two trans founders in this study, launching their own separate ventures was a means to create autonomy from oppressive work environments and achieve sustainable financial security. After coming out and transitionioning, one founder felt boxed in by gender stereotypes. Though she had an extensive background in financial services, after coming out, people assumed she would be interested in roles that were perceived to be more "feminine" such as design or marketing. After feeling stereotyped and being disregarded by financial firms, this founder took it upon herself to launch her own venture on her own terms. The other woman expressed feeling a terrifying social pressure from blatant attacks and scapegoating against the trans community by then President Trump. The combination of her market-savviness and her sense of fear as a trans woman in the professional world prompted her to launch her startup. “I needed to do something with more security than being beholden to somebody else for a paycheck,” she said.

Trans people not only face prejudice and discrimination, but they continue to be systematically excluded from our economic systems, as evidenced by this qualitative study and by the fact that trans people have lower household incomes and employment rates.[26] Entrepreneurship can be a powerful force for creating more inclusive workplaces. More importantly, entrepreneurship can create a more equitable economy for all when LGBTQ+ people are empowered and supported to launch ventures and build wealth and financial stability.

02 Visibility and Self-Disclosure

Coming out and disclosing one’s identity is often an ongoing process for LGBTQ+ people — one that is reprised with each new introduction or new context. This repeated process of self-revelation can be daunting, given the potential for rejection or negative reactions from other parties. This dynamic is ever-present for LGBTQ+ founders as they build relationships with new and potential investors, business partners, mentors, and hires.

Being identified as LGBTQ+, either through self-disclosure or through perception on the part of investors or potential partners can have significant consequences for a venture’s access to funding, networks, conversations, and consideration. In our conversations with founders, we heard of many incidents and trends of exclusion and founders finding themselves held out as different or outside the norm. In fact, some felt that their LGBTQ+ identity was so visible and apparent that there was no other alternative than to proudly lean into their identity.

[26] (Badgett, Carpenter, and Sansone 2021)

Meanwhile three of the founders interviewed reported that they are generally perceived as less visibly LGBTQ+ (due to prevailing heteronormativity) and found that they had the latitude to self-disclose or not as the circumstance warranted. In practice, each founder's identity proved either an impediment or a competitive advantage in each new situation. The challenge, of course, was not knowing which direction their identification as LGBTQ+ would take them in terms of exclusion or attention.

Strikingly, most of the founders in this study described a process of selectivity when it came to who they engaged with. They described concerns about exposure to risk for themselves, their ventures, and their team members. Prior to initiating conversations with a new potential investor, mentor, or business partner, some founders in this study engaged in research to identify any potential indicators that the person they would engage with might not be an ally of the LGBTQ+ community.

Another consideration for LGBTQ+ founders when disclosing their identity is the context, or more specifically, the industry in which each founder is operating in. Ultimately, LGBTQ+ founders continue to operate in a cisgender and heterosexual dominant spaces. For founders operating in traditional and/or relationship-driven industries, self-identifying is generally seen as a greater risk for their business. Only one founder in our interviews fit this mold, yet they were proud and open about their identity when asked directly or when the conversation steered towards their personal life. There are, of course, LGBTQ+ founders who have decided that it is best for their business to operate as non-visibly as possible. This presents the same challenge for this paper that academic researchers have faced when conducting studies of LGBTQ+ populations: accurately including the perspectives of people who are not comfortable or safe to be out.

03 Geographic Considerations

When it comes to community support, networking opportunities, and raising venture capital, a founder's location matters. Despite the recent shift toward remote work, venture capital largely remains a geographically concentrated industry, with most activity centered in the Bay Area and in New York City.[27] For LGBTQ+ founders in geographies with both less venture capital activity and smaller LGBTQ+ communities, it can be even more difficult to find community and support to scale their business.

While organizations like StartOut have events in many cities across the U.S., the lack of regional support for LGBTQ+ founders in smaller cities can be stifling for ventures. According to one woman based in Philadelphia, PA, StartOut's virtual events and networking opportunities have been instrumental as she continues to scale her venture. Despite this founder experiencing a sense of isolation in her local community, the national platform and access afforded to her by StartOut's networking brought her access to advisors and even a board member.

This lack of regional support for LGBTQ+ founders could have a compounding economic impact, both limiting the contributions of potential founders and overlooking diverse talent. In a study from the early 2000s, Dr. Richard Florida demonstrated the correlation between the tolerance and acceptance of LGBTQ+ people and economic prosperity.[28] "Talented people seek an environment open to differences ... When they are sizing up a new company and community, acceptance of diversity and of gays in particular is a sign that reads 'non-standard people welcome here," he wrote in 2002.[29] For state and local leaders and market-makers, this represents an opportunity to harness inclusivity as a vehicle for economic development and advancement. With more diverse talent and ideas, innovation can flourish and transform communities.

[27] ("Venture Monitor" 2021)
[28] (Florida 2002)
[28] Ibid.

04 Raising Capital

Capital is requisite for any venture that is looking to scale. In this study, only three LGBTQ+ founders have foregone raising venture capital. All three of these ventures were self-funded, with the founders having held high-paying jobs prior to launching their ventures, which enabled their startups to get off the ground and maintain autonomy. A fourth bootstrapped founder attempted to raise funding with no success and resorted to personal financing to get their venture off the ground. The remaining six founders all sought to raise early stage capital, ranging in success from a $5,000 angel investment to a $3M seed round.

In considering how to finance their businesses, most founders we spoke with had originally prioritized sources that would allow them to raise capital without diluting their equity. Though grants or prizes were only a relevant option for one of our founders, crowdfunding presented itself as an industry-agnostic strategy that several interviewed founders had explored and utilized as a viable alternative to venture capital. Crowdfunding in particular can represent an independent path to capitalization and can offer opportunities for including under-represented communities in a raise.

Of the founders interviewed for this study, two were able to successfully raise some funding through crowdfunding campaigns. These foudners, both lesbian women, turned to crowdfunding out of necessity after failing to gain traction with venture capitalists. However, both women found crowdfunding to be insufficient for their growth and scaling capital needs. In one founder’s experience, the platform’s periodic disbursement of raised funds was challenging to business operations.

LGBTQ+ founders face similar challenges as those faced by other underrepresented and first-time founders. In a system where access to investors often requires a warm introduction and working knowledge of industry norms, networking and mentorship are paramount. Beyond getting connected to potential capital providers, this involves learning how to communicate in an investment context and how to position themselves and their businesses for funding. Organizations like StartOut have attempted to address this challenge for the LGBTQ+ community. Programs like StartOut’sGrowth Lab, which pairs founders with mentors and provides access to a database of potential investors, are a first step in helping LGBTQ+ founders navigate a complex capital landscape - one in which underrepresented founders are often required to prove themselves to a greater degree.

Despite support and learning on the part of LGBTQ+ founders, the experience of those we interviewed revealed barriers to capital access that no degree of mentoring could bridge. As one Black founder shared, investors' hesitancy to "take a chance'' on underrepresented founders often manifests in an unwillingness to invest in the absence of prior commitment by other notable investors. Several other founders in the study shared frustration with the unrealistic expectations and lack of transparency exhibited by VCs. Not only were founders often required to have a proven track-record of entrepreneurship, they were time and again denied meaningful feedback after failing to secure investment, sometimes receiving no followup at all. This was especially true for founders in this study that did not have a technical background—a hurdle that is not exclusive to LGBTQ+ entrepreneurs but that many underrepresented entrepreneurs face.

> "[One] trans founder was told by an investor that she should get a straight white male to be the face of her company if she wanted to be "investable."

Beyond these broad hurdles, founders encountered further resistance in the form of descrimination targeted at various elements of their intersectional identities and often struggled to pinpoint the exact cause of the resistance. A lesbian founder in the study, when faced with condescension from a potential investor, believed sexism was likely to blame as she had not disclosed her sexual identity. Furthermore, a trans founder was told by an investor that she should get a straight white male to be the face of her company if she wanted to be "investable." Neither encounter explicitly targeted a single aspect of either founder's identity, but both highlight the impact of carrying identities outside of the traditional VC norm.

With few alternatives, LGBTQ+ founders are often forced to operate in an unwelcoming and at times hostile venture capital ecosystem—a dynamic that intrinsically reinforces a problematic power and capital access dynamic. When asked about her experience with capital providers, one lesbian founder hesitated to share with us for fear of her words being read and harming her chances even further. She told us that there were: “Tons of things I want to share, but I need to fundraise ... from cis straight white men.”

This brings us to the issue of representation among investors and the lack of investment vehicles run by and for LGBTQ+ people. Founders in our study found it challenging to seek funding from LBGTQ+ capital providers. Not only are firms with a diverse focus typically newer, they’re also typically smaller in size, have limited resources, and often lack the dry powder to make frequent investments. Additionally, given the minimal number of LGBTQ+-focused investment firms, founders who want to raise LGBTQ+ capital face intense competition within the LGBTQ+ entrepreneurial community, pointing to a supply problem on the venture capital side.

One Latine woman whose company is bootstrapped, dreaded the need to raise venture capital, sharing: “It’s miserable out there. There are not a lot of people that look like me.”

Most of the founders in the study who raised or attempted to raise venture capital did so from diverse investors and firms with equitable investment theses, although two founders in the study found it more advantageous to attract funding from a larger pool of industry-specific venture capital firms. Especially for new technologies or innovations, it can be more digestible and comprehensible for subject matter experts to identify the opportunity in a startup idea regardless of the founder’s identity. Following our discussions with these ten founders, one thing is clear: there is ample opportunity for capital providers willing to invest in the untapped potential of LGBTQ+ founders.

Conclusion

Those whose identities are included along the LGBTQ+ spectrum and particularly those with diverse and intersectional backgrounds often enter into the entrepreneurial experience with limited access to what the field terms “friends and family” support. They find themselves time and again outside the circles of connection and acceptance within entrepreneurial and VC norms and expectations. These founders are repeatedly made to feel different, to experience exclusion, and to stand out in contrast to the heuristics of capital providers.

As an avenue to wealth creation and financial stability, entrepreneurship can enable LGBTQ+ people to overcome disadvantages they may have experienced in the workplace, in education, and in tapping into professional networks and support. For this to be the case, however, capital access must be addressed. As we have learned in our research and heard from founders, the landscape is fraught with exclusion and unanswered calls and emails, and the path to raising venture capital is often blocked when no investor steps forward to lead a funding round.

One GP shared that he would feel more comfortable and more likely to invest in a round if the lead funder were familiar with and of the community and background of the founder. He said he felt ill-equipped to evaluate the talent and potential of a venture led by an LGBTQ+ founder, but would gladly follow on and invest in a round led by another VC firm. This statement was telling.

The findings of our study are illustrative. While little data exists that tells the full story of LGBTQ+ entrepreneurship and access to capital, this exploration has provided us with a clear identification of a market gap and inefficiency. As with any such gap, we see both a shortcoming and an opportunity. In this case, an opportunity has come into focus for those who can step in and identify the talent, focus in on the potential of LGBTQ+ founders, lead rounds, provide salient and reflective feedback, and do the work of venture capital for these founders who are so often on the outside of the system completely.

We entered into this study with a question and emerged with a robust picture of the potential for greater access to capital to help fuel the success of LGBTQ+ founders. In future studies, we hope to leverage constantly-improving data sets and research in the field to help us further define and parse the wealth inequalities that beset certain segments of the LGBTQ+ community. We are grateful to those working in this space, to those who have shared their research and experiences, and to our community whose promise never ceases to impress.

Colorful Capital

Colorful Capital aims to bring capital support and scaffolding to enterprises founded and led by members of the broad LGBTQIA+ community. By filling financing gaps and overcoming detrimental heuristics, we intend to bridge divides and strengthen economic opportunity.

Diverse gender and sexual identity and expression is too often a barrier to access to capital and inclusion in traditional financial market flows. By investing in, supporting, and celebrating members of our community and the ventures they build and grow, Colorful Capital will provide opportunity, spotlight, and a pathway to success for promising ventures and their fabulous leaders.

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