CAN DIVERSITY DRIVE ACCELERATION?

Executive summary of startupDNA research
Author, Simon Fanshawe OBE

1 TWO IDEAS

Two ideas aligned to kick off this research.

The first was that there is a growing body of evidence that diversity plays a significant role in increasing the performance of companies, their ability to find new markets and their capacity for innovation in the fast moving, global economic context in which they operate¹.

Secondly the start-up sector (and particularly tech) is decidedly un-diverse. In 2014 after Facebook published their diversity figures, TechCrunch compared it to Google, Yahoo, and LinkedIn, and commented slightly acerbically “While you could conclude that Facebook is a bit more diverse than Google and a bit less than the others, they all get an F for being heavily skewed male, white and asian”.

In the same year The Guardian commented (along with Forbes magazine and a number of other observers of the scene): “The lack of women in startups is a symptom of a much larger problem involving investors and the retrograde culture they protect and promote. It’s not just women who are excluded – it’s pretty much anybody who isn’t white, male, young, and privileged”.

So we wanted to raise two big questions: is the start-up sector in the UK as lacking in diversity as, for instance, the tech-sector in the US? And, apart from the arguments based on fairness and social justice, is diversity worth pursuing for start-ups in order to increase their competitive advantage and potential? Do they see an advantage for themselves in diversity?

¹ Amongst the best research is:
Scott E Page’s ground-breaking work, which culminated in his book The Difference
http://www.amazon.co.uk/The-Difference-Diversity-Creates-Societies/dp/0691138540
McKinsey – ‘Diversity Matters’, which covers mainly gender and race
The UK Government’s Department of BIS: “Business Case for Equality and Diversity”
2. WHAT IS Wayra UK & Wayra UnLtd

Wayra is a start-up accelerator owned by Telefónica. Over the last 3 years, Wayra UK & Wayra UnLtd start-ups have raised $50m, with last year’s cohort raising $10.4m of that total before reaching Demo Day, December 2014. To date, Wayra UK & Wayra UnLtd companies have run over 40 trials with Telefónica UK, with companies like RotaGeek and Quidini being awarded contracts.

In 2015, Wayra UK welcomed 22 start-ups into its newly refurbished academy, half of which are being accelerated by Wayra UnLtd, the UK’s first accelerator facility for digital technology social ventures. Wayra UnLtd also tops the UK’s Social Incubator Fund for third-party investment raised.

Wayra first launched in Latin America and Spain in 2011 and there are now 12 Wayra academies in 12 countries across the world. Companies accepted into the Wayra programme receive funding of up to $50,000 plus acceleration services, including office space, mentoring and access to a wider investor network.

3. WHO ARE astar-fanshawe

astar-fanshawe is a thought leader in diversity and works with organisations in the private, public and third sectors to understand and deploy the power of difference to enhance their performance and the achievement of their core purpose. Their clients range from Edinburgh, Sheffield and Cambridge Universities to Channel Four, Costa and British Gas and the NSPCC.

We are Simon Fanshawe OBE, one of the co-founders of Stonewall, former Chairman of Sussex University and a well know broadcaster and writer, and Roy Hutchins, the founder of astar training and development and longtime consultant in the field and also an award winning performer.

Their work, while helping organisations to tackle the basic issues of persistent bias that still exist, develops the idea of diversity into a key organisational tool for transformation to achieve greater development of talent and potential.

4. WHY Wayra UK & astar-fanshawe?

Telefonica outlined its reasons for being in the start-up sector in their “Rise of the Accelerator” report, published in November 2014: “from our perspective, with so many new and innovative companies coming through the doors, there’s no question of the value we derive from backing a start-up programme like Wayra. Indeed, who wouldn’t want to be privy to – and have the first opportunity to take to market – the technology of tomorrow, and perhaps as importantly, to learn from and share knowledge with agile small businesses?” Wayra wants to have a relationship with the broadest possible stream of talent and innovation.

Wayra also acknowledge that: “the next digital revolution can emerge from anywhere; in technology nobody has the final word.” Their approach to open innovation – exemplified recently with the launch of Telefónica Open Future – is to support anyone developing an incredible digital product or service for market, while fostering entrepreneurship and innovation globally.
In order to develop this report, Wayra sought the support of astar-fanshawe because they have a significantly new approach, to diversity, which concentrates on the link between it and the core purpose of organisations. Their work in helping companies to identify and use the power of difference - both acquired and inherent — to makes positive changes to their ways of working and to enhance their performance is highly innovative.

astar-fanshawe’s experience shows that what gives diversity its power is not an individual’s difference from the norm, but the combination of those differences in teams and across organisations. These differences produce a mix, a climate of challenge and innovation, which, when well-managed, means that diverse teams or organisations outperform homogenous ones.

The partnership between Wayra UK’s extensive experience of start-ups and astar-fanshawe’s original approach to diversity is what has made it possible to investigate the question “Does diversity drive acceleration” with confidence.

5. THE QUESTIONNAIRE

So, for the first phase of this project, Wayra and astar-fanshawe designed a questionnaire to establish the level of diversity in UK start-ups and the impact the start-ups themselves felt it had on their work.

241 individuals from 222 companies across the UK completed the questionnaire after 42 partners – accelerators, incubators and co-working spaces – had distributed it across the United Kingdom & Northern Ireland. Of those who completed the survey, 214 indicated that they held executive-level positions (founders/CMOs etc) and 79% of all respondents identified themselves as working in a digital start-up, although, the survey was also open to other sectors.

Key partners include: TechCity UK, Innovate Finance, Virgin Start Up, Mass Challenge UK, The University of Oxford’s ISIS software incubator, BBC Labs, Coadec and Tech City Stars.

6. THE POINT OF THE FIRST PHASE

While the project was designed to deliver some headline conclusions, more importantly than that, we wanted to raise some significant questions. We wanted to sound a call to arms to those involved in start-ups - the entrepreneurs themselves, the investors, the incubators and the accelerators – to take diversity seriously, understand its power and take positive action to embrace it in their companies and in the range of their investment with the objective of boosting the growth of the start-ups and also the UK’s competitive position in the global market place for acceleration and investment.

We wanted to start the debate that hasn’t, until now, been happening in the sector.

7. WHAT WE WERE LOOKING FOR THROUGH THE QUESTIONNAIRE
We harvested from the participants two data sets:

- One on their own diversity, both inherent and acquired – gender, age, race... and also background, level of education etc.
- And we also asked them how much they worked in teams, what were the opportunities and barriers to working in diverse teams and where they got their finance from?

8. WHAT WE FOUND OUT

UK start-ups embrace diversity
In overwhelming numbers, they were clear that diversity helps them in a number of ways in relation to overcoming challenges, competing in markets, and innovating.

- 75.2% of individuals agree that diversity help teams overcome challenges;
- 78.9% of individuals agree that diversity help teams compete;
- 71.5% of individuals agree that diversity help teams find new markets;
- 82.5% of individuals agree that diversity help teams bring new thinking;
- 80.3% of individuals believe that diversity has a positive impact on their team;
- 97.1 of individuals are open to working in diverse teams.

Compared to the US, an entrepreneur is 5x more likely to be female[2]
Over 30% of the UK ecosystem is made up of women, with 29% of all leadership roles held by a woman.

London also beats other ecosystems in terms of gender diversity:
- London entrepreneurs over 3x more likely to be female than in Silicon Valley[1].
- London entrepreneurs over 3.5x more likely to be female than in Tel Aviv[1].

UK start-ups are more ethnically diverse than, Silicon Valley and NYC[2]
Respectively 79%, 82% and 89% white.

- In comparison to VC backed start-ups in the US, those in the UK are 27% less likely to be made up of Asian descent, but more than 10x more likely to be from any other heritage than white or Asian[2].
- The UK start-up ecosystem is also 4x more likely to have individuals from ethnically diverse communities in C-suite positions than FTSE100 businesses [3].

COMPARATIVE DATA SOURCES

The UK is a global magnet for entrepreneurs – 1/3 from abroad
While 66% of the participants hold UK passports, 20% are from the EU and 14% are from elsewhere across the globe. The three most common nationalities after British were Irish, American and Spanish.

The UK establishing itself as a millennial entrepreneurial hub
Entrepreneurs in the UK are approximately 2.5x more likely to be under 36 than in the US

But, while they embrace diversity, there is a considerable diversity deficit

Men have far greater access to finance than women – almost 2x more likely to get VC finance
- They are 86% more likely to be VC funded than women.
- Men are also 59% more likely to secure angel investment than women.
- Women were 37% more likely to be self-funded than men.

Start-ups in the UK are overwhelmingly middle-class
They are populated by graduates whose parents were also University educated, with over 80% of start-up entrepreneurs University educated and the largest group coming from backgrounds that were middle-class and from highly skill neighborhoods. Whereas only 29% of the participants had parents who left school at 16.

UK start-ups are very London-centric
68% of those participating in the UK questionnaire were from London

There are dramatic biases reflected in participation in different sectors
For instance no men in the survey reported being involved in the lifestyle sector and no women reported being part of a banking and finance start-up.

9. WHAT ELSE DID WE UNCOVER?

Men and women at odds with their perception of diversity
- Men are 2.5x more likely to report that their company encourages diversity and leads on diversity compared to women.
- Women 3.5x more likely to be drawn to start-ups with more diversity than men.

London remains the start-up epicentre on all fronts
London is very much the torchbearer for diversity in the UK ecosystem and start-ups based in the capital also seem to be attracting more funding, a greater number of highly skilled/educated workers and benefit from working more as a collective.

London Vs UK comparisons:
- Both EEA (European Economic Area) (43%) and non-UK/EEA (48%) citizens are more likely to be found in London than in other parts of the UK.
- Individuals from BAME (Black, Asian, Minority Ethnic) communities are 58% more likely to be working for a London-based start-up than in the rest of the UK.
- London is 70% more likely to attract those under the age of 35 than the rest of the UK.
- London respondents were more than 2x more likely to hold a postgraduate qualification than those elsewhere in the UK. Outside of London, individuals are 2.6x more likely to have no university level qualification.
- In London, female respondents were 14% more likely to be grant-funded and more than twice as likely to be self-funded compared to other sources of funding. Males surveyed were 13% more likely to be angel-funded, 52% more likely to be seed-funded and 61% more likely to be VC backed.
- London start-ups are 2x as likely to be grant-funded, more than 3.5x as likely to be VC funded, 4x as likely to be seed-funded and almost 6x as likely to be angel backed than those working in the rest of the UK. There are no forms of funding more commonly found outside of London.
- Banking, finance and healthcare start-ups are concentrated in London. Lifestyle, retail & Ecommerce start-ups are more common across the rest of the UK.
- London is made up of 20.7% BAME, being 19% more likely than individuals in Silicon Valley & twice as likely than in NYC, and the makeup of BAME demographic is far more diverse than both.

**Acquired DNA**
- 59% speak another language (Women are 45% more likely to speak another language than men)
- 69.6% work in teams made up of different backgrounds to them
- 54.2% state that their professional network is made up of individuals from different backgrounds to themselves
- 67.3% spend around 20 hours per week engaging customers from different backgrounds to them
- 52.5% declared they lived alongside someone from a different background to them in the past three years

**Research approach**
The survey is a mixture of qualitative and quantitative approaches. Two surveys were created: One purely quantitative ‘Quick-Fire’ survey and a second ‘Complete’ survey that asked additional quantitative questions regarding ‘acquired DNA’ as well as qualitatively investigated team working and opinions towards diversity.

We disseminated the survey through 42 industry partners throughout the UK including accelerators and industry groups. They, in turn, sent their cohorts the survey. This allowed us to target early-stage start-ups.

**Methodology**
The sample size for ‘quick-fire’ survey was n=104 and the ‘complete’ survey n=137. This gives a total of n=241 for the company information and inherent DNA questions.

Additionally, some statistics examined only a portion of the total sample, such as comparing London-based individuals to the rest of the UK. In no case was the sample size smaller than n=72.
Some erroneous responses were removed from the data-set by the research team. This included several duplicate responses, two individuals not currently working from the UK and one entry likely to have been fictitious.

In understanding the data, some additional research was required. Company locations were determined by the researchers using a mixture of CrunchBase, company websites and publicly available information such as local telephone numbers.

Job titles were simplified into executive and non-executive by the following:

a) The individual lists themselves as an owner/founder/co-founder
b) The individual lists a C-Suite level job title (CEO/CFO/CMO etc.)
c) The individual lists another job title and holds over 15% equity.

Comparisons were made as odds ratio, being an expression of how likely one group is to experience a situation relative to another. i.e. How much more likely that any given individual in a group is female when compared to another group. An example follows; compare two groups of individuals by gender representation.

<table>
<thead>
<tr>
<th>Group</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alpha</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Beta</td>
<td>80</td>
<td>20</td>
</tr>
</tbody>
</table>

Percent
Alpha - 50% Men, 50% Women
Beta - 80% Men, 20% Women

Odds Men:Women
Alpha - 1:1
Beta - 1:0.25

Odds Ratio
Alpha/Beta - 1/0.25 = 4

So an individual in Alpha group is four times more likely to be female than male, than an individual from the Beta group.

Comparative Data Sources
The information below lists the data from the survey in comparison to other sources of information. Those sources are as follows:

WHAT’S NEXT?

We propose that the sector sets about meeting these challenges.

We are raising a number of key questions for the start-up sector.

There is undoubtedly need for further research to focus on:

- how the greater value that is driven by diversity in larger companies reads across to start-ups?
- why investment displays such a gender bias?
- why certain sectors have such low representation of certain groups?
- what can be done to increase access to non-graduates to enterprise and start-ups?

Wayra and astar-fanshawe want to lead a series of events designed to bring together key individuals to pursue this agenda.

AN INITIAL PROGRAMME OF FOUR EVENTS TO MOVE THE SECTOR ON

‘VCs – VALOUR IN THE FACE OF DIVERSITY.
An event with VCs to examine the pressures which result in so many more men than women being VC funded. How can VCs be persuaded to diversify their investment? What are the biases in what they are looking for? How can they find potential success in diversifying their pipeline?

DO START-UPS HAVE CLASS?
The data seems stark. In order to enter the start-up sector you appear not only to need a University degree but your parents need to have one too. What happens to younger people from

* An Elite Education is considered to be from a top25 university according to the Times Higher Education World University Ranking 2014-2015 - http://bitly.com/1AvTpTx
poorer backgrounds? Why are there relatively few entrepreneurs still from Afro-Caribbean backgrounds? Where is the diversity that could lead to a greater talent pool and wider markets? Music has always read across from poor and black to the mass market, what happened to start-ups?

THE ‘NORTHERN POWERHOUSE’ NEEDS MORE THAN A TRAIN
Following George Osborn’s stated commitment to shift focus to the northern cities, what will support start-ups outside London more effectively? An event with government and the investors of the North to debate what needs to be done.

PUTTING THE ANN IN FINANCIAL SERVICES
Why did we find no women being part of a banking and finance start-up? We bring together leading women and men in banking together with funders to discuss why and make a plan.

WAYRA UK’S COMMITMENT

THE DIVERSITY MODULE
As part of their Acceleration Programme, Wayra are looking to introduce a diversity module and master classes, for the start-ups in the each cohort of the programme. It will be designed to help them embrace diversity in their early stages and also as they grow in order to enhance their performance and innovation. It is intended that this will sew the values and power of diversity into their future operation. This will be a long-term investment by Wayra in the future of the pipeline and the success and growth of their alumni businesses.

THE FULL MONTY
Wayra and astar-fanshawe will produce the full report in the Autumn with case studies, all the data and develop a research programme for the future.

IMPORTANT LINKS

- startupDNA.co.uk (infographic, media release & contact details): http://goo.gl/jjXhMr
- Wayra.co.uk: http://goo.gl/SQWaCd
- astar-fanshawe.co.uk: http://goo.gl/p1udfF