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By Erin Griffith

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On a sunny Saturday morning in New York a few months ago, a group of 50 start-up founders gathered in the dank basement of a Lower East Side bar. They scribbled notes at long tables, sipping coffee and LaCroix while a stack of pizza boxes emanated the odor of hot garlic. One by one, they gave testimonials taking aim at something nearly sacred in the technology industry: venture capital.

Josh Haas, the co-founder of Bubble, a software-writing start-up, told the group that he and venture capitalists "were pretty much totally on different wavelengths" about the trajectory of his business.

Seph Skerritt, the founder of Proper Cloth, a clothing company, said that the hype around raising money was a trap. "They try to make you feel inferior if you're not playing that game," he said.

The event had been organized by Frank Denbow, 33, a fixture of New York's tech scene and the founder of T-shirt start-up Inka.io, to bring together start-up founders who have begun to question the investment framework that has supercharged their field. By encouraging companies to expand too quickly, Mr. Denbow said, venture capital can make them "accelerate straight into the ground."

"The tool of venture capital is so specific to a tiny, tiny fraction of companies. We can't let ourselves be fooled into thinking that's the story of the future of American entrepreneurship," said Mara Zepeda, a 38-year-old entrepreneur who in 2017 helped start an advocacy organization called Zebras Unite. Its members include start-up founders, investors and foundations focused on encouraging a more ethical industry with greater gender and racial diversity. The group now has 40 chapters and 1,200 members around the world.

"The more we believe that myth, the more we overlook tremendous opportunities," Ms. Zepeda said in an interview.

Some of the groups are rejecting venture capital because they've been excluded from the traditional V.C. networks. Aniyia Williams, who started the nonprofit Black & Brown Founders, said a venture-funded system that encourages many failures for every one success is particularly unfair to black, latinx and women founders who "are rarely afforded the opportunity to fail, period." Members of these organizations, she added, see more value when whole groups in their communities thrive, rather than venture's winner-take-all model.

Other founders have decided the expectations that come with accepting venture capital aren't worth it. Venture investing is a high-stakes game in which companies are typically either wild successes or near total failures.

"Big problems have occurred when you have founders who have unwillingly or unknowingly signed on for an outcome they didn't know they were signing on for," said Josh Kopelman, a venture investor at First Round Capital, an early backer of Uber, Warby Parker and Ring.

He said he was happy that companies were embracing alternatives to venture capital. "I sell jet fuel," he said, "and some people don't want to build a jet."

Right now, that jet fuel seems unlimited. Venture capital investments into United States-based companies ballooned to $99.5 billion in 2018, the highest level since 2000, according to CB Insights, a data provider. And the investments have expanded beyond software and hardware into anything that is tech-adjacent — dog walking, health care, coffee shops, farming, electric toothbrushes.

Jessica Rovello and Kenny Rosenblatt, the entrepreneurs behind Arkadium, a gaming start-up founded in 2001, initially avoided raising venture money. It took four years before the business earned enough to pay them a salary. The sacrifices were "very real and very intense," Ms. Rovello said. Nevertheless, the business grew steadily and profitably to 150 employees.

By 2013, though, as investors poured capital into some rivals, the lure of easy money became too tempting to pass up, and the company raised $5 million. Tensions ensued as Arkadium's investors expected the company to continue raising money with the goal of selling or going public. Ms. Rovello wanted to keep running the company profitably, growing revenue at 20 percent per year and developing a new product that could take years to pay off.

In September, Arkadium used its profits to buy out the investors, allowing the company to remain independent and grow on its own terms. Ms. Rovello said she had no regrets about stepping off the venture-funded path.

"If your end game is having a business that you love and continuing to thrive and making careers for people," she said, "then I'm winning."

## New kinds of capital

In September, Tyler Tringas, a 33-year-old entrepreneur based in Rio, announced plans to offer a different kind of start-up financing, in the form of equity investments that companies can repay as a percent of their profits. Mr. Tringas said his firm, Earnest Capital, will have $6 million to invest in 10 to 12 companies per year.

Hundreds of emails have poured in since the announcement, Mr. Tringas said in an interview. “They’re almost entirely from people who assumed there was no form of capital that matched any version of their expectations,” he said.

Earnest Capital joins a growing list of firms, including Lighter Capital, Purpose Ventures, TinySeed, Village Capital, Sheeo, XXcelerate Fund and Indie.vc, that offer founders different ways to obtain money. Many use variations of revenue- or profit-based loans. Those loans, though, are often available only to companies that already have a product to sell and an incoming cash stream.

Even if venture capitalists ignore the companies rejecting their model, some of *their* investors — endowments, pension funds and mutual funds — are exploring ways to participate. The tech industry’s year of bad headlines has inspired some soul-searching.

“I think we should, as investors, take seriously our role in driving some of these destabilizing forces in society,” said Rukaiyah Adams, chief investment officer at Meyer Memorial Trust, an investor in venture capital funds and nonprofits. “As one of the controllers of capital, I’m raising my hand and saying, ‘Wait a minute, let’s really think about this.’”

Still, the new growth models represent a tiny percentage of the broader start-up funding market. And venture capitalists continue to aggressively pitch their wares — even to companies that aren’t interested.

Notion, a collaboration software company based in San Francisco, has just nine employees and close to one million users, many of whom pay $8 a month. The company is handily profitable. Aside from a small seed round in 2013, it has avoided outside funding.

Venture capitalists, desperate to get a piece of the company, have dug up Notion’s office address and sent its founders cookie dough, dog treats and physical letters, company executives said. Every few months, a new investor inevitably shows up unannounced at Notion’s gate.

Notion’s ambitions are big — the company wants to replace Microsoft Office. But its executives don’t believe they need hundreds of millions of dollars in financing to do it, nor do they want the strings that come attached.

“We’re not anti-V.C.,” said Akshay Kothari, the company’s chief operating officer. “We’re just thinking for ourselves, rather than for them or other peers.”

***Correction:** Jan. 13, 2019*

*An earlier version of a picture caption with this article misstated the order in which members of Zebras Unite appeared. They are from left, Mara Zepeda, Aniyia Williams, Astrid Scholz and Jennifer Brandel.*

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A version of this article appears in print on Jan. 13, 2019, on Page BU1 of the New York edition with the headline: More Start-Ups Are Telling Venture Capitalists to Get Lost