



ADVANCING GENDER EQUALITY IN VENTURE CAPITAL: EXECUTIVE SUMMARY

BARRIERS TO GENDER EQUALITY IN VENTURE CAPITAL

We find that the venture ecosystem – comprising venture capitalists, founders, and startup leaders – remains predominantly male despite recent efforts to focus more attention on gender diversity within the industry. Three types of barriers help to explain the continued marginalization of women as venture capitalists.

1 INDUSTRY-WIDE BARRIERS

The fundamental structure of the venture capital (VC) industry makes it an unlevel playing field for women and men while perpetuating a status quo bias, or an implicit acceptance of and preference for the way things are.

- Venture capital is historically male-dominated, which has led to a dramatic overrepresentation of men as VCs and entrepreneurs today.
- VCs are homogeneous and similar to each other in terms of gender, race, educational background, and work experience. This demographic uniformity has not only perpetuated the exclusion of women in the past, but continues to hamper the VC industry’s ability to diversify today.
- Most VC firms are small with low turnover, so hiring is infrequent and diversifying the ranks is time-consuming.
- VC firms perceive that there are not enough qualified women to fill the VC pipeline. The data, however, show that there are *significantly* more women with the requisite backgrounds for venture capital than there are female VCs.
- Networks are vital in venture capital. This handicaps women given their low numbers and the tendency of all humans to network, socialize, co-invest, and otherwise partner with similar others (known as “homophily”).
- The lack of role models resulting from the above factors makes it even harder for women to aspire to, enter, and succeed in venture capital. Being the “only” in a sea of “others” puts women at an informational, psychological, and relational disadvantage.

2 ORGANIZATIONAL BARRIERS

The way VC firms are currently structured and run is a major barrier to gender equality in the venture capital industry.

- VC firms do not view diversity and inclusion (D&I) as a priority, either internally within their firms or in their investing.
- Due to the small size of most VC firms and the deprioritization of human resources (HR) and D&I, talent management processes in venture capital are often unstructured.

- In the absence of structured processes, VC firms make talent management decisions informally, which renders them highly susceptible to biases like pattern-matching (availability bias) and overconfidence.
- Generally, VC firms do not collect or share D&I-related data. The lack of data and measurement of D&I means that it typically doesn't get addressed.

3 INTERPERSONAL BARRIERS

The interpersonal dynamics in the venture capital industry give rise to a culture that is unwelcoming and inhospitable to women.

- Women are inherently disadvantaged in pursuing male-stereotyped roles, such as investing and entrepreneurship, because there exists a perceived incongruity between the attributes of women and the requirements of such roles. For example, women are stereotypically thought of as less assertive and competitive than men, but these qualities are seen as inherent to being a good VC.
- The myth of meritocracy in venture capital leads to persistent beliefs that women and men have equal access and opportunity in the industry. However, the numerous documented biases and inequities in VC suggest that venture is *not* a meritocracy.
- A hypermasculine “bro” culture – whose symptoms can include low psychological safety, extreme competitiveness, excessive risk-taking, and lack of work-life support – continues to exist in VC. This culture exacerbates VC’s gender gap by creating a hostile work environment for women. The prevalence of sexual harassment and associated lack of accountability in venture capital compounds the problem.
- Female VCs face gender bias in feedback, mentorship, and their interactions with founders.

WHAT WORKS TO DISMANTLE THE BARRIERS TO GENDER EQUALITY IN VENTURE CAPITAL

Traditionally, efforts to increase gender equality in VC have focused on addressing interpersonal barriers, increasing awareness of unconscious bias, and changing the way individuals interact with each other. These approaches include unconscious bias trainings, which have become a popular way to address inequality in the venture ecosystem. While the interpersonal barriers to diversity and inclusion in VC – gender biases, stereotyping, harassment, a belief in meritocracy, and masculine culture – remain significant, overcoming them will require solutions that are cultural and organizational, rather than interpersonal or individual, in nature. Academic evidence suggests that de-biasing individual minds (through trainings or otherwise) does little to change behavior. Instead, the VC industry needs to address the roots of gender inequality through interventions aimed at the organizational and industry-wide levels.

1 DISMANTLING INDUSTRY-WIDE BARRIERS

Dismantling industry-wide barriers in venture capital comes down to counteracting homophily and its effects: male-dominated networks, the lack of role models, and the (perceived) lack of a diverse pipeline.

- Highlight and elevate existing female role models
- Provide mentorship, sponsorship, and connections to women to expand female *and* male VCs’ networks
- Facilitate VC firms’ access to female talent

2 DISMANTLING ORGANIZATIONAL BARRIERS

Dismantling organizational barriers in venture capital comes down to counteracting procedural informality and its effects: homophily-driven, biased talent management processes and lack of transparency.

- Structure and formalize HR procedures, especially recruitment, hiring, work allocation, and performance evaluation
- Assign accountability for D&I within VC firms and portfolio companies
- Increase the rigor around D&I data tracking and reporting

BARRIERS TO GENDER EQUALITY IN VENTURE FUNDING

Data and research prove that there is a significant gender gap in venture capital funding. Even though women are underrepresented as entrepreneurs to begin with, they receive a disproportionately small share of VC funding: 2.3% for all-female founding teams and 10.4% for mixed-gender founding teams. These numbers have stagnated in the last three decades, as the 30-year average of all-female founders' share of VC funding is 2.4%. Generally, female founders receive approximately a quarter of the amount of funding they seek, while their male counterparts receive half, on average. Women are also underrepresented as participants in VC deals with only 5.9% of U.S. deals involving all-female founding teams or solo female founders and 15.2% involving mixed-gender founding teams. Despite all of these disadvantages, female-founded ventures perform as well as male-founded ones, controlling for relevant variables like sector, market, experience, and hours worked. The gender gap in venture funding can be explained by factors related to entrepreneurs as well as investors.

Entrepreneur-side explanations: Research shows that women are generally less risk-taking than men, which could be associated with both their lower rates of entrepreneurship and their clustering in less high-growth sectors for their ventures. Research has also documented women's lower propensity to ask and negotiate *in some contexts*, but not all. Moreover, women are more pessimistic about fundraising, which is potentially due to investors' differential treatment of women vs. men.

Investor-side explanations: VCs evaluate founders through a gendered lens and seek to replicate past examples of success through pattern-matching, which leads female founders to be seen as riskier bets while male founders are viewed as higher status. As a result, VCs evaluate male founders more positively and are more likely to fund their startups. Moreover, academic research has documented several manifestations of gender bias in the way investors evaluate founders and their pitches. In one study, researchers found that VCs prefer to fund pitches narrated by a male voice and rate them as more persuasive, logical, and fact-based than identical pitches narrated by a female voice. Additionally, VCs use gender-biased language to describe and assess entrepreneurs with men consistently portrayed in more positive and leader-like terms. Another study found that VCs ask female and male founders different questions as part of the pitch process, and the questions asked of men tend to confer an advantage to them. Female founders have less access to VC networks that are critical for success. Lastly, and perhaps most importantly, venture fundraising – like entrepreneurship – is a strongly masculine domain, which intrinsically disfavors women. Overall, there is significant evidence of pervasive gender bias and discrimination against female entrepreneurs. It is also apparent that the way the venture fundraising and pitch process currently works fundamentally disadvantages female founders.

WHAT WORKS TO DISMANTLE THE BARRIERS TO GENDER EQUALITY IN VENTURE FUNDING

Systemic and organizational solutions to de-bias the VC funding process are the most promising way to close the gender gap in venture funding.

- 1. Implement structured pitch sessions, which includes standardizing questions asked of founders and pre-determining evaluation criteria.**
- 2. Evaluate pitches and ventures jointly and simultaneously. More diversity and more objective decision-making emerge when we make multiple decisions jointly and calibrate our judgments.**
- 3. Consider blind evaluations of pitch decks. Taking founders' demographic information out of the equation will prevent unnecessary gender biases from impacting funding decisions.**

The research evidence is mixed as to whether female VCs fund more female founders than male VCs do; in any case, there are so few female VCs today that relying only on them to fund more female entrepreneurs will not solve the gender funding problem in the short term. Similarly, while female-focused VC funds are a great addition to the venture ecosystem, they are relatively so small in size that their impact on venture funding dynamics overall is limited.