Getting Rid of Gender Bias in Venture Capital

The gender gap in VC doesn't merely reflect society's sexism. It's an alarm bell, warning of an industry's obsolescence.

A headline-grabbing statistic has been making the rounds for a while – only **2.3 percent of the total VC pot of money ($131 billion in the United States in 2018)** goes to women-led businesses. Granted, if you are generous enough to include founding teams that include at least one woman, the number rises to 10.4 percent. But the fact remains that over 80 percent of VC money goes mainly to all-male teams. Digging deeper into the problem makes us question the VC approach as a whole and contemplate a possible overhaul of the process.

So where are the women?

To be sure, the entrepreneurship space is not a completely level playing field to begin with. Yet as new ventures progress through the pipeline, the gender imbalance goes from appreciable to appalling.

In business schools, for instance, women typically account for around 35 percent of the total cohort.

Prominent accelerators like MassChallenge and Founder Institute have confirmed that 30 to 40 percent of their programme participants are women. In the US, **39 percent of all privately held businesses are owned by women**. And a report titled "Moving Toward Gender Balance in Private Equity and Venture Capital" shows that **64 percent of Chinese firms have at least one female owner** and five of the nine female-led unicorns (since 2010) have been founded in China.

However, things take an interesting turn when women have to choose how they fund their business. That same report suggests that women-led businesses are nearly twice as prevalent in earlier funding rounds than in later rounds – almost 12 percent at accelerator and incubator stages, dropping to 8 percent at seed stage. By early-stage VC funding, women represent only 4 percent of investments.

Do women find it harder to ask for money or is unconscious bias seeping in? According to research conducted by HP on the **confidence gender gap**, men apply for jobs when they have 60 percent of the skills required while women only do so if they have 100 percent of the skills. While asking for money is never an easy task, women may find it harder.

That said, once women entrepreneurs have mustered the courage to put themselves through a 'shark tank'-like experience in front of the VC, the numbers are not always encouraging. Women who pitch their venture successfully get **less than half the average investment that men receive** and the **valuations for women-led businesses are far lower than that of men-led ones**. To build their businesses with smart capital, women have to work much harder than men.

Where does the problem lie?

The predictable answer to that question often notes how male-driven the VC industry continues to be. Only **11 percent of VCs have women on their investment committee** and only 7 percent of VC firms in the US have equal gender representation. Thus, it is tempting to believe the problem with VC is that an 'old boys' club' culture reinforces biased deal mechanics.

But if you look a bit deeper, you will find that women-led funds also end up largely investing in men. Take for example Spero Ventures, a social impact fund with a majority of female decision makers. Only one of their first 17 investments was run by a woman. It is worth distinguishing a fund like Spero with a fairly broad investment mandate from the likes of Golden Seeds, BBG Ventures or The JumpFund that are specifically set up to back women-led start-ups. These funds definitely play an important role in rectifying the imbalance but such a stark division across VCs does not seem healthy or right.

Perhaps the problem lies in the delivery of the investment pitch. A pitch is an opportunity for founders to showcase their company, their work, their talent and make a bold, audacious ask for capital. As experience tells us, while women are cautiously optimistic, men exude irrational exuberance about their start-up idea and believe they can deliver the impossible. As Kamal Hassan, partner at Loyal VC, recounts, where a woman describes her business as one that could potentially employ 100 people, a man goes on to pitch his "billion-dollar business". Similar ideas, different framing.

Studies also show that women are less **likely to persist in situations** where they face successive rejections – like the pitch process.

But evidence also points to an element of unconscious bias that no amount of false bravado or persistence on the part of women entrepreneurs could resolve. In a **study** involving an audio-based pitch competition, the same narrative was read out by a man or a woman. Sixty-eight percent of the audience backed the venture pitched by the male voice. When experimenters provided a photo of the entrepreneur, participants also favoured the man, all the more so if he was attractive. The male-narrated pitches were perceived as more "persuasive".

How do we fix this?

It is evident that the imbalance is worth addressing for various reasons. VC firm First Round reported that its **investments in female-founded companies** performed 63 percent better than those in all-male venture teams. Women also run more capital-efficient companies achieving **35 percent higher ROI**. Women-owned businesses are growing much faster. Studies have found a statistically significant correlation between the diversity of management teams and overall innovation.

Women-led and women-only ecosystems may be an interim solution. Funds like Halogen Ventures, Rethink Impact and Aspect Capital – all led by accomplished women – are charting a whole new course and the tide may turn as a result, but not anytime soon. Offering a safe circle for women to pitch to women funders may increase the chances that female entrepreneurs will seek funding. In addition, women-focused networks and physical spaces like **The Wing** help build communities of working women. Deepening these networks could be one way of strengthening social capital and cultivating strong female entrepreneurial talent.

Other VCs have chosen to reconfigure how investment decisions are made. **Loyal VC** has an unusual approach – entrepreneurs come in through networks of referrers. Each CEO has to provide two references who have worked with them for months to get a small initial stake. Further funding is then based on what the companies deliver month over month, not how they pitch. Loyal VC's portfolio has almost 40 percent women CEOs. In place of the binary 'go big or go home' choices, **Indie VC** offers support to a small cohort of selected entrepreneurs who have one main task: growing revenue over 12 months. **Rethink** places its emphasis on social impact reporting. Admittedly limited in number, these VCs may indicate where the industry needs to go in order to remain profitable and socially productive.

Maybe the whole VC industry needs revamping. The 2.3 percent figure mentioned at the beginning of this article suggests something is glaringly wrong. The sector's logic and process reflect its origins in the 1950s, while the entrepreneurs, their companies and their ideas belong to a new era. Perhaps it is time to redefine how VCs fund companies.

Monisha Varadan *(INSEAD MBA '10D) is a Partner at Zephyr Ventures.*

Kamal Hassan *(INSEAD MBA '93D) is a Founding Partner of Loyal VC.*

Claudia Zeisberger *is a Senior Affiliate Professor of Entrepreneurship & Family Enterprise at INSEAD and the Academic Director of the school's* ***Global Private Equity Initiative****. She is the author of* **Mastering Private Equity**: Transformation via Venture Capital,

Minority Investments & Buyouts *and* **Private Equity in Action**: Case Studies from Developed & Emerging Markets.

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