

The gender gap in venture capital explored

January 8 2016, by Greta Guest

Gender bias in venture capital, particularly in Silicon Valley, has grabbed a number of headlines with stories of challenges that women-led startups face.

New research by Sahil Raina, a University of Michigan doctoral student at the Ross School of Business, looked at whether the numbers support those anecdotes and what's driving it. He studied the [performance](#) of women-led firms that receive [venture capital](#) and found a gender gap in performance.

Overall, women-led startups that received venture capital had a 37-percent lower rate of exit (IPO or sale) than startups led by men.

Could the financial backers be playing a role?

"I wanted to find out if venture capital [financing](#) played a role in the performance gap," said Raina, a finance student. "If women-led companies perform worse when they are financed by some VCs, then some good projects that should successfully exit VC financing are being held back."

Raina analyzed information from CrunchBase, a large crowdsourced database that tracks high-tech startup activity, financing rounds and information on the entrepreneurs. The percentage of women-led firms in the dataset was comparable to that of all venture capital-backed firms.

He found that the performance [gender gap](#) for women-led startups in his

database was large for firms financed by [venture capital firms](#) with all men partners: a 25-30 percent lower rate of exits for women-led firms. The gap disappeared entirely among firms financed by venture capital firms with at least one woman partner.

Further, all-men venture capital firms and those with women partners invested in women-led entrepreneurs at the same rate. Along with the overall lower exit rate of women-led firms, this suggested that what was happening was not discrimination in selecting projects.

"I found that venture capital financing does impact the performance [gap](#), but it's not the straightforward story we think of when it comes to discrimination," Raina said. "It seems that women-led venture capital firms are either better at selecting women-led projects, or they're better at advising them. At least one of those two things is at play in the VC industry."

More information: Study: VC financing and the entrepreneurship gender gap (PDF) webuser.bus.umich.edu/sraina/files/sraina_JMP.pdf

Provided by University of Michigan

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