

More women in venture capital doesn't mean more funding for female-led businesses, new research suggests

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Credit: Thirdman from Pexels

Venture capital plays an important role in helping new businesses get off the ground. The field also has a stubborn gender gap.

More than 4 in 5 partners at U.S.-based [venture capital](#) firms are men, [surveys and research show](#). Perhaps relatedly, VC firms overwhelmingly direct their funds to man-led businesses: In 2023, [only about 1 in 4](#) VC funds were allocated to woman-led companies, according to Crunchbase data.

[Advocates for gender equity](#) have long called for firms to have more female senior venture capitalists on their teams. The idea is that having more women making [investment decisions](#) will translate into more [funding](#) for woman-led businesses.

As a [professor of entrepreneurship](#), I wondered whether the facts supported this idea. So my co-authors and I analyzed funding decisions from more than 150 mid- and large-sized U.S.-based VC firms over eight years.

When women don't support women

[What we found surprised us](#): Firms whose decision-making groups included more female senior venture capitalists offered less funding to woman-led businesses. Every additional senior female venture capitalist in a firm's decision-making group was linked to a 0.46% decline in the proportion of newly funded woman-led businesses in its [investment portfolio](#).

Since the average funding round in our sample was \$5.4 million, that suggests adding one extra female senior venture capitalist into a VC decision-making group translates into woman-led businesses receiving about \$25,000 less funding.

To be clear, my team isn't saying that individual female venture capitalists are to blame for this state of affairs. Our work was not aimed at assigning personal responsibility. We simply found that having more

women in VC decision-making circles was associated with less funding of woman-led businesses.

On its face, this may seem like a paradox. But it's consistent with [previous research](#) that shows male dominance is entrenched in the U.S. entrepreneurial finance market. According to our interviews with female entrepreneurs and senior venture capitalists, this fosters a culture where women [tend to defer to their male counterparts](#).

Research also suggests that women in male-dominated spaces have incentives to [distance themselves from less-powerful women](#) to improve their status. That might help explain why female senior venture capitalists would hesitate to fund woman-led startups.

The value of trust and neutrality

My team also found, however, that [two key factors](#) can mitigate this effect.

First, when senior venture capitalists in a decision-making group had worked together previously, we didn't see the same negative impact. That suggests trust matters.

And when a group includes politically neutral senior venture capitalists, which we judged by looking at public political donation records, it reduces the negative effects on funding for woman-led businesses. This is because politically impartial decision-makers improve and facilitate [group communication and consensus building](#).

Our findings suggest that VC firms might want to explore innovative approaches to fighting gender bias. For example, they could invite outside female investment professionals who have connections with many incumbent senior venture capitalists to work as consultants. These

professionals could then independently assess investment proposals and offer advice to VC firms' decision-making groups.

In some cases, efforts to elevate women in the workplace may pay off. For example, an analysis of all companies listed on the [S&P Composite 1500](#) index from 2004 to 2015 found that [calls for greater gender diversity in the boardroom](#) were linked to the inclusion of more female directors.

But as our research suggests, efforts to promote diversity aren't always so successful, especially in those male-dominated contexts such as the U.S. entrepreneurial finance market. Indeed, they can backfire if they fail to address underlying cultural biases and power dynamics.

To be clear, our study isn't a call to abandon the pursuit of diversity among venture capitalists. Instead, it underscores the importance of persisting until [women](#) achieve equal status in business and society at large.

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